MOSCOW EXCHANGE

Q3 2018 IFRS Results Conference Call

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Moscow Exchange speakers:

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

Participants asking questions:

- Andrew Keeley, Sberbank CIB
- Andrew Klapko, Gazprombank
- Andrzej Nowaczek – HSBC
- Andrey Pavlov-Rusinov, Goldman Sachs
- Bob Kommers, UBS
- Elena Tsareva, BCS
- Sergey Garamita, Raiffeisen Bank

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Anton Terentiev – Director of IR

Good afternoon everyone, and welcome to Moscow Exchange's Q3 2018 IFRS results conference call. As usual, after the prepared remarks, we will have a Q&A session. Today we have on the call our CFO Max Lapin.

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 of Q3 2018. Our management presentation is available on the Company's website in the IR section.

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

Max Lapin – CFO

Thank you, Anton. Thank you all for joining us today to discuss Moscow Exchange's financial results. Let me start with a summary of delivery on strategic business initiatives since the beginning of Q3 2018.

First, we launched a number of new products in our core markets. In the Derivatives Market, we added 5 new commodity futures – a deliverable futures on gold and 4 cash-settled futures on LME metal price benchmarks. The Bank of Russia finally set forth the regulations that permit creation of domestic exchange-traded funds (ETFs). ETFs have been trading on Moscow Exchange since 2013, but they were set up under foreign law. In Q3 2018, the first ever ETF under Russian law was listed. This ETF tracks the MOEX Russia Index and is the first of several ETFs that we expect to be listed in the near future. Another addition to the range of ETFs is the one on the Kazakhstan Stock Exchange (KASE) Index. It is priced in roubles, which allows market participants to exploit arbitrage opportunities between the rouble and tenge. A new FX pair – GBP/USD – was added to the 10 existing pairs traded on the FX Market. Cash-settled USD/INR futures contracts started trading in the Derivatives Market.

Second, we continued to expand the range of services for our clients. The functionality of the Unified Collateral Pool has been available to clients since May. A universal fee change took place on 1 November 2018, as promised and as scheduled. An electronic OTC platform was introduced in the Fixed Income Market, with 4 clients joining thus far. We expect it to facilitate the flow and transactions in less liquid instruments, including Eurobonds. The Indicative Quotation System (IQS) on the Derivatives Market continues to develop. In the past quarter, it was expanded to include futures in addition to options. 9 market participants are using the IQS as of now. Sponsored Market Access (SMA) that we have been talking about all this year was provided on the Derivatives Market. SMA had already become available on the Equities, Fixed Income, and FX Markets. The addition of derivatives opened a greater range of trading opportunities to those who use SMA.

Third, the Company continued to develop its client base and partnerships. We entered into a strategic cooperation agreement with Kazakhstan Stock Exchange (KASE). The goal is to build links between the two exchanges and

ultimately bring the two markets together. Under the agreement, MOEX will acquire up to a 20-percent stake in KASE and provide IT solutions to KASE.

The Marketplace project pioneered by MOEX and the Bank of Russia continues to gain steam. So far, we have had 14 commercial banks join the Marketplace. I will talk about it in some depth in a few moments.

The number of corporate issuers in the Fixed Income Market also continued to climb. During 10M 2018, 94 corporates issued 180 bonds, raising RUB 1.8 trn. 31 of these companies were newcomers to the Bond Market. Retail clients have also been exceptionally active this year. The significant growth in the number of Individual Investment Accounts (IIAs) is one manifestation of that. The number of IIAs has recently hit the 480,000 mark.

The Company held its traditional forum in New York and the retail-oriented FINFAIR event in Moscow. And MOEX also collaborated with Shanghai Stock Exchange to host the Russia-China investment conference in Moscow.

The Unified Collateral Pool. We delivered the full functionality of the Unified Collateral Pool earlier this year. However, to take advantage of it, market participants needed to implement particular software upgrades on their side, too. For this reason, we expected the onboarding process to be gradual, which is exactly what we have observed. The UCP take-up continued to grow in Q3 2018, and the share of fees and commissions generated via UCP accounts approached 9% of total trading. More recently, the process accelerated, and we could see nearly 20% of trading fees coming from UCP accounts during the month of October. This brought the 12-week moving average up to 13%. Naturally, the number of market participants with UCP accounts advanced as well and surpassed three dozen, including top participants responsible for the majority of volumes. We have previously outlined that most types of asset class combinations allowing cross-margining contain a derivative instrument. This means that the Derivatives Market acts as the centrepiece of the UCP project. Therefore, the successful utilisation of the UCP functionality must imply active trading on the Derivatives Market. We are happy to report that the share of trading via UCP accounts in the Derivatives Market has exceeded 40% in both fees and volumes. It is a clear sign that the UCP is gaining traction and gradually becoming a standard tool, rather than an untested novelty. Moreover, it is happening at just the right time: we expected the universal tariff hike on 1 November would stimulate onboarding. This was the second and final phase of tariff revisions related to the UCP. The cumulative tariff adjustment now stands at + 6% for CCP repo, +10% for all derivatives and + 20% for all FX swaps. It applies to all market participants.

Next slide on the Marketplace at MOEX. Throughout the year, we have spoken about the Marketplace on numerous occasions. The first mention came during the presentation of our full year 2017 results. Then we followed up and revealed more details during the Reinvent MOEX workshop. On the previous call, we announced the completion of a prototype, and today I would like to outline the clear reasoning of why this project is happening and how it fits into MOEX's business model. We know that the amount of retail deposits in Russia stands at RUB 27 trn. This asset pool is larger than Russia's pension funds, sovereign funds, i.e. the Well-being Fund, etc. It may become the single most important growth driver for on-exchange products. Yet it lacks fast, convenient interface for retail deposit management across banks – an area

MOEX can digitalise. MOEX will expand its core expertise to standardise and unify the retail deposit market, making it truly online. It happens at the time when our retail client base is rapidly growing. The number of retail client accounts has more than doubled in 5 years to 2.4 million retail accounts opened in the Securities Market. We have what it takes – market neutrality and associated trust, the essential infrastructure and IT expertise. We will get a new source of fee income with a long-term revenue potential measured on a scale of billions of roubles. We will be able to cross-sell our products to a new audience many times larger than the existing set of active clients. We will also obtain market intelligence and behavioural data from a wide retail client base. There is a challenge, though. The market niche we are seeking to exploit is entirely new, and the project itself is unprecedented. It requires concerted technological and regulatory effort over a couple of years' timespan. This field will essentially be ploughed, sown and harvested all at once. That's why the traditional approach to capital allocation would simply be futile here. We shall resort to a more venture capital-like thinking, pivoting around the size of asset and revenue pools, first-mover advantage and the complementary, familiar type of business. The faster we progress, the more we can get. To limit expenses and make sure that the Marketplace is aligned with our strategic goals at every point, we are employing a stage-gate funding approach to this project. Expenses will still measure against the size of potential revenues and the magnitude of our margin; however, we will have to invest before we get to revenue. This might add few percentage points to our OPEX growth in 2019. CAPEX will be several hundred million, but way short of RUB 1 bln. All together OPEX and CAPEX in 2019 might amount to roughly RUB 0.5 bln, with over two-thirds of it attributable to CAPEX. This means the Marketplace investment will be limited and affordable. It will not put a drag on our core business. We expect to get the minimum viable product already next year. This product will be capable of generating revenue on a scale of RUB billions, but in the long run.

Let me move on to the next slide: Derivatives. The 6 new derivative contracts we launched recently have only started to garner interest from market participants. 5 of them are linked to commodities and, among other means, represent a hedging tool for corporates. We already see how similar products introduced earlier this year are picking up. They share many common features, providing an exposure to global benchmarks and enjoying demand from international clients, including HFTs and arbitrageurs. The latter is the type of clientele that would utilise our SMA and DMA services. We have also started to observe elevated attention to interest rate derivatives. It is driven by both higher uncertainty for interest rates in Russia, and the emphasis that banking regulation puts on interest rate risk. Going forward, MOEX may introduce a derivative on the benchmark repo rate.

With the last slide of today's thematic deck, I would like to explain the performance of the Soft Commodities Market. All our business initiatives have unique life cycles: some initiatives take off instantly, others require time to develop and appreciate gradually. The grain market – or, best to say at this point, the Soft Commodities Market – has historically been one of the slower-paced initiatives. However, it has now started affecting our financials in a visible way. During conference calls covering Q1 and Q2 financials earlier this year, we commented briefly on soft commodities. Today we have included this slide. Trading volumes in soft commodities clearly demonstrate a much-improved performance in 2018 YTD. In Q3 2018

alone, the volumes jumped 10x YoY. However, this brings both extra revenues and extra costs as we decompose the impact on the right chart. Associated costs fall into the "Professional services" line in the IFRS accounts. These logistical costs plus insurance are passed through to clients upon a trade. They are effectively reimbursable costs at the margin. Corresponding revenues allocate to the "Other fee income" line. The line consists of an equivalent of logistical costs with a small mark-up plus our inherent, standard on-exchange fee. The effective on-exchange fee is quite substantial, as it equalled 18 bps in Q3 2018, boosted by state grain interventions. To compare, this is 10x the effective fee on the Equities Market, the highest on the Securities Market. On a quarter without grain interventions, the effective on-exchange fee is about half as large, which is still quite substantial. There is a direct link between logistical costs and on-exchange fees. These are scaling up coherently. Therefore, both corresponding P&L items expanded visibly in Q3, adding approximately 2 pp to OPEX growth. We will consider showing Soft Commodities separately in our P&L in 2019. Though the line is not meaningful enough for the IFRS to require its disclosure, we are striving to make our reporting more straightforward.

Financials. In Q3 operating income increased by 1.7% YoY, and fees and commissions grew by 8.4% YoY and came in line with the record level of the previous quarter. Net interest and finance income (NII) declined by 7.0% YoY. NII excluding realised gains and losses on the investment portfolio was broadly in line with recent quarters. Operating expenses added 6.1% YoY and were flat QoQ. As we mentioned during previous calls, a change in amortisation schedules took place at the beginning of 2018. In Q3 2018, this change resulted in an additional amortisation charge of RUB 86 mln. If we exclude this effect, OPEX growth was just 3.5% YoY. To make the presentation comparable across the last three quarters, we adjusted EBITDA and net income for two effects. First, we added back the after-tax effect of the changing amortisation schedules of RUB 69 mln to net income. Second, we subtracted a positive change in the IFRS 9 allowance from both the EBITDA and net income. This change amounted to around RUB 3 mln on a pre-tax basis. EBITDA increased by 0.6% YoY, and EBITDA margin was 72.6%, in line with the past values. Adjusted net income also added 0.6% YoY.

Next slide. Overall fee income virtually equalled the all-time high set in the previous quarter. For the second quarter in a row, all trading markets without exception exhibited fee growth YoY. The biggest contributors to fee growth in absolute terms were the Money, FX and Equities markets, as well as the aggregate category of IT Services and Listings. Higher trading volumes in most markets drove the fee growth. The results are supported by favourable effective fee changes in the Money and Derivatives markets, as the product mix shifted towards higher value-added products.

The Money Market. Fee & commission income from the Money Market increased 5.1% YoY and renewed the all-time high, while trading volumes decreased 16.3%. The decline in trading volumes was attributable to repos with the CBR and inter-dealer repos. It was partially offset by a 9-fold increase in trading volumes of GCC repos. The overall average repo term in Q3 2018 was somewhat lower than last year, but in line with the previous quarter. However, the average term of GCC repos expanded by 0.6 days YoY. In 1H 2018, deferred fees from longer-term repos played an important role in supporting fee income.

In Q3, the effect of recognition of deferred fees was only RUB 38 mln and had minimal impact on the effective fee. The effective fee got support from the higher share of GCC and CCP repos, the two value-added lines. Other factors were the increasing average term of GCC repos, lower market concentration, and an increase in the fee rates for deposits with the CCP starting 1 June this year.

Depository and Settlement. Fees & commissions increased 3.4% YoY. Depository and Settlement became another business line that reached a record high result in Q3 2018. The increase was driven by continued expansion of assets on deposit of 16.9% YoY. The double-digit growth was observed across all asset classes. The discrepancy between growth rates of assets on deposit and fee & commission income from the Depository and Settlement was due to two factors. The first was the decline in volumes of repo with CMS through NSD. We have observed it since the beginning of the year due to macro factors, particularly interest rates. The second was a higher share of large market participants that are subject to lower fee rates.

FX Market. The fees were up 7.3% YoY. Trading volumes added 8.8% YoY, and spot trading volumes showed a double-digit growth YoY amid high volatility. Swap and forward trading volumes increased as well, although at a lower rate. The growth occurred across most currency pairs, including USD/RUB. Among major pairs, EUR/RUB showed the highest growth rate of 30% YoY. Such pairs as CNY/RUB, GBP/RUB and CHF/RUB also demonstrated impressive expansion in trading volumes.

IT Services and Listings. Listing fees decreased 12.7% YoY due to a larger size of an average bond issue. Commissions from information services grew 11% YoY, driven by the weaker rouble. Sales of software and technical services advanced 5.9% YoY. Other fee and commission income grew 5-fold YoY. As I mentioned earlier, this line includes revenue from the Soft Commodities Market, such as on-exchange fees, mark-ups and the "pass-through" costs. The contribution of the Soft Commodities explained the rapid growth of this subcategory.

Derivatives. Derivatives trading volumes grew 2.0% YoY. Growth occurred across all types of underlying assets, with the exception of index contracts. The highest growth on a YoY basis was demonstrated by single-stock derivatives, with their trading volumes increasing by nearly one-third. A higher proportion of more expensive equity and, to a lesser extent, commodity derivatives in trading volumes resulted in a strong fee growth of 14.2% YoY. In recent months, Derivatives Market participants began to favour short-term strategies and contracts. This has led to a decline in open interest, despite robust volume growth.

Fixed Income. Bond Market fees grew 2.6% YoY, and trading volumes spiked 5.7% YoY, thanks to triple-digit growth in primary placements, excluding overnight bonds. In the primary market, new placements by the government and the CBR made up more than three-fourths of all placements, again excluding overnight bonds. The Bank of Russia continued to issue short-term bonds. Some corporates also issued bonds of low maturity, in other words, commercial paper. These two factors – increased share of the public sector in the primary market and the continued move toward shorter-maturity bonds – explained the somewhat lower effective fee in the Bond Market.

MOEX continues to look for new products that would appeal to particular client groups. One of the segments that may be interesting to the retail clientele is bonds with partial principal protection. Recently

regulation describing the issuance of bonds with partial principal protection has become available. The details are now being sorted out.

Equities. Income from the Equities Market increased 14.1% YoY, while trading volumes added 13%. The trading volumes growth was largely attributable to rising equity price levels. An interesting highlight of the Equities Market this year has been the rapid growth of the ETF segment. Trading volumes of ETFs grew 2.7x YoY in both Q3 and 9M 2018. The growth was due to both an increase in the number of listed ETFs and higher activity in existing ETFs. It is now possible to set up ETFs under Russian law, and we expect several new ETFs on various underlying assets to be listed in the near future.

Interest and finance income. Let me turn now to NII. It declined 7.0% YoY due to normalising rouble interest rates and a decline in the size of the investment portfolio, which was down by 9.7% YoY. We did observe support from rising USD rates. However, their contribution became more significant in the concluding month of the quarter, which was not enough to affect the result materially. I would like to point out that NII excluding realised gains and losses on the investment portfolio was broadly in line with recent quarters, which points to a conclusion that the interest part of our operating income has stabilised for now.

Operating expenses. Operating expenses grew 6.1% YoY. The growth was mainly the result of increases in D&A expenses (up 10.6% YoY), equipment maintenance (up 15.9% YoY) and professional services (up 19% YoY).

The D&A increase was due to the new amortisation schedule discussed earlier. The growth in professional costs was brought about by rapid growth of the Grain Market, with its logistical and insurance expenses passed through.

Personnel expenses added 5.4% YoY, and OPEX adjusted for the change in the amortisation schedule only increased 3.5% YoY.

OPEX growth for the cumulative 9M 2018 stands at 7.5%. This is within the range of 7–9% guided earlier this year. We are comfortable with the guidance under the original assumptions, i.e. without a major contribution from the Soft Commodities Market. However, if the Soft Commodities Market continues to accelerate, we might get just outside of this range for the full year.

To sum it up, Q3 2018 featured fee income growth across all markets. It was the result of strong trading volumes and, for some markets, favourable mix changes. The resulting fee income came virtually in line with the record level of the previous quarter. The core NII is largely stable, in our view. Cost control remained a priority and helped us keep OPEX within the guidance range.

And now I am ready to move on to your questions. Thank you.

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. The first question comes from the line of Bob Kommers. Please ask your question.

Bob Kommers – UBS

Good afternoon. Thanks for the call. I have two questions. The first is on the client balances. They were roughly flat despite a significant increase in the volatility in the FX Market. And I want to ask if you could shed some light on that. My second question relates to the court

case. Could you update us on the current status of the court case regarding the counterparty that went bankrupt and for which you took the charges earlier this year? Thank you.

Max Lapin – CFO

Thank you, Bob. Let me refer to your analyst report issued today in the name of UBS – I really liked the title: "Uneventful quarter – at last". You have been reading my mind, yes – an uneventful quarter. Going back to your questions, the client balances: indeed they were relatively flat. However, how do you explain the dynamics, especially in dollar balances? The market participants look at their collateral with the opportunity costs. When the Fed hikes the rates, on the one hand, it allows us to make more interest on the dollar, but, on the other hand, market participants are keen to optimise their dollar collateral because it is more expensive, naturally, nowadays. That is why the dollar balances have been particularly sensitive. I assume that you might also be thinking about what the impact of the UCP might be so far on the client balances. We have been monitoring this through the summer, and we will be looking closely at the UCP behaviour after the price hikes. The project is technically over and is into its operating phase and the reaping-the-benefits phase. I have been looking so far at the client balances sensitivity to the migration of the UCP accounts and optimisation of collateral. I stand by my previous statements – the decline in collateral happens mostly in dollars but it is in line with our expectations, being largely offset by the increases in the volumes of trading. So, the UCP project itself, its impact on us, is going fine.

The legal case. Actually, the cassation took place today. The results of the cassation were issued an hour before the call started, and the results are simple: that the court will adjourn again a week from now, on 14 November and there will be the final announcement, at least the statement of the judge. Technically speaking, we have the full provision (100%) for this case, so if the decision is negative, that means we are not doing anything with the provision; if the decision is positive, we will be able to reinstate some of it. Okay, it depends on the technicalities of the result. So let's expect and look forward to the news that will be taking place in a week from now. Did I answer your questions, Bob?

Bob Kommers – UBS

Yes. Very clear. Thanks a lot.

Operator

Thank you. The next question comes from the line of Andrzej Nowaczek. Please ask your question.

Andrzej Nowaczek – HSBC

Sure, thank you very much. I would like to ask about grain. Those storage costs – should we think of them as variable costs? I.e. is the margin that we saw in Q3 going to be maintained, or perhaps some part of it is fixed cost and therefore overall profitability could increase with volumes in the coming quarter?

Max Lapin – CFO

Mr Nowaczek, that is a really good question. The grain commissions, the natural part of the commissions, are shown in red on the right-hand part of the slide. Those are the commissions that you are very much accustomed to – they grow in proportion to the volume of trading. The grey colour here represents the reimbursable costs, "pass-through" costs, and they get into revenues with approximately 5% mark-up. These are variable costs, depending on the volumes of trade. Due to IFRS requirements, we cannot net the "pass-through" costs out with corresponding revenues and show them on the P&L as one item. Therefore

we have to reflect the storage and logistics costs in the professional services costs and show the respective revenue with the 5% mark-up on the revenue side. That means, let us say, if this market goes ten times the size, then the impact on the P&L would be quite sizeable. That is why we spent so much time on explaining how the Grain Market affects the financial results. It continues to grow: the October volumes – for the last month – were good for the grain market. That means we again have those "pass-through" costs in our P&L. Let me underline: this is a profitable market. It has hefty fees, higher than on any other market. On top of those fees, we have this mark-up on the reimbursable costs, on the "pass-through" costs. All in all, it is a good business line that eventually started to pick up and now we have to outline how it affects our P&L. Did I answer your question?

Andrzej Nowaczek – HSBC

Yes, and also if I could clarify something. Did you say that OPEX next year will therefore increase by a few percentage points – is that what you said?

Anton Terentiev – IR Director

We were elaborating about the marketplace, the breakdown between OPEX and CAPEX and the overall impact. We provided this half-billion overall impact and its split (two-thirds CAPEX and one-third OPEX). So, that is the change in OPEX that could be 1–2 pp. That is how we see it at the moment and that is why we are saying few percentage points contribution, but just few.

Andrzej Nowaczek – HSBC

OK, I get it. Thanks so much, guys.

Operator

Thank you. The next question comes from the line of Andrew Keeley. Please ask the question.

Andrew Keeley – Sberbank CIB

Good afternoon and thanks for the call. My first question is on the capital position of the NCC: I am just wondering if you can give us an update on where that stands and how it stands relative to the minimum prudential ratios required. Obviously, it seems like a big driver here, the decision not to pay an interim dividend was made because of potential risks to NCC's capital position should volatility pick up a lot. So, it would be good to get your thoughts on how the capital position looks now. Thank you.

Max Lapin – CFO

Great question. The capital adequacy ratio for the NCC stands at 163%, 163% with the regulatory minimum of 100% and the so-called comfortable level of capital adequacy demanded by the Supervisory Board of 120%. So, depending on how you would like to measure it, we are 63 pp above the regulatory minimum, or 43 pp above the comfortable level of capital. This level of capital is relatively resilient to the majority of stress tests that NCC can be subject to. That means that the one we've been talking about in early October – the stress test that we particularly performed for the Supervisory Board, namely the repetition of the scenario of late 2014 – early 2015, with a 3x to 4x increase of client balances, mostly foreign currency-denominated, the NCC is now ready for a stress test like that.

Operator

Thank you. The next question comes from the line of Sergey Garamita. Please ask your question.

Sergey Garamita – Raiffeisen Bank

Yes, thank you for the presentation. My question is actually linked to the previous one regarding dividends. In view of the cancelled interim dividends and also the provisions for the court cases, could you

at least express your commitment to at least flat dividends YoY to ensure the investor confidence, at least? My second question regards the Unified Collateral Pool. Basically, it has already been a week since the tariff indexation. Could you give us an update on whether there is a hike in the usage of UCP in terms of pro rata to volumes and to fees during this week? Basically, if the clients are already paying for the UCP they should use it more. Thank you – that's it.

Max Lapin – CFO

Thank you, Sergey. In regard to the dividends, the statement that the CEO and Chairman issued during the investor meetings in October 2018 is the following: we have a mandated minimum payout of 55% of the annual profit. The dividend policy is not being changed, so it stands at 55%. The other clause that we have been maintaining as before is that we are paying out all the capital that we do not need. We may link this to the question before from Andrew Keeley on the capital position of the NCC. NCC is currently well capitalised for the stress test. That means that if the stress doesn't come, the Supervisory Board will not have that reason to hold back the capital of NCC. But still, the decision of the Supervisory Board will be made upon the announcement of the annual results. So, 55% is the minimum, and the pay-out of the capital that is not needed for the business or the expansion of the business is a practice that we have maintained and is also a clause of the dividend policy. That is what I can say for now.

In regard to the UCP: internally, we have weekly analysis on the UCP full behaviour. It has weekly issuances, the most recent one is dated back to 28 October, as it takes us several days to prepare such a report. So technically, I do not have such a report for the first week of November yet on my table. But I can assure you that when I had been working on a market-by-market comparison YoY (i.e. November 2017 to November 2018), which I do on a daily basis, I see the price hikes in effect, so effective commissions are up. So when I see the actual trading results, the effective commissions went up. Which is natural, as we hiked the prices.

Sergey Garamita – Raiffeisen Bank

Thank you.

Operator

Thank you. The next question comes from the line of Elena Tsareva. Please ask your question.

Elena Tsareva – BCS

Hello, thank you for the call. Could you please explain more just on the fee yield dynamics in Q4 2018, given there was a hike in tariffs in November?

Max Lapin – CFO

Thank you, Elena. Let's see what we would be expecting. The hikes are 6% for CCP repos, 10% for derivatives, and 20% for FX swaps. They are effective from 1 November. You might plug them into your model and run the model forward accordingly. There might be some mix effect, but in general the price hikes took place. Anton may have something to add.

Anton Terentiev – Director of IR

I can say that for equities, effective fees have been stable all the way. With bonds, the trends we observed during the last couple of quarters, I think these trends are staying so far. Derivatives have been back and forth: on the YoY basis they were affected by the improving mix, while QoQ they were mostly affected by IFRS accruals that were historically substantial vs the category, maybe to the degree of 5% or so. They were negative in Q1 and positive in Q2. This is why those fees were moving between Q1 and Q2,

despite the fact that the mix was comparable. In Q3, they landed in between, so we would just take it as normalised. In the Money Market, we outlined that despite the fact that IFRS accruals are not helping us any more, we managed to maintain the effective fees in the Money Market, which is encouraging.

Elena Tsareva – BCS

Understood, thank you. Also, a question on your regional expansion and inorganic growth. What are your longer-term plans? In terms of maybe other geographies or other markets. And if there will be any influence on your dividends from your geographic expansion?

Max Lapin – CFO

On the latter, the answer is no. In terms of revenues, or fees and commissions – mostly because when we talk about revenues, we mostly pay attention to fees and commissions, which are the controllable and strategically targetable part of our revenues – previously we maintained CAGR between 12–13%. So, whenever we talk about the future, the management strive to look into that range that is expected by the market. In terms of geographic expansion, where we are making money, our market is Russia, it's domestic. The KASE deal that we are talking about is a relatively minor IT infrastructure deal we are engaged in. It's not like we are tapping into the overall revenues of the Kazakh market or any market beyond that. We remain a domestic company, although with international links. So for us the international exposure is happening through international links in the FX market or ICM and DMA services, etc.

Elena Tsareva – BCS

Thank you. That is it from me.

Operator

Thank you. The next question comes from the line of Andrey Pavlov-Rusinov. Please ask your question.

Andrey Pavlov-Rusinov – Goldman Sachs

Good afternoon, gentlemen. Thank you for the presentation. I have several follow-up questions. First of all, I'll start with costs. Do I understand correctly that with regards to "pass-through" costs from the soft commodities you may actually outrun your guidance for the cost growth, even though for 9M 2018 you have been essentially running closer to the lower end of the range? Is this understanding correct? It looks like your cost growth should pick up very strongly in Q4 for you not to meet the guidance.

Max Lapin – CFO

This is a good question. Without the "pass-through" costs we will definitely stay within the mid-range of the guidance. The "pass-through" costs themselves are becoming substantial, as, let's say, October volumes were good and the internal expectations for trading volumes in soft commodities in November and December are not pessimistic at all. Therefore, the "pass-through" component is relatively hefty. To answer the question of why we have started to disclose separately this kind of variable costs of serving that market that we have not budgeted before, that was because the market picked up much stronger than we expected, and it continues to go up.

Andrey Pavlov-Rusinov – Goldman Sachs

Okay, thank you. Going into the next year, given there are several factors in 2018 costs, like the changes in the D&A schedule and these "pass-through" costs. There are also some costs associated with the Marketplace, as I understand. Can we still expect the cost

growth pace to go down next year on a YoY basis, or are we too optimistic?

Max Lapin – CFO

As a CFO, I have approximately one month of budgeting process ahead of me, so I do not have a number close to final yet. You are talking about the right factors, but the D&A factor is off the table from the next year because the amortisation schedule will be the same next year. This factor, whose impact on the cost growth is currently in the range of 2 pp, will be off the table. The Marketplace project and grain "pass-through" costs, on the other hand, will be on the table. So, I am not ready to issue guidance for the next year. After an internal discussion, we decided that we will share our expectations and guidance for 2019 on the annual results call.

Andrey Pavlov-Rusinov – Goldman Sachs

This is clear, thank you. A final question to follow up on Andrew's question on NCC's capital position and the dividend outlook. For our understanding, does the tougher stress test that the Board used to decide on interim dividends mean that the comfortable capital level is actually higher than 120% and is closer to the current capital position of NCC? So essentially, should we think that NCC's capital has to go higher for you to be able to distribute a substantial amount of your earnings to the shareholders early next year?

Max Lapin – CFO

No.

Andrey Pavlov-Rusinov – Goldman Sachs

Ok, thank you. That is clear.

Operator

Thank you. The next question comes from the line of Andrew Klapko. Please ask your question.

Andrew Klapko – Gazprombank

Good day, gentlemen. I have a small question about the sustainable CAPEX level. Please could you remind me what level of CAPEX you are targeting in the long term.

Max Lapin – CFO

The guidance for this year particularly stands at around RUB 2 bln, and we might be moving below that guidance. I would expect a number that would be slightly lower for the year. Going forward, I would say that the Marketplace would be the most material project. Historically, the material projects that affected our CAPEX were, for example, the new data centre two years back and the UCP project that also required some capital. The Marketplace project so far is not way out of that league, but it is not that big to materially affect our CAPEX guidance. Going forward, the range of around RUB 2 bln would be a good ballpark figure for the CAPEX numbers of Moscow Exchange. To justify my thinking on that, our development costs when working on software are mostly OPEX, as it involves outsourcing the hands and heads of the FTEs. The CAPEX itself is mostly linked to longer-term licenses, hardware, servers, cabling, data centre maintenance, all those things. This is why we do not need that much CAPEX, and it is a relatively predictable number with the technical IT policy that mandates the scheduled replacement of servers and critical hardware. That means that CAPEX itself is not the source of a large surprise, though there is some seasonality and some other factors, but I would not expect a surprise there.

Andrew Klapko – Gazprombank

Ok, thank you.

Operator

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

Andrew Keeley – Sberbank CIB

Hi again, sorry, I got cut off before. I am interested in terms of the Marketplace initiative, whether you could give us some sense of the timing, when you plan to go live? There is a slide mentioning that its long-term revenue potential can be measured on the scale of RUB billions. Could you add any kind of colour on how you are getting to those numbers and share any assumptions that lie behind that? Any kind of thoughts on that would be helpful. Thank you.

Max Lapin – CFO

Going backward, the technical prototype of a retail deposit marketplace was completed this May. The technical prototype meant that we could conclude transactions. The system technically allowed us to identify, to get online, to move money from one bank to another, and get a depository statement of the concluded transaction. So the technical prototype was completed back then. Now we are working on the commercially viable solution that is due in February. Simultaneously, we are working on the regulatory changes together with the Central Bank of Russia, so that by early spring we will have a legal framework for that to function. We need a legal framework because this is an online system that allows to move money between banks with a single-point identification. This means privately identifiable data needs to be properly and legally shared between the counterparties to allow for the proper identification of private individuals. That means for us, the first important stage for the project implementation is February, and legal framework, let's say, early spring. After that, we will be looking to scale up the project. In terms of the revenue potential assessment, we are not providing a good assessment for that because when we are talking about the market itself, it is hard to budget the numbers precisely because of the vagueness of average tariffs we will be charging (they are still under discussion) and the volumes. When playing with the ranges of the model and plugging in retail deposits, some insurance products like mandatory car driver's liability insurance, all those things with cross selling opportunities, that's how we arrived at that number. When we were looking again at the potential revenue number and measuring it against the project development costs, we applied a venture capital approach to see that the potential revenue pool is an order of magnitude higher than the cost to develop the project. Based on our calculation, we decided to move through the first stage gate by mid-February to see how it pans out as the first commercial prototype, not a prototype – but rather a commercially working product – to attune it to a minimum viable product, given the regulatory burden existing here.

Anton Terentiev – Director of IR

For you to understand our thinking, with this RUB 27 trn figure of the asset pool, we applied multiple ways to assess our cut, our penetration. In many ways, we got to this market penetration figure of about 5%, maybe more, that we can count on in the long run. At least several years from now, it might be the case. When you imply that 5% out of RUB 27 trn, that gives you some RUB 1 trn and a change. Given that the average duration of a deposit is just above one year or so, you quite naturally get the turnover figure of RUB 1 trn in deposits per annum. That is a

reasonable assessment for market share that the Marketplace can aim for – to service RUB 1 trn of deposit turnover per annum. Then out of this RUB 1 trn, it comes down to the fee. If you think about 1% of RUB 1 trn, it is going to be RUB 10 bln. If you think about 10 bps, it is going to be RUB 1 bln. That is how we got to these billion scales. That's the thinking behind it.

Andrew Keeley – Sberbank CIB

Thank you for that, that is a lot of detail. A quick final question touched upon by Anton, in terms of the fixed income yields. It was not quite clear. Do you feel you may have reached the bottom with the average yield? I think you saw a drop for three consecutive quarters. I understand the reasoning why that's happened. Do you now think that you are more or less at the stage when average yields may flatten out?

Anton Terentiev – Director of IR

I would say we do not have firm grounds to expect a decline in average yields. It all comes down to balances. We are now down to balances in this equation. In current circumstances, it is hard to imagine a situation where the risk will be with yields rather than with balances.

Andrew Keeley – Sberbank CIB

Sorry, I was referring to the Fixed Income, the average fee for the Fixed Income.

Anton Terentiev – Director of IR

We see new demand in short-term bonds, i.e. commercial paper. Big corporates are the way this average fee is supported. If big corporates come out into the market to refinance or to originate new debt towards the end of the year, then we will see support. We cannot forecast that. What we can forecast is where the potential new demand is, and I would say the potential new demand is in the short-term market segment.

Andrew Keeley – Sberbank CIB

Ok, thanks very much.

Operator

Thank you. Dear participants, once again if you wish to ask a question please press "*1" on your telephone keypad. Dear speaker, there are no further questions at this time. Please continue.

Anton Terentiev – Director of IR

Thank you very much, ladies and gentlemen. It has been almost an hour, and I think we have covered all the questions. Thank you all for asking them, and I hope many of you join us for the London Forum that starts tomorrow. We will reconnect with the full year results. Thank you again for your good questions.