MOSCOW EXCHANGE

Q1 2018 IFRS Results Conference Call

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Moscow Exchange speakers:

- Maxim Lapin, CFO
- Anton Terentiev, Director of IR

Participants asking questions:

- Elena Tsareva, Sberbank
- Andrzej Nowaczek, HSBC
- Olga Veselova, Bank of America Merrill Lynch
- Sergey Garamita, Raiffeisenbank
- Robert Bronte, BlueCrest
- Mikhail Ganelin, ATON
- Andrey Pavlov-Rusinov, Goldman Sachs
- Bob Kommers, UBS

Anton Terentiev – Director of IR

Thank you. Good afternoon everyone, and welcome to MOEX Q1 2018 IFRS results conference call. As usual, after the prepared remarks, we will have a Q&A session. Today we have on the call Maxim Lapin, our 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 the 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 of Q1 2018. Our management presentation is available on the Company's website in the IR section.

I will now hand the call over to Maxim Lapin. Maxim, please go ahead.

Maxim Lapin – CFO

Thank you, Anton. Thank you all for joining us today to discuss Moscow Exchange's financial results. I would like to start with the summary of delivery on our strategic initiatives since the start of the year.

First, we continued to expand the product range and launched quite a few new products. In the GCC repos, we opened two new general collateral pools and introduced settlements of trades in USD. Futures and options on a new oil benchmark, Light Sweet Crude, were introduced in the Derivatives Market. We also see that the grain swaps have finally been recognised and emerged as a viable funding tool for grain producers in 2018. X5 Retail Group, Russia's largest food retail chain, listed its depositary receipts on MOEX. We now have another liquid name in the Equities Market. Two new ETFs – on the RTS Index and Russian Corporate Eurobonds – were launched. So far, we have 14 ETFs that trade on MOEX. On the FX Market, the new currency pair, TRY/RUB, started trading in the spot segment. This is our tenth currency pair overall and the ninth linked to the rouble.

Second, we continued to work on new services that aim to facilitate trading. I would like to confirm that the cross margining phase of our strategic Unified Collateral Pool project is ready for launch at the end of May. In April, we launched the IQS (Indicative Quotation System), which allows trading of derivatives without freezing collateral before a trade goes through. MOEX remains committed to providing convenient and efficient access to the capital markets for issuers. Just to illustrate this point, last quarter saw a very active primary bond market where 38 issuers raised more than RUB 2.6 trln. That is a 4-fold growth vs. the same period last year (excluding overnight bonds). To a major extent, this is a result of an easier access to on-exchange bonds. It reflects the general trend of bondization – the programme that we launched to replace the private debt with publicly traded bonds. As another example of facilitation of access to the capital markets, MOEX and the Ministry of Economic Development selected 14 new innovative companies that will be able to join our Innovation and Investment Market.

Another group of strategic developments is around the client base and partnerships. Retail investors opened almost 140,000 new brokerage accounts in Q1 2018, bringing the total number to 2 million. The number of tax-exempt IIAs (individual investment accounts) reached 328,000 at the end of the quarter, which also shows improved and growing interest of retail investors in the Russian market. The leading Scandinavian bank, Nordea, obtained SMA (Sponsored Market Access) to the FX Market, becoming its sixth SMA participant. In April, MOEX entered into strategic cooperation with the Kazakhstan Stock Exchange (KASE). The cooperation will involve MOEX's own technologies. It aims to develop the trading links and eventually build an integrated market. In the same month, we signed memoranda of understanding with the Hanoi and Shanghai Exchanges. These agreements represent substantial potential for trading links and cross listing of products. Finally, in April, we held our traditional Moscow Exchange Forum. More than 2,200 participants attended, including investors, issuers, and market participants, as well as government and media representatives.

Ok. Let us now go into more detail on these developments.

We continued to develop the General Collateral Certificate (GCC) repo. Since the end of last year, we introduced new features to allow greater flexibility for market participants. First, the maximum term of GCC repo was extended to one year. Second, USD settlement was introduced. Third, the number of general collateral pools was increased from two to four. The new pools are GC Expanded, which accepts almost 900 securities, and OFZs, which accepts only Russian government bonds. The rationale behind the launch was to attract those market participants who are interested in GCC repo trades in principle, but do not have the collateral accepted to the existing pools.

Next, on the deposits with the CCP for corporates. They continued their rapid growth. In effect, the market was created from the scratch and now amounts to a significant portion of the repo market. At this point, we already have 58 corporate names, Russian companies that have joined the Money Market – large corporates with big liquidity positions all the way to the smaller ones. This is a hit product. All these initiatives contributed to the growth of the ADTV of GCC repos, which, in Q1 2018, added 67% QoQ.

Next. We have had some additions to the range of traded instruments since the beginning of the year. Trading in futures and options on Light Sweet Crude Oil was launched in the Derivatives Market on 25 April 2018. It is too early to draw far-reaching conclusions about the success of the launch, but in 10 trading days since the start, the ADTV already reached ca. USD 0.5 mln per day. Back in 2008, when similar Brent contracts were launched, they did not achieve such ADTV until after a full month of trading. So, it is way faster this time. We intend to continue bringing global financial instruments to Russian investors and plan to launch a futures contract designed by Solactive as a proxy for developed markets.

At the end of Q1 2017, grain swaps were launched on the Commodities Market. Since then, we have observed gradual growth in their trading volumes. And starting in 2018, grain producers have finally recognised grain swaps as a viable funding tool. ADTV grew almost 5-fold in Q1 2018 compared to Q2 2017. Proceeding with the development of our Commodities Market, we will be launching trading in soybeans in Q2 2018.

The depositary receipts of X5 Retail Group were listed on MOEX in February this year. Over the past four months, X5's ADTV has grown rapidly. In the first half of May, X5 became the 17th most traded stock already. Also on the Equities Market, two new ETFs joined the 12 that we have already listed. This product appeals to retail investors and allows them to pursue investment strategies in a cost-efficient way.

Next, let us talk about the strategic Unified Collateral Pool (UCP) project. I would like to give an update now. Netting of settlements, unified collateral requirements and the functionality of the single account have already been in effect since December 2017. But more importantly, the cross-margining phase – phase 2 of the project – is ready for launch at the end this month. The fee revision schedule was updated accordingly to allow for a proper transition period. Now fee increases are expected to come in August and November. The scale of fee increases remains as planned. As Phase 1 of the UCP has already been functioning for nearly two quarters, we are also providing some early statistics on its usage. The number of participants that opened UCP accounts is growing: at the end of last week, we had 22 participants on board. The share of trading volumes generated by UCP accounts is also increasing.

Another thing on the new services, the Indicative Quotation System (IQS). IQS was introduced at the end of April. We are now waiting for a release by trading software providers on the clients' side. At the beginning of June, clients' software should start allowing the use of IQS. The idea behind the IQS is simple. Some derivatives contracts are not traded up to their full capacity based on the liquidity of the underlying asset. For a selection of liquid shares, ADTV on the spot market does not decrease as quickly as the ADTV on the derivatives market. IQS allows participants to trade derivatives contracts without freezing collateral before a trade order is accepted. We expect this will boost the liquidity in the Derivatives Market.

Financials. In Q1 2018, our operating income added 4.2% YoY. Fees and commissions grew 12.8%, with the growth rate practically reaching the teens territory. It is very close to our long-term CAGR. Net interest and finance income declined by 5.4% YoY. This is the lowest rate of the net interest income decline since Q3 2016. The growth of fees and commissions significantly outpaced the decline of interest income and helped to achieve expansion of the top line.

Operating expenses were up 7.5% YoY, but down 2.8% on the quarterly basis, and comfortably within our guidance range.

We had to make a few adjustments to our reported figures in order to make them comparable with the previous periods. The first one relates to the limited revision of the amortisation schedules for certain intangible assets. The useful life of certain types of software was extended, while that of the client base was reduced. The net result is a slight increase of D&A, which we add back to the corresponding lines.

The second one was triggered by the introduction of IFRS 9. The standard requires the recognition of allowances on financial assets not measured at fair value through P&L, including marketable securities. Quarterly changes in our IFRS 9 allowances are reflected in P&L. Since it is a new thing, which could not have been reliably forecasted, we add it back too. It is a non-cash item and, by its scale, it is not a big one.

The third one is a one-off provision in the amount of RUB 856 mln to fully cover the unsecured portion of the position of a defaulted market participant. The lack of sufficient collateral of the defaulted market participant occurred due to an unprecedented erroneous release of part of the collateral during the default managing procedure. MOEX has implemented a set of measures to preclude recurrence of such an operating fault in the future. The actual financial result is yet to be determined over the course of the participant's licence termination period and subsequent legal procedures. Of course, the Group will pursue all feasible legal solutions to resolve the matter.

That would be enough for the adjustments, let us return to financials. EBITDA on an adjusted basis was up 3.7% YoY and 6.4% QoQ. The margin remained at the strong level of 72.5%. Adjusted net income returned on a growth path and increased 3.8% YoY – ahead of inflation – and 7.7% QoQ.

On fees and commissions: they expanded by 12.8% and stand at RUB 5.5 bln. Fees from the FX and Derivatives Markets were roughly flat YoY. With the exception of these two markets, the growth in fees was quite universal. In absolute terms, the Fixed Income, Money and Equities Markets contributed most to fee growth.

It is a strategic priority for us to shift our offering towards more value-added products and services, such as repo with the CCP in the Money Market and commodity derivatives in the Derivatives Market. This improvement in the mix is exactly what we observed in Q1. Equities and Fixed Income Markets are the two markets with the highest average fees per rouble of trading volume, and they showed impressive growth on an annual basis.

Money Market. Money Market fees and commissions increased 12.2% compared to the past year, while trading volumes declined. The decline in volumes was mostly attributable to repo with the Bank of Russia. It reflects substantially higher liquidity in the Russian banking system. The strength in effective fees was due to a longer average term of repos, which rose from 2.8 days in Q1 2017 to 3.1 days in Q1 2018. This shift allowed us to achieve fee growth despite flat volumes. Some accruals from longer-term repo deals initiated before the start of Q1 2018 helped as well.

Depository and Settlement increased 5.6% YoY primarily due to growth in average assets on deposit. The latter increased by 15.7% YoY in Q1 2018. The growth was universal across all asset classes. While income from safekeeping linked to assets on deposit remained strong, fees from repo with collateral management services through NSD declined due to lower trading volumes. Once again, it happened on the back of substantially higher liquidity in the Russian banking system.

FX Market trading volumes declined by 6.9% YoY and fees were down by 3.2%. Swap trading volumes declined by 6.5% YoY, while spot trading was down 8.4% YoY on the back of subdued volatility, which in Q1 2018 was at its lowest in a long time.

Fixed Income Market. The fees grew by 96.2% YoY, almost twofold, while trading volumes increased 54.1% YoY. The growth in volumes was primarily due to higher volumes of primary placements, although secondary trading was quite strong as well. The blended fee during Q1 2018 was comparable to that in Q1 2017, but declined on the QoQ basis. The reason for that is that we had substantial placements of shorter-term bonds, particularly those issued by the Bank of Russia, and most notably VEB's short-term bonds. Since these have a tenure of a few weeks to a quarter, the tariff structure means we are unable to realize the full fee comparable to longer-term bonds.

IT Services and Listing. Listing fees were largely flat despite some growth in primary bond placements. The gap was due to a higher number of government and CBR bond placements and a change in the placement structure towards larger bond issues. Sales of data and information services were also flat. Sales of technical services rose 8.1% YoY, supported by colocation fees. Other fees and commissions in Q1 grew almost three times. They include contribution from the Commodities Market.

Derivatives. Fees from the Derivatives Market were roughly the same as a year ago, despite a 7.2% YoY decline in trading volumes. The positive change in the product mix supported the fee income. Lower FX volatility caused FX derivatives to decline by almost 26% YoY, again, due to lower volatility of the RUB/USD pair. At the same time, higher fee products, such as single stock futures and commodity futures and options showed impressive double-digit growth. So, technically, the mix is improving.

Equities trading volumes increased 16.5% YoY, which helped fees and commission income climb to a record level. Trading volumes benefited from the growth of the broad stock market in Russia. Another supporting factor was the increase in the free float of several Russian companies after they completed SPOs last year. Our market share vs. the LSE in dual-listed stocks reached 61%, that is 4 pp higher than a year earlier. There were also a couple of other welcome developments. In particular, FTSE replaced two DRs of Russian issuers with local shares in its All-World Index. Also, after MSCI started using our closing auction options prices to calculate their indices, we observed a substantial increase in the closing auction trading volumes.

Interest income. Net interest and finance income declined 5.4% YoY but grew 14.5% QoQ. The growth compared to the previous quarter was due to 10.7% higher funds available for investing, a better proportion of rouble-denominated client balances and increasing US dollar interest rates. The gain on the redemption of bonds held in the investment portfolio also supported the result. It explains the smallest YoY contraction of net interest income (NII) since Q3 2016.

Operating expenses. In Q1, they grew 7.5% YoY and within the bounds of the OPEX guidance given previously. Let me remind that is being 7–9%. Personnel expenses advanced 6.5% YoY, while administrative expenses increased 8.4% YoY. As I previously mentioned, the amortization schedule of our intangible assets was slightly revised. As a result, the amortization charge for the client base ticked up, while that for certain types of software ticked down. The combined effect of this change was an increase in OPEX of RUB 81.8 mln during the quarter. Our unadjusted D&A and IT maintenance expense increased by 11.7% YoY. However, after adjusting for the amortization schedule alone, it grew only by 3.6% YoY. This factor should be taken into account going forward. It is a non-cash item. The adjusted total OPEX grew by 5% YoY; OPEX excluding D&A expenses added only 4.7% YoY.

Last but not least, the corporate developments this year. I would like to highlight what happened. The AGM approved the recommendation to pay RUB 5.47 per share in dividends. This, together with an interim semi-annual dividend paid in Q4 2017, makes the total dividend for the year RUB 7.96 per share, or 89% of our net income for 2017. RUB 5.47 per share will be paid to shareholders by 20 June 2018. The AGM also elected a new Supervisory Board, which now has seven independent directors out of twelve. That means more than 50% of the Board composition are independent. Oleg Vyugin was elected as the Chairman. We are also happy to note that the majority of our shareholders voted electronically and 20% of them used the e-voting platform that was developed by our very own National Settlement Depository.

OK. We are ready to move on to your questions.

Operator

Thank you. Ladies and gentlemen, we will now begin the Q&A session. As a reminder, please press "*1" on your telephone keypad, if you wish to ask a question or make a comment. That is "*1" on your telephone keypad. You can cancel your request by pressing the "#" key. Thank you. Our first question comes from the line of Elena Tsareva from Sberbank. Please ask your question.

Elena Tsareva – Sberbank

Hello. Thank you for your call. The first question from me is if you could you please elaborate what was the main reason behind the fee margin decline for derivatives and for fixed income.

Maxim Lapin – CFO

In the derivatives, if we look at the composition market by market, the main recipients of the lower FX volatility, especially on the RUB/USD pair, were the volumes of FX derivatives. So, those FX futures suffered the most. What I mean by the mix and the composition in the derivatives market, is that the single-stock and commodity derivatives were on the rise. The commodity derivatives virtually created the market several years ago and now it amounts to almost a third of the derivative market. And what was the question on the fixed income?

Elena Tsareva – Sberbank

The same, fee margin decline, quarter over quarter.

Maxim Lapin – CFO

That is simple. The mix matters. The sovereign bonds are among those with relatively low fee per volume compared to corporate bonds. The share of the mix improved with regards to the balance of the sovereign bonds. That is why the average fee declined somewhat.

Elena Tsareva – Sberbank

I see, thanks. The second question is about this operational one-off. Could you please, if possible, elaborate in more detail what happened and what was done to prevent it from happening in future? Do you also expect any recoveries of this provision? Do you maybe need more CAPEX or more costs to fix this problem?

Maxim Lapin – CFO

Let me start with the last lines. No CAPEX is expected. The provision that we made covers 100% of the amount of insufficient collateral. Therefore, we do not expect any additional costs on top of this provision. Some recoveries are technically possible. We will be looking into that in Q2 and Q3, but as for the amount of I cannot vouch yet. We have made a conservative estimate. Let us see how it is going to develop. In terms of what happened, I will tell you what I have already told. There has been a default by a market participant. Some collateral has been erroneously released from the custody. That means we issued a claim back on the collateral so that it should be funded. Now we are looking at the development. The nature of the mistake is a one-off.

Elena Tsareva – Sberbank

OK, thank you.

Operator

Thank you for your question. Your next question comes from the line of Andrzej Nowaczek from HSBC. Please ask your question.

Andrzej Nowaczek – HSBC

Thank you for the presentation. I have one general question on the impact of the new sanctions on MOEX. For example, does the spike in volumes in April mean there will be less volume growth in the remainder of the year? What do you see in the first half of May? Or do you need to change your OPEX guidance now that the rouble has depreciated by a few percent? And finally, what about the NII outlook? Thank you.

Maxim Lapin – CFO

Let me start with the rouble rate first. The OPEX guidance remains at the same level of 7–9% for the year. The volatility in the exchange rate of the rouble does not change quite a lot for us. We budgeted, let us see, on average for the year an exchange rate of around RUB 64–65. Up to this time looking forward, we are more or less within the budget numbers, which gives grounds for the guidance itself. As for the volatility in the Equities Market, we observed it due to the sanctions in April. It did help us with the volumes and the activity of equities trading. Looking at the May numbers, we will be releasing them in the first week of June. We will see how this situation develops. However, let me say that this year the Equities Market is doing well.

Andrzej Nowaczek – HSBC

OK, do you think that because this year the rouble is slightly weaker and the inflation is likely to rise because of it, there will be fewer cuts by the CBR?

Anton Terentiev – Director of IR

Andrzej, frankly, we cannot comment on the anticipated actions by the regulator. It is not something that we can comment.

Andrzej Nowaczek – HSBC

Understand. Thank you, Anton, thank you, Maxim.

Anton Terentiev – Director of IR

We can only say what we are reading in the releases by analysts that definitely, there is some revision, some analysts revised their forecasts in the CBR rate outlook but we are not providing our own guidance on this.

Andrzej Nowaczek – HSBC

Of course. Thank you.

Operator

Thank you for your question. Your next question comes from Olga Veselova from Bank of America. Please ask your question.

Olga Veselova – Bank of America Merrill Lynch

Thank you. I have several questions. My first question is a follow-up to the question from Elena about this one-off provision. Can such a mistake lead to an increase in some internal safety buffers, maybe capital buffers, some maybe capital buffers or did you just repay this one and move on as if it did not happen? This is my first question. My second question is about average yield on your portfolio. I saw a nice pick-up of average yield on both deposits and securities in Q1, which of course we very welcome. However, my question is what helps you to grow this average yield QoQ. My third question is the following. Thank you for the explanation of the reduced average yield in the fixed income segment. How sustainable do you think this reduction is? Or you would expect a bounce back in the next quarter? Thank you.

Maxim Lapin – CFO

Great questions. For the one-off, we do not see any necessary amendments to our capital schedule. It is not going to repeat. We have looked into it, made a provision and we are going to move on.

The second question is on average yield. If you looked at the mix of the collateral provided and client balances, you would see the share of roubles both in our funds and our investment portfolio increased dramatically compared to the previous period. This is one of the primary reasons for the average yield increase as the average yield on roubles is definitely higher than on US dollars and euros. Frankly speaking, if you compared the average yields with that for the US dollars and that for the euros against previous periods, those improved during Q1 2018 as well. So we already see positive gains for us in the rising interest rates in the Eurozone and America, especially.

In regards to the fixed income, the majority of our tariffs, let us say, 98% or 99% of our tariff structure, are nominated in basis points, they are volume-driven. That means that for a given product we have a stable tariff structure. When the mix changes, let us say, the sovereign debt is on the rise, and the primary issuances have been especially strong, you would observe a decline in the average fee on a mix basis. However, if you compare the corporates and sovereigns for the previous period, the tariffs within those groups are the same. So, it is purely a mix effect. As I mentioned earlier, one of the good ways to forecast the issuances: there are some publications on what is anticipated from the volume of issuance of the corporate debt, but there is also a good proxy for forecasting the sovereign debt issuances, and these are the federal budget and the three-year forecast of the federal budget. I would encourage you to use that data to model the market. Thank you.

Olga Veselova – Bank of America Merrill Lynch

Thank you, Maxim. Can I clarify the second question? What part of your foreign currency NII is driven by global rates vs. local foreign currency rates, roughly?

Maxim Lapin – CFO

Let us say, technically I would say that euro and dollar interest rates are eventually driven by the global rates. So, we are recipients, though not directly, of the global rates increase. We do not receive the gains directly, but indirectly this spills over into the local market and we make additional NII on that.

Olga Veselova – Bank of America Merrill Lynch

Thank you.

Anton Terentiev – Director of IR

I shall add that you have to remember that we have a quite sustainable coupon income in our bond portfolio and a more volatile income from money market instruments. This composition changes all the time. The relative weights affect each other, and that adds up to the complexity of forecasting a little bit.

Olga Veselova – Bank of America Merrill Lynch

OK.

Operator

Thank you for your question. Your next question is from the line of Sergey Garamita from Raiffeisen Bank. Please ask your question.

Sergey Garamita – Raiffeisen Bank

Hi, thank you for the presentation. I have two small questions; all the other questions have already been answered. Is your OPEX guidance of 7–9% growth YoY still the same given the amortization revision based on your standards. The second question is regarding this provision. Will it have any effect on the dividend base for 2018 or not? Thank you.

Maxim Lapin – CFO

Amazing questions. With regards to the guidance, we still provide 7–9% even though we changed the amortization schedule. We will be even more prudent with the cost base. In terms of dividends, our dividend policy mandates the minimum payout of 55% of net income. We have actually been paying more. We return to the shareholders all the liquidity possible except for the needs to capitalize our subsidiaries, the clearing center and the depository, and development in our CAPEX. Therefore, the dividend policy is not like 55% minimum. We are paying the maximum cash we can while not impeding our development and capital adequacies.

Sergey Garamita – Raiffeisen Bank

Thank you for the answers, but I mean the gist of it is that you still stick to steady dividends no matter what provisions you create, right?

Maxim Lapin – CFO

I will reiterate one of the sentences, I probably mentioned half an hour ago that this is the provision so far. The actual loss will be determined going forward, when we see how the situation develops. We made 100% provision for the situation, so we do not expect anything on top of that.

Sergey Garamita – Raiffeisenbank

I see, thank you. As to your OPEX guidance, the way I see now is that the growth in Q1 was about 7% YoY or something, including this D&A revision. Excluding D&A at all, OPEX rose 4+% YoY. Can we take it as a guidance for OPEX, excluding the D&A effect like 4–5% vs. 7–9% for the total OPEX?

Maxim Lapin – CFO

That is a good question. Technically, this type of analysis would work. 7–9% is a remaining number for the guidance, but including the amortization schedule effect. We would like to maintain lower growth of our expenses excluding this amortization schedule change. Technically, your analysis is correct, but I cannot vouch that it is going to be the main guidance. I would still stick to the general guidance of 7–9% for all OPEX. Thank you.

Operator

Thank you for your question. Your next question is form the line of Robert Bonte from BlueCrest. Please ask your question.

Robert Bonte – BlueCrest

Good afternoon and thank you for taking the questions. I have three questions, if I may. As you explained to us, adjusted for the one-offs, you had earnings growth in Q1 for the first time since Q2 2016. I am just trying to model forward, think about if this earnings growth continues. And the first question I have is if you could give us a little bit of an update on the outlook for NII. It seems that NII troughed in the middle of last year and now it is on the way up. Can you give us a little bit of an outlook on that? Because it depends not just on rates, I guess, but also, of course, the client balances, where you have better information than we do.

Maxim Lapin – CFO

OK. As for NII, if you look on the monthly data for the last year, the lowest amount that we had in rouble terms were in May and November, standing at roughly USD 1 bln equivalent. Nowadays, we carry a little bit more in rouble balances but lower amounts of euros and dollars compared to the previous year. The mix is changing but in a more healthy way. The reason behind it is the shrinking price differentiation, the rate difference between euros, dollars and roubles. Therefore, the alternative cost for the market participants in terms of roubles vs. dollars or euros is not as big as it used to be before. That is to explain the structure.

In terms of the overall amount of collateral, it seems to have stabilised compared to the previous years' declines, and nowadays one of the major factors that is going to appear this year is the complete rollout of the Unified Collateral Pool, which will have some downward pressure on the collateral balances. But as we said earlier, the UCP has three impacts. One, it shrinks balances somewhat, which is compensated roughly one-for-one by an expected increase in trading volumes because of the cross margining opportunity. And, on top of that, we will have a similar impact in terms of tariff reviews in several markets. Overall, it seems that the problematic situation that we have had with NII for several years is self-amending. So, I would not be expecting any big surprises here anymore.

Robert Bonte – BlueCrest

Thank you very much. My second question follows on from your presentation. On page 4, you talk about new products – derivatives, commodities and equities, especially the grain swaps and those things. Is this in your other fee income line, which was RUB 84 m in the quarter, up from RUB 70 m in Q4? Are you forecasting growth from here, according to the very strong April and May numbers you have been giving us?

Anton Terentiev – Director of IR

Yes, Robert, that is correct. It was a contribution from the Commodities Market in the other fee income line. And provided those swap instruments continue their ascending performance, then there will be growth in this line in P&L as well.

Robert Bonte – BlueCrest

OK. And my third and last question is about derivatives. We saw very strong derivatives growth in volume terms in April, as could have been expected because of market volatility. Can you give us a sense if the derivatives volume was similarly strong in the first half of May?

Maxim Lapin – CFO

Well, with the derivatives, the formula works that they usually reflect the performance of the underlying asset's volume of trading. So, when equities are rallying, single-stock derivatives show stronger performance. And speaking about the May numbers, we disclose them on the first week of June; we cannot go before that.

Robert Bonte – BlueCrest

OK. Thank you very much for taking the questions and congratulations on the strong quarter.

Maxim Lapin – CFO

Thank you.

Operator

Thank you for your question. Your next question is from the line of Mikhail Ganelin from ATON. Please ask your question.

Mikhail Ganelin – ATON

Good day, gentlemen. Congratulations on the results. I have one question about your Depository and Settlement income. I see that your assets on deposit are constantly growing. But at the same time, in Q1 there was some pressure on the fee and commission income as compared to Q4. What is the reason and how will the segment perform going forward? Thank you.

Maxim Lapin – CFO

In general, safekeeping charges, the tariffs, are flat. I mean, the tariffs themselves are not changing. The difference between the fees and commissions in Depository and Settlement and the assets deposited has been primarily that one of the business lines, the repos with the NSD, declined virtually to non-existent amounts. So, one of the revenue lines virtually migrated to the Money Market. That means that the usual returns for Settlement and Depository, which are the safekeeping charges, they are proportional to the volume of assets under custody. Other income lines, which are called here on the slide "collateral management services" and account for just 0.5% of them, used to be higher. But it migrated to the Money Market.

Mikhail Ganelin – ATON

OK. Thank you.

Operator

Thank you for your question. Your next question is from the line of Andrey Pavlov-Rusinov, Goldman Sachs. Please ask your question.

Andrey Pavlov-Rusinov – Goldman Sachs

Good afternoon. I have a couple of follow-up questions. First of all, on the Unified Collateral Pool. I appreciate your comments on its potential effects on client funds, but I would like to know a little bit more on the timing of that. Do you expect any pressure, if at all, on client funds? Will that most likely come in the mid-year, when you will be rolling out the cross-margining, or is it more likely to come towards the end of the year, when you will actually be increasing the tariffs for that service and probably more participants will be using it?

Maxim Lapin – CFO

It is a function of the on-boarding speed of the professional market participants. So far, they are testing the system, adjusting their IT systems to use the opportunities that cross margining provides. It means that once we hike up the tariffs, it will just further stimulate a quick conversion to the UCP functionality. So technically, responding to your question, it is not likely to happen in the mid-year, but probably at the year-end. And the results are yet to be seen.

Andrey Pavlov-Rusinov – Goldman Sachs

OK, that is clear. Thanks. And my other question is regarding your fee yields in the Money Market. Again, thanks for your comments on the drivers. As far as I understand, they have partially been driven by the longer-term repos, the income from those being recognised in this quarter and the previous quarter. Could you provide some guidance as to whether the effect of those longer-term repos will be going down so that your total yields on the Money Market will probably start to normalise, or decline? When should we expect that, if at all?

Anton Terentiev – Director of IR

OK, Andrey, let me take that question. Basically, those deals that we were accruing in the previous quarter are still intact. Some of them expired but there are no new ones at the moment. We had the full impact of those accruals in the previous quarter, and then it is gradually coming down in this first quarter. We will see a decrease in the effect of those accruals in Q2 and Q3 towards the end of the year. By Q1 2019, those effects will be gone.

Andrey Pavlov-Rusinov – Goldman Sachs

OK, that is very clear. Thanks a lot.

Operator

Thank you very much for your question. Ladies and gentlemen, as a reminder, please press "*1" on your telephone if you wish to ask a question.

We have received another question from Bob Kommers from UBS. Please ask your question.

Bob Kommers – UBS

Good afternoon. Another question on the Money Market. You were explaining the fee impact of the longer-term repo contracts that will gradually fade over the course of this year. I just wanted to get an idea of what the reason was for the increase in the average term and to know if that includes the average term of the repos increasing to 3.1 days. Is that including that impact of the longer repos that you had in Q4 and this quarter? And if that is excluding it, what is driving that and what is the visibility on those terms of repos going forward?

Maxim Lapin – CFO

OK. First things first, how the market works: one of the notions I mentioned earlier in the opening phase of this discussion, for the GCC repos, we extended the maximum duration to one year, so technically it is possible to make trades in the Money Market with a duration of up to one year. When we are talking about GCC deposits, which are in fact corporate clients managing their liquidity, they are looking to longer deals maturing in a month or quarter, and currently they could be up to half a year and technically up to one year. That means that those longer-term repos are a natural development in a market that used to deal with days and now is maturing into longer terms. It is a new trend. Whenever an older one, let us say, from Q4, is expiring, a new one is being added as we speak. It is an active product. Another thing that you see is that the share of GCC repos is increasing. That means that the corporate repos are also on the rise. Technically, there is upward pressure from the mix of repo contracts on the duration. It is a normal trend in the market, yet it is a function of the share of CCP repos and longer-term repos. But I think, this year we will see similar logic in the next quarters. Did I answer your question?

Bob Kommers – UBS

Right. Just for my understanding, the GCC repos income, the revenues that you get from them, the fee income – do you include it in the Money Market or the other fee income line?

Maxim Lapin – CFO

GCC repos are a Money Market product, so those are Market Money returns.

Bob Kommers – UBS

Money Markets. That's extremely helpful. Thank you. I have no further questions.

Maxim Lapin – CFO

Thank you, Bob.

Operator

Thank you for your question. And your last question is from Olga Veselova, Bank of America.

Olga Veselova – Bank of America Merrill Lynch

Thank you. I have a question about one initiative that you discussed during your previous conference call. You mentioned that you launched this marketplace and ecosystem. Do you have any more thoughts now? When do you think this initiative will have an impact on your financials? Do you think it is possible to start quantifying potential impacts, even if it will be a rough range of estimates? Thank you.

Maxim Lapin – CFO

Well, good news here. There are two versions of the marketplace. The first is what we call the small marketplace and the second one is a larger one that we call the big marketplace or ecosystem. The small marketplace is for acquisitions of retail clients by brokers. It is in place, it is working. As for the larger marketplace, the ecosystem, which we also mentioned as a deposit window, or deposit opportunity for retail clients, the prototype has already been tested. So we know it works technically. Now, we are contemplating the strategy of the rollout for this product.

Olga Veselova – Bank of America Merrill Lynch

When do you think it will be rolled out?

Maxim Lapin – CFO

In terms of timing, the prototype has been tested this month. Next is the pilot phase. The pilot phase means that it is not full capacity in terms of the amount of what it can do, but it is a commercially doable system. It is not in-house but technically a working product. It will be completed by the end of this year. Depending on the results of the pilot, we will be moving into a wider, commercial rollout next year.

Olga Veselova – Bank of America Merrill Lynch

Thank you very much.

Operator

Thank you, Olga, for your question. And there are no further questions, so speakers please continue.

Anton Terentiev – Director of IR

Thank you very much, ladies and gentlemen. We can wait for maybe one more minute to see if somebody has a follow-up question, and if there are none, then we will just conclude the call.

Operator

Dear ladies and gentlemen, do press "*1" if you wish to ask the last question. That is "*1". And we have received a question from the line of Elena Tsareva from Sberbank. Please ask your question.

Elena Tsareva – Sberbank

My last question is a bit unrelated to the financial results for Q1, but mostly on client balances in April. In rouble terms, they declined by 6% MoM. Given there was extremely high volatility in the market, why did the balances decline? Could you please give any insight?

Anton Terentiev – Director of IR

OK, Elena, let me just tell you one thing. As you remember, we said that actually our balances are affected by one-offs that come from corporate actions like dividend payments or bond placements or bond redemptions. In the month of March, there were a couple of spikes related to those particular corporate actions, and they really influenced the monthly average. If you net it out from those contributions, you will actually see a MoM increase in rouble terms in April. That is probably the biggest factor. And if you look at this on an adjusted basis, you will see that the rouble growth in April was largely in line with other currencies, with euros and dollars.

Elena Tsareva – Sberbank

Like 20%?

Anton Terentiev – Director of IR

Well, slightly less than that. Maybe the growth rate was half of that for hard currencies because, as you can imagine, in such times of volatility, people still prefer to switch their funds into hard currencies. So, roubles were up but maybe half the rate of other currencies – and I am talking about adjusted-basis roubles.

Elena Tsareva – Sberbank

Understood. Thank you.

Operator

Thank you. And there are no further questions. Please continue.

Maxim Lapin – CFO

Thank you everyone for participating in this earnings call for Q1, and we are looking forward to hearing from you in the future. See you.

Anton Terentiev – Director of IR

Thank you.