MOSCOW EXCHANGE

Q1 2020 IFRS results conference call

15 May 2020

Moscow Exchange Speakers:

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

Participants asking questions:

- Robert Bonte-Friedheim, MLP
- Elena Tsareva, BCS Global Markets
- Samarth Agrawal, Citi
- Andrew Keeley, Sberbank CIB
- Pawel Wieprzowski, WOOD & Company
- Sergey Garamita, Raiffeisen Bank
- Andrey Pavlov-Rusinov, Goldman Sachs
- Irina Fomkina, ITI Capital
- Mikhail Shlemov, VTB Capital

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Anton Terentiev – Director of IR

Good afternoon everyone, and welcome to Moscow Exchange Q1 2020 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 any 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 Q1 2020. 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, and thank you all for joining us today to discuss Moscow Exchange financial results.

Slide 2. Delivery on strategic initiatives in Q1 2020. Let me start with a reminder that Moscow Exchange held its AGM on 28 April. The meeting took place in absentia for the first time in light of the pandemic. Shareholders voted to pay a dividend of RUB 7.93 per share for 2019, in line with the recommendation of the Supervisory Board. The dividend was calculated in line with the new dividend policy and is based on the transparent FCFE formula. It represents 89% of the company's IFRS net profit for 2019 and comes naturally in line with the historical track record.

The new composition of the Supervisory Board now includes eight independent members out of twelve. Oleg Viyugin continues to be the Board's Chairman.

As you know, many banks have decided not to pay dividends this year. Their goal is to build a capital buffer that would absorb potential credit losses resulting from the coronavirus crisis. On the one hand, MOEX is not exactly a bank. On the other hand, we built these required buffers across our three major legal entities beforehand. Our stress tests confirm compliance with regulatory requirements, even in the worst-case scenario, which assumes expansion of client balances well above the highest of March this year. We have a clearly defined toolbox to manage capital adequacy if needed. Therefore, our dividend payout rests on thorough reasoning and justification.

Now let us talk about the delivery on strategic initiatives. First, the exchange added to its product range. We observed continuous expansion in the ETFs. A new Russian-law ETF tracking global tech stocks began trading on the Equities Market. Today, we have 37 ETFs trading on our platform with a combined net asset value of more than RUB 50 bln.

On the Derivatives Market, deliverable futures on Yandex shares were launched, followed by weekly options on futures on Gazprom and Sberbank shares. Short-term bonds issued by the National Bank of Kazakhstan gained admission to the inter-dealer repo section of the Money Market, highlighting a growing integration with our neighbouring economies.

Second, we continue to work on new services. MOEX published its inaugural Sustainability Report for 2019. The report was prepared in accordance with GRI Core Reporting Standards. I hope some of you will find this report useful and its content a valuable addition to your investment process.

The National Settlement Depository started publishing data on foreign ownership of OFZs on a daily basis. NSD expects the service to be helpful to analysts and experts responsible for analysis of the position of international investors in the ruble-denominated Russian sovereign debt market.

MOEX developed a new analytical product called "Retail investor's portfolio" that shows the top 10 most popular stocks held by retail investors. The analysis is based on depersonalized aggregate data on current positions of retail investors in most liquid assets.

Third, we continue to develop client base and partnerships. As of 15 May, the number of unique retail clients reached 5 mln. Over 1 mln new clients have joined since the beginning of the year. The total number of Individual Investment Accounts (IIAs) has surpassed 2.2 mln. The number of corporate issuers in the market continues to grow as well. In Q1 2020, 53 corporates, including 10 newcomers, placed 143 bond issues, raising a total of RUB 588 bln. MOEX launched an educational programme for corporates called Capital Raising Academy in collaboration with Skolkovo Business School. It targets managers and owners of growing private companies that are looking to raise capital on the Russian market.

Slide 3. Business Continuity during the Pandemic. Moscow Exchange has successfully adapted operation to the pandemic and limitations stemming from it. Importantly, our response was earlier, when all necessary equipment was still available for purchase. Today, around 90% of MOEX employees are working from home. Physical presence on site of the remaining 10% is required to ensure business continuity. These employees rotate in non-overlapping shifts, minimizing the infection risk. Those who visit the office practise social distancing, wear protective gear, use personal cars or taxis instead of public transportation and when needed, have food delivered. We disinfect premises before the ensuing shift takes over. In other words, expansive precautions are in place. By the end of March, growth in chains of social interactions sustained a 14-day seasoning period. Therefore, we de-facto isolated operations from uncontrollable spread of the virus at our office that early. Since MOEX operates an essential financial infrastructure, all continuity requirements are taken extremely seriously. On the business level, we are not planning to reduce trading hours or restrict short selling, unlike some other exchanges. Our risk management systems are working normally, continuously reviewing the risk parameters that adjust in response to volatility.

Our collateral requirements across the majority of instruments are higher in comparison to the pre-pandemic era. However, we have started to scale them back where appropriate.

In case of acute intraday volatility, discrete auctions kick in. Bid/ask limit orders accumulate over three 10-minute sessions with simultaneous execution as the time expires. There are no deliberate trading suspensions. Additional measures are in place to ensure the stability and availability of IT systems, as well as cybersecurity.

Business continuity projects, Stabilisation 2.0 and Stabilisation 3.0, are being implemented at full speed.

Slide 4. Summary of Q1 Financials. Operating income grew 16.6% YoY, and fee income increased 29.3% YoY, contributing to a higher F&C share. NII stood virtually flat, adding 2.1% YoY, although core NII predictably decreased 15.8% on the back of the subsiding interest rates globally.

Operating expenses amounted to RUB 3.7 bln, decreasing by 1.6% YoY. The recurring cost-to-income ratio decreased by 5.6 p. p. YoY. Adjusted EBITDA expanded by 26.5% YoY to a margin of 76%. Adjusted net income surged by 30.9% YoY. Adjustments in the form of other operating expenses nearly exclusively result from the change of IFRS 9 provisions. 90% of this IFRS 9 change are attributable to FVTOCI bond portfolio. There are three influencing factors: first, term to maturity; second, the issuer's credit trading; and third, the level of Russia's CDS, credit default swaps. The latter, the CDS factor, was the main one. It is a purely technical non-cash provision, and in April, since CDS spreads declined, we started to unwind these portfolio-related charges.

Slide 5. F&C income. Overall, fees and commission income growth of 29.3% YoY came as a result of growth across every business line except the Money Market, which is driven by the product mix, repo terms and aggregate size of the position by market participants, not by volatility.

Another major business line driven by the position and not volatility is Depository and Settlement Services. Growing contributors in absolute terms were Equities, Derivatives, FX Market and again Depository and Settlement Services. The mix became even better diversified and the share of Money Market, our largest F&C contributor, decreased by 7 p.p. YoY. Our countercyclical model features a balanced combination of volatility-linked and position-linked business lines performing equally well in varying conditions. Overall, we have the best quarterly F&C growth rate in 4 years since Q1 2016 and the top 3 quarterly growth rate in the company's history as a public company.

Slide 6. Money Market. Fee income from Money Market was down by 2.8% YoY. However, trading volumes actually increased by 20.3%. The discrepancy between the YoY performance of fees and volumes is due to a shorter term of GCC repos (you will see it on the next slide), IFRS adjustments and somewhat smaller size of the position and a lower effective fee on the credit market.

The share of high value-added CCP repos including GCC in the total interdealer repo reached an all-time high of 89% in Q1 2020. That is really good news.

Slide 7. Let us look a little bit deeper into Money Market's recent trends. The average on-exchange repo terms increased by 18% QoQ. On-exchange repos with the Federal Treasury, a relatively new product for us, supported the change. It is a longer-term product by nature, positively influencing the effective fee. On the other hand, the GCC repo term contracted by 32% QoQ – it is negative. Aggregate position also known as open interest grew steadily during Q1 2020 to approach the peak level of February 2019.

We recently introduced a 30% discount on corporate GCC tariffs to ramp up activity. The market immediately responded with 50% expansion in the respective position. That said, the net effect is positive, yet somewhat dilutive for the effective period.

On the previous page, I mentioned that GCC repo terms somewhat declined, and we attribute that to the overall volatility in the market, the market persistently led to shorter-term deals.

Slide 8. Depository and Settlement. Fees and commissions from Depository and Settlement added 17.5% YoY. Average assets on deposit at NSD grew by 12.7% YoY. Despite the recent market decline, equities on deposits were actually up 8.6% YoY. On the other hand, revaluation of bonds triggered by lower interest rates and devaluation-driven increase in Eurobonds ruble value had a positive effect. The discrepancy between growth rates in F&C

income and assets is the result of business lines beyond safekeeping. These smaller business lines do not exhibit a distinctive trend and produce varying impact on quarter-to-quarter results.

Slide 9. Equities market. Fee income from the equities market surged by 169.6% YoY following a similar interest in trading volume. The discrepancy between fees and volumes dynamics was due to the tariff structure. It provides incentives for higher volume traded. Therefore, a number of clients generated sufficient volumes to get into a lower cost tariff brackets. In turn, volatility increased nearly 10x YoY.

Velocity of trading volumes more than doubled YoY, largely contributing to the volume growth. We are also observing continuous growth of retail participation in equities market. MOEX market share versus the LSE in trading dual-listed stocks improved by 10 p.p. YoY to 75%, reaching an all-time high.

Derivatives market. Fee income from derivatives increased 67.7% YoY. Trading volumes of on-exchange contracts were up by 79.6% YoY on the back of elevated volatility, which is a major driver for this market. Open interest added 4.8% YoY. The discrepancy between volumes and fees is due to a shift in the mix in favour of less profitable FX and index derivatives, IFRS adjustments and a lower share of options.

FX market, slide 11. FX market fees grew by almost 23% YoY. Following the spike of volatility in the FX market, spot trading volumes added 44% YoY. Swap volumes contracted by 4% YoY, which is a relative no-change. The FX market is also benefiting from higher volatility albeit to a lesser extent than the Derivatives market. A higher share of spot trading is a primary explanation of effective fee dynamics. The number of active clients approached 247,000 at the end of Q1 2020. It is up nearly 4x YoY. Both corporate and retail clients are contributing to that. MOEX Q1 2020 market share versus onshore OTC added 2.7 p.p. QoQ to reach 45.5% due to a higher demand for CCP services. The move was even more pronounced in the spot segment.

Slide 12. IT Services, Listing and Other Fee Income (ITSLOFI). We have invented a nice name, or rather an acronym, for that, ITSLOFI. Its performance during Q1 2020 was actually quite high, with fees showing a substantial interest growth of 25.1% YoY. Listing fees added 4%. Information services' fees rose by 37% YoY, supported by contribution from audit of information use and ruble weakening. Sales of software and technical services were up by 6.7% YoY. Other F&C income surged by 53.2% because of the additional fees for recording individual clearing collateral on euro client balances (we introduced that in the beginning of the year). During the quarter, additional fees produced some RUB 180 mln of fees and commission income.

Slide 13. Fixed Income Market. Fee income from the bond market improved by almost 22% YoY on the back of a 36% increase in trading volumes YoY. We observed a 64.2% YoY and 7.5% QoQ increase in the secondary market activity. Primary placements were up by 14% YoY. The discrepancy between fees and the volume dynamic comes from a lower share of primary market volumes. These volumes, in their turn, contained a lower share of corporate placements. As one would expect, the environment in Q1 2020 was not conditioned for primary placements. However, the government needs to cover a wider budget deficit now. That is why we started to witness elevated volumes of OFZ placements. It is a positive factor going forward.

Slide 14. Interest and Finance Income in Q1 2020. Net interest and finance income rose by 2.1% YoY. Excluding the effect of portfolio revaluation, core NII was predictably down

15.8% YoY. The negative factor of a decline in interest rates largely offsets the corresponding growth of USD and RUB client balance sheet. The effective yield remained virtually intact as the ongoing monetary easing - a negative - met the improvement of client funds currency mix - a positive. The latter happened on the back of a decline in euro balances. However, average funds available for investment stood almost the same YoY because of the two effects offsetting each other. First, the additional 20 bps fee on the top of the ECB rate introduced as of 1 January 2020 made euro balances somewhat decline. A similar thing happened with CHF, but it is far less visible. Second, client funds increased in total following the spike in market volatility, obviously.

Slide 15. Operating Expenses (excl. provisions). Operating expenses in Q1 2020 went down by 1.6% YoY. Bonus provision was reduced by 38% YoY. This mitigated the personnel expenses growth in Q1 2020 amid a 4.4% headcount increase. D&A contraction of 8.8% YoY drove a 3% YoY decline in D&A and IT maintenance. Remaining administrative expenses declined by 8% YoY due to savings on professional and information services. The former line contained grain pass-through expenses in Q1 2019. The virus protection costs were immaterial due to the early response. Because of the pandemic, business travel and number of other events were canceled or postponed, reducing associated costs. Savings incurred from such conditions will go to charitable organizations that are combating the coronavirus and its consequences. We earmarked [the funds] and publicly announced that we will be dedicating RUB 100 mln in such sponsorships. Therefore, we narrow and lower our OPEX guidance for the FY 2020 to 6.0–8.5%. CAPEX for Q1 2020 stood at RUB 0.6 bln, coming in line with the FY 2020 guidance as we continue the implementation of our strategic development projects. We maintain our guidance for CAPEX at RUB 2.0–2.5 bln.

This concludes my overview of an unusual, yet very strong Q1 2020. It produced a backdrop where our business model really stood out.

Now let us take your questions. Thank you.

Operator

Thank you, ladies and gentlemen, we will now begin the Q&A session.

The first question comes from the line of Robert Bonte-Friedheim from MLP. Please ask your question.

Robert Bonte-Friedheim – MLP

Good afternoon and thanks for taking the question.

Thanks again for your very positive cost guidance. I am just wondering on the question I think I asked on the last conference call, how do we think about volumes for the whole year? You were saying that long-term fee growth should be 10%. In Q1 2020 we have 29%. Is it time to raise your guidance for the year?

Max Lapin – CFO

Robert, I will dissect your question to several items. First, the volume factor. Usually on the back of extreme volatility that happens, what we observed historically in roughly similar cases of extreme volatility: there is a spike in the volumes of trading, which slows down a little bit in subsequent months, coming back to normal. Usually, such extreme spikes of volatility are a net gain for the Exchange. So yes indeed, there are some volumes that are being traded now through this volatility season that are consuming the risk appetite of a market participant, eliminating some future volumes. But the net-net result is positive.

The second part of my answer is that we do not provide a guidance on the revenues specifically. I would say that we expect this year to be strong so that we will still have the net-net effect from Q1 2020 volatility. You have already seen some data for the April volumes. April volumes, even despite the non-working days in Russia, were really strong, especially on a YoY comparison basis. So, April was good. For the Exchange, the volumes are doing strong and the revenues have been strong so far.

The third component of the question is that we do produce the cost guidance. As we are a fixed cost type of business, the true variable part of our cost component is largely due to the market maker's fees, but those are only about 5% of our overall expenses, at most. That means that the Exchange can maintain the cost guidance, as we mentioned. We do expect volumes to be good for the totality of the year, year as a whole. Of course, some reduction in volumes compared to April and March should be expected. That would be normal, and that was specifically a historical trend. But it does not encourage us to revise or be extremely conservative in our OPEX guidance beyond what we mentioned. I hope this answers your questions, Robert.

Robert Bonte-Friedheim – MLP

OK, thank you very much. I have two follow-up questions. One, can you give us an outlook on the Money Market funds for the volumes seem to have been very high in both March and April? And two, can you give us an update on the equity side about the number of new retail accounts being created and their activity so far this year?

Max Lapin – CFO

Well, what specifically is the question in regards to the Money Market? Shall I comment on anything?

Robert Bonte-Friedheim – MLP

No, just again, the trend has been very strong in March and April. Do you expect this to continue? Or do you think that is to revert to historically lower levels?

Anton Terentiev – Director of IR

Robert, are you talking about fees or effective fees?

Robert Bonte-Friedheim – MLP

No, the balances, the size of the Money Market volumes.

Max Lapin – CFO

OK. I got it. There is a couple of things that we will anticipate in terms of macro in regard to the Money Market going forward. We will be expecting larger repo transactions by sovereign entities. Because monetary policy has been sometimes transacted through us and repos in the Money Market are the vehicle for that, there might be some good support for the repos in the Money Market going forward, macro-driven. On the other hand, we might see more demand for liquidity as well, additional issuances of government debt on the Bond Market as well. That could also support the volumes.

So, as for the Money Market, it is not that volatility-sensitive. The Money Market is mostly position-driven. Therefore, the business model in terms of volatility is based on the Derivatives Market clearly responding to volatility and the Money Market being relatively flattish with the monetary policy that might change the size of the Money Market itself.

Please, guide me through your question for the Equities market. Do you have a question on the Equities market?

Robert Bonte-Friedheim – MLP

It is on the number of retail accounts opened so far this year and their activity as you observed it this year.

Max Lapin – CFO

So, over a million new clients have joined since the beginning of this year. The total number of retail accounts stands at 5 mln and IIAs at 2.2 mln. You may download the regular investor presentation on our website, and you will see a very good set of slides, on the overall accounts opened and active accounts per section, the volumes of funded accounts as well. That data is disclosed in a separate investor presentation.

Robert Bonte-Friedheim – MLP

Understood. Thank you very much for taking the question.

Max Lapin – CFO

Thank you very much, Robert.

Operator

The next question comes from the line of Elena Tsareva, BCS Global Markets. Please ask your question.

Elena Tsareva – BCS Global Markets

Hello. Thank you for the presentation and the call. Congratulations on the strong results. I have two questions. One is about client balances, which performed quite strongly and in April, despite volatility, maybe spiked less. We still have quite strong ruble balances – above RUB 100 bln – and also a pick-up of FX balances. Could you provide some more characteristics of this growth and, if possible, compare how balances are behaving now as opposed to 2014, when we also had some extremely high volatility? That is my first question. Thank you.

Max Lapin – CFO

A wonderful question, Elena. I will divide that into the ruble balances and the euro and dollar balances. What we observed through the volatile quarter was that ruble balances grew and did so naturally because settlements are done in rubles as well. Therefore, ruble collateral, which is also used for settlement, improved. This means that the amount of our ruble balances roughly coincides with the volume of trading that we have, or the volume of settlements that we have. So, it is normal, and it helps improve net interest income. The euro balances at first went down with the introduction of 0.2% euro clearing fee, and then recovered somewhat thanks to the volatility itself. Largely, they remained unchanged, roughly comparable YoY. The main change happened in absolute dollar terms. What happened with dollars? A simple thing. The dollar got cheaper for market participants to pledge as a collateral, on the one hand, because the Fed funds rate declined. On the other hand, we had a higher trading volume in the FX Market, which also supported the use of dollars for settlement.

Looking back, I would say that, at their peak in mid-March, volatility and client balances were roughly comparable to what we observed in the late 2014. Therefore, I can clearly say that, in terms of volatility and client balances performance and volumes, the behavior of market participants looked like a pure resemblance of what we experienced in late 2014. It was not unchartered waters. It was a relatively predictable haven that we had visited before.

I hope I have answered your question. Do you have another one?

Elena Tsareva – BCS Global Markets

Yes. That was very clear. Thank you. I have an additional follow-up on the net interest income. We have seen several quarters supported by realized gains. Do you expect those realized gains to fade in the coming quarters so we see a normalized NII – the core NII – which is around RUB 3 bln? What are your expectations?

Max Lapin – CFO

This is a marvelous question. Let me handle it by dividing in two components. The first one is the core NII. On slide 14, you can see the figure of RUB 3.3 bln. It is the core NII for the quarter. We have a relatively robust duration of the bond portfolio, so I would expect the core NII to be nearly the same in the subsequent quarters of this year. For the core NII, it is a new normal. The previous normal was around RUB 4 bln and now it is lower. It was expected. When we were talking to analysts at the end of the last year, virtually everyone was expecting the core NII to be in the range of RUB 3–3.5 bln. And here we come. It was predictable.

The second thing is the realized gains, which are the function of, first, the interest rates. When the interest rates decline, there are definitely opportunities for additional gains. And then, we decide on how we will be exploring those opportunities. Shall we seek them in the portfolio itself? A decision is made in the given situation and circumstances. Therefore, we would not be able to state a predictable volume of realized FVTOCI gains in the portfolio. I do not have any expectations to share with you. Anton, would you like to add anything?

Anton Terentiev – Director of IR

Yes, sure. As you can see in the equity section of our financial statements, we already have a negative revaluation gain. If we did anything at the beginning of the quarter, when the market was still high, that would be it. Looking into our financial statements, this realised gain should not be material. However, you now have another section of our balance sheet, which is called securities held for trading. These are Eurobonds, and they make up to the tune of 10% of our total portfolio. This part is revalued directly through P&L. These are not FVTOCI, but held for trading securities, essentially. If something changes and the market recovers, we will see their revaluation, but not because it is realised, but because it is a different category that goes straight through P&L.

Elena Tsareva – BCS Global Markets

Thank you very much. And maybe one more question about the IFRS 9 provision. As I understand, you expect this provision to be released in Q2 2020, at least you say in April there was some release. Do you have any kind of sensitivity how CDS changes affect this type of provision compared to the bond portfolio? Is there any rough assumption you use to calculate?

Max Lapin – CFO

That is a good question. We have been looking forward to it indeed, Elena. You have just hit the right button. The IFRS 9 provisions are here to stay, forever, because it is a standard. Throughout the quarter, the IFRS 9 provision on the bond portfolio went from RUB 250 mln to almost RUB 850 mln. It was boosted because of the CDS shift. The provision grew 3–4x. We did not have any defaults or losses on that – it is a calculated provision. The amount of this roughly correlates with the CDS shift – CDS curve above the sovereign debt – and the maturity and composition of the portfolio. The maturity and the bond composition of the portfolio did fluctuate a little bit, but the main driving factor was the CDS shift. For now, I would not specifically name the sensitivity to the CDS or the overall

amount of the reserve. We might be looking into that in the future but so far I would just look into CDS numbers for our reserves – RUB 250 mln and RUB 850 mln, look into the CDS spread dynamics for the quarter, and build your hypotheses. All in all, April saw some decline in the market in terms of CDS curves, which helps us to unwind some of IFRS 9 reserves on the bond portfolio. But if the situation persists – it is less volatile than what we had in March – then I would be expecting some decline in that provision in Q2 2020.

Elena Tsareva – BCS Global Markets

Understood, thank you very much. That is it from me.

Anton Terentiev – Director of IR

We have some questions in our webcasting interface. I will read the first one, coming from Samarth Agrawal, Citi.

"Congratulations on good results. Two questions. First, with the rate cuts announced by CBR in April, how should we think about the outlook for primary issuance in fixed income?"

I think we have covered that partially in the CFO's speech. We already have the Ministry of Finance, the government, coming to the market with these OFZ placements. But with the whole isolation period and non-working days, the corporates were not completely able to make decisions. Now, as the situation is being somewhat relieved, they might be coming into the market. I think we are in the kind of circumstances when a lot of people would be interested to borrow. I would be expecting better primary issuances in Q2 2020, because in Q1 2020 the market was essentially frozen for nearly half a quarter.

The second question. What was driving higher client balances in March and April.

We answered that when Max was talking about it. It was driven by volatility, by ruble devaluation and the fact that we have lower risk weights if banks choose to put their cash into NCC.

We are ready to take the next question over the phone.

Operator

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

Andrew Keeley – Sberbank CIB

Good afternoon. Thank you for the call. I have a couple of questions. First of all, on your costs. I am just wondering how we should think about costs after your super strong performance in Q1 2020. Your guidance for the full year barely moved. I am just trying to understand what would change in Q2 2020 and beyond to suggest that your guidance is realistic. From what I can calculate, to be roughly in the middle of your guidance, the average quarterly costs would need to be around RUB 4.3 bln, which is well above the typical run rate you have been doing for the last several quarters. It would be good to get a bit more understanding to why you are sticking with this guidance. Thank you.

Max Lapin – CFO

Andrew, I really love your question. As usual, you do look into the right place and ask precisely good questions. Please look at page 15 – there is a second bullet point on bonus provision reduction. I would say that in Q1 2020 we had lower costs because of bonus reduction overall for the company. What happened is this: you might remember that 2019 was not an easy year for us. We had provisions, for example, for grain reserves. When a company creates provisions, it

definitely affects the bonus. Therefore, the eventual bonus recalculation took place in March based on the review of the annual results, and it generated a bonus provision reduction. That means that the actual run rate for the quarter would be higher. When you adjust for that, you make a forward-looking expectation that your cost growth for the company would be to the tune of 6% at the lower end of the guidance, give or take. That justifies and explains the 6% lower range of the guidance.

Then, you would ask me a question: "Max, why would you today announce on behalf of the company that the upper range of the guidance is 8.5%?" Here comes my answer. The 6% guidance is given provided more or less existing exchange rates. The 8.5% guidance accounts for a potential next wave of devaluation. It does not mean that we expect or have a forecast on devaluation. But the range of the guidance accounts for the potential devaluation. Therefore, we have the upper end of the guidance range provided here. I hope this answers your question, Andrew.

Andrew Keeley – Sberbank CIB

Yes, that is very helpful, thank you.

My second question is on your capital position. I am wondering if you could give us an update on the NCC's capital position, given that the USD client funds pretty much doubled or so in the last three months. Would be good to understand how that has impacted the position. Thank you.

Max Lapin – CFO

Good question. We have been capitalising NCC for quite a long time, putting aside some capital to make NCC capable of defending in the stress test case scenario. What we observed in March was roughly in line with our stress test parameters, so it did not go outside them, so it was within the criteria that we have for stress test. That means that the NCC capital adequacy ratio, even after the payout of internal dividend between the NCC entity and MOEX entity, stood well above the regulatory requirement, the comfort position, and it satisfied stress test requirements after the dividends. That means that even after the internal dividend is transferred from NCC to the MOEX parent company (because MOEX parent company pays the external dividend), the NCC capital position is compliant with stress test. It is adequately capitalised above the minimum regulatory requirement of 100% – we are to never breach that 100% – and above 120% of the comfort level set by the Supervisory Board. We are now above the stress test scenario that we have. NCC is decently capitalised after the internal dividend, but not excessively.

Andrew Keeley – Sberbank CIB

OK, that is very helpful, thank you. And just a brief final question – there have been a few stories in the Russian press about some brokers complaining about the settlement of WTI futures contracts. Do you have any comment on that? Is there a risk of any kind of provisions that need to be written down or not? Thank you.

Max Lapin – CFO

OK, let me first answer it formally, and then add some details. MOEX acted in full compliance with trading rules and contract specifications. The minutes of the Derivatives Market Committee confirm that. The letter by NAUFOR has a PR point, but it only confirms our legal position. We have a very solid legal position. We acted in full compliance with trading rules and contract specification.

As the CFO, I might say that trading in WTI contracts generates fee revenue of about a million. It is a relatively small product for us on

the grand scale of business. The Exchange guarantees the execution of trades but does not take profits or losses on them. Again, we acted in full compliance with trading rules and contract specifications.

What does it mean? At the Exchange, we have a set of rules for a given contract, which is a mirror of contract from CME, and we have a set of rules dedicated to the trading regulations. We acted in full compliance with those. That means that somebody benefitted from those deals and somebody lost on those deals. We are a trading platform. Yes, indeed, there are some market participants who lost, and some market participants who gained. But that happens all the time. Thank you.

Andrew Keeley – Sberbank CIB

Very clear, thank you.

Anton Terentiev – Director of IR

May I please read a question from Pawel Wieprzowski, WOOD, from the webcasting interface?

He has several questions and just a quick comment. The first one is on NII that used to be in the range of RUB 3.5–4 bln and then slid to the range of – what we communicated during the last call – RUB 3.2–3.5 bln. Given significant growth of client funds in March and April on the one hand, and a recent drop in Russian interest rates on the other hand, what are your thoughts on NII in Q2 2020 and until the end of the year?

We elaborated quickly on that. Let me just remind you of several things. First, rates on both in dollar and euro declined substantially, so the role of rubles has gone up a lot. If we see continuous strength in ruble balances, that will be a supportive factor. If the ruble rate is not going down any further, that would be a supportive factor.

I have mentioned already that we have a trading fraction of the portfolio, it's classified for trading. If it gains, we will have the gain in the P&L without any realisation, it just goes through P&L. For the NII in Q2 2020, I would be looking to Q1 2020 as a reference point. But beyond that, let us wait and see how rates change and how balances change.

And the second question from Pawel: "What is the chance for release of this provision recorded in Q1 2020 in the coming quarter?"

As Max has said, it is all down to macro conditions. If they improve and CDS spreads go down, it will be reversed.

And the third question is to Max. Would it be fair to assume that if the Marketplace project is not launched at all in 2020, the YoY OPEX growth will be closer to the lower range of the guidance, which is 6%?

Max Lapin – CFO

Good question, Pawel. Yes, indeed. The lower range of the guidance is exactly the case if the Marketplace project gets delayed a little because of the legislation. Internally, we are developing the technological component for the Marketplace project at full speed. The technological development of the Marketplace project is largely CAPEXed. You would have seen that now in our investor presentation we disclose the amount of CAPEX for that project. Overall, the OPEX component for the Marketplace project depends on its marketing expenses. If we launch the Marketplace project early enough, then we will have to spend on marketing, which would mean a higher range of the guidance. That being said, I would reinforce that we are developing the technological solution for Marketplace, and we are not slowing down that one. We have all people in place, we are not engaged in any kind of headcount reductions – on the contrary, we are hiring people. We have the

opportunity nowadays in the economy to hire people more, and we do that. So technologically, we will have the project ready, and then once the law is in place, we will start marketing it at full speed. That explains why we still keep the range in the guidance wide enough. Thank you, Pawel.

Operator

The next question comes from the line of Sergey Garamita, Raiffeisen Bank. Please ask your question.

Sergey Garamita – Raiffeisen Bank

Thank you for the presentation and congratulations on these great results. Most of my questions have already been answered. Just a follow-up on the Marketplace project. Does the higher end of the range in OPEX imply the adoption of the legislation, let us say, by mid-2020? Or any other date? Is there any difference in terms of marketing expenses, if the project is launched, say, in September, any day of this year, or next year? Is there any effect of the launch date on the total marketing expenses? Could it be marketed within three months without any effect on OPEX (higher end of the guidance) or not? It is the first question.

The second question is again on the Marketplace. Do you have any insights on the approximate date of the hearing and the legislation passing in the second and third reading in the State Duma? At first, it was planned for January, then February, then March, then COVID-19 happened… Do you have any insight into this?

The last question is again regarding ECL provision in P&L. I understand that it is purely technical, non-cash and affected by CDS. Is it technically included into the dividend formula or not? If it is not released, should it affect the dividend formula and the dividend base?

Again, thank you.

Max Lapin – CFO

That is an amazing question, Sergey. The Marketplace cost. Indeed, the high ratio of the guidance implies that we launch Marketplace earlier this year and we will market it through the fall. If we have some delay in the adoption of the law and the marketing expense, then we will have to market it through the end of the year (let us say, in Q4 2020) and rolling into Q1 2021. That would mean some shift of marketing cost from this year to the next year. In terms of the timing of the law, I do not have any specific dates for you but I know that the pandemic situation encourages businesses to go to a remote basis. The Central Bank actually strives to encourage banks to use the existing legal opportunities for opening accounts remotely nowadays.

The legal platform is already there. So, I think the pandemic situation in this case helps us to have rather a long position on the Marketplace project than a short position. I think it really supports the case for this project. That was the answer to your second question.

The third question. The ECL P&L provision. The vast majority of the overall ECL P&L provision for 2019 (over 90%) was connected to the grain case. The grain case fully affected the dividend formula calculation and IFRS 9 for the ECLs as at the end of 2019 were pretty immaterial. They turned out to be visible throughout Q1 and then the question comes whether they shall be included in the dividend formula or not. Technically, they are non-cash. Non-cash things have to be excluded. In the adjustment of the dividend formula when we disclosed them, we took into account the D&A calculation. But roughly, these ECL provisions should be on average relatively immaterial. There is a catch, though. These provisions affect the level of capital of the NCC. The strange thing is that although they are non-

cash and they are being deducted from the capital of the NCC, and our dividend formula includes the clause, according to which we shall keep the NCC capital adequate. Therefore, my paradoxical answer to your question would be: albeit they are non-cash and they should not be on the dividend formula on the one hand, they seem to flow into the dividend formula because they are a reduction in the NCC capital by regulation.

If the situation goes back to normal where the overall ECL provision is at the level we observed at the end of the last year (a run rate of RUB 250 mln), the change to that would be in line with the CDS. I do not see that one as material. We are not a bank. Therefore, the ECL provisions are not that volatile or material for us.

Sergey Garamita – Raiffeisen Bank

OK, thank you for the detailed answer. Maybe you could give quick notes on the COVID-19 thing. We all see that you are one of main beneficiaries of this volatility. Do you see any negative sides to this situation? As you said, even though the interest rates are going down they are compensated by high bonus in the fees, etc. High volatility keeps up the FX and the securities markets, etc. Do you see any negative sides for MOEX in this pandemic?

Max Lapin – CFO

Sergey, that is indeed a very strong strategic question. In terms of the overall business model of the exchange…the majority of people think that we are volatility driven; we are not only volatility driven, as there are also other factors. For example, the size of economy is a macro factor defining the volume of available demand and supply on the FX Market. The FX Market itself is a function of volatility and overall export-import balance in the GDP formula. So, if we have a contraction in export-import balance, it might affect our model. On the other hand, if we look into the amount of issuances – there is a beautiful slide on the Fixed Income Market. I will explain why I called it beautiful.

Let us look at page 13. That slide looks like a seesaw which goes up and down. You see that. One quarter up, one quarter down. It is easily explained. Because fiscal policy is visible on that slide through the issuances of OFZs. They come and go. That means that in a crisis situation we might have more OFZs because of the fiscal policy. However, we might observe lower corporate issuances throughout this deleveraging cycle. Therefore, it is a hard call in this case. Next, we have macro exposure to retail clients. We have more than 100,000 retail clients as shareholders of Moscow Exchange. That number went up substantially through the past year. So, retail investors are coming into ownership of MOEX shares and shares of the other Russian companies. That is a good sign. That means that the existing situation helps retail clients to build or allocate their resources more into the Equity Market and we like it because it is a strategical move.

Therefore, I would sum it up. The COVID-19 situation indeed has a very strong positive short-term effect on us. Longer term, the effects are mixed. Some business lines or some components of business lines might benefit (e.g. equities and probably federal bonds), while some components might have subdued interest. All in all, macro is still a big factor for us. We would rather love to have predictable volatility on a market going uphill than a high volatility on a market in a depression. Because when the market is in a depression the size of the market is declining. I hope this answers your question.

Sergey Garamita – Raiffeisen Bank

Yes, thank you.

Operator

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

Andrey Pavlov-Rusinov – Goldman Sachs

Good afternoon, Max and Anton. Thanks a lot for the presentation and congratulations with strong results, of course. I have a couple of follow-up questions. First of all, as regards to the client fund dynamics, we do appreciate that some of that is driven by the higher level of settlements and current trading volumes on the FX Market. But I guess you have also raised the margin requirements given the rising volatility. Could you please help us understand what your policy here is, how it has changed and also what should happen for the margin requirements to come down and what the lag with the observed volatility in this decision is? Are you changing it on a daily basis or do you wait for volatility to come down and persist for some time and only then lower the margin requirements? So, how it evolved?

Max Lapin – CFO

That is a good question, Andrey. The amount of client funds is a function of settlement needs, volatility margin requirements and other factors. Speaking about the amount of rubles required for settlements in any given moment of time, if you would look into ruble balances data several years back, you would see that RUB 50 bln seem to be the lower bound. The market participants just do not go below RUB 50 bln. Those RUB 50 bln coincide with the volume of trading and hence settlement. Of course, it is a little bit higher through Q1 2020. Rubles are an expensive way to provide a collateral. That means that rubles are largely settlement driven. But the rest forms of collateral are largely driven by margin requirements. I will answer this question large-scale and then hand it to Anton on covering the technicalities as to the frequency and triggers of changes of margin requirements.

The margin requirement is a risk management technique used by the NCC to guarantee the execution of the deals in volatile requirements. Very roughly speaking, in the business as usual mode the margin requirements are set up so that two major defaults might happen in the market and the margin would be sufficient to handle them. In extremely volatile market situations, we widen our margin requirements to the tune that we might sometimes handle ten defaults by having a sufficient collateral on the accounts of the NCC. So, yes, indeed the overall margin requirements are driven by the risk policy that states that the deals have to be executed and the NCC should be able to handle all those deals and not burn its capital even in the harsh market requirements measured by the amount of defaults in the market. Anton, would you comment on the frequency of adjustment of margin requirements?

Anton Terentiev – Director of IR

Yes, essentially it could be adjusted continuously in a more or less live fashion. The second thing, it is definitely forward-looking, it is not backward-looking. It is not that we face volatility and then we start to react. We see the market on the move, and these requirements change. On the flip side, these requirements have to be compatible with the capabilities of the participants. These margin requirements have to allow trading and be compatible with the business models of our market participants. If these requirements go too high, they are prohibitive. For that matter, we are monitoring these requirements continuously and we scale them backward appropriately, and we have already started doing that in particular products where we went down quite visibly, but at the same time, in FX, for instance, where we are still fearing any possible volatility going forward, there we have

not yet started adjusting our risk parameters and margin requirements.

Andrey Pavlov-Rusinov – Goldman Sachs

Thank you, that was very helpful. And a final small question. Could you help us understand the dynamics of the depreciation of equipment that actually halved YoY? What are the drivers there? Have you increased the useful life of the equipment or was it something else? Thank you.

Anton Terentiev – Director of IR

In Q4 2019 there was a review, an impairment test for all the assets, both intangible and tangible. As a result of that test, we wrote off some of the obsolete IT. One of the other results of the impairment test was lower depreciation that we are having now on tangible assets as well.

Andrey Pavlov-Rusinov – Goldman Sachs

OK, thank you.

Anton Terentiev – Director of IR

Before we continue with the call, let me read out the question from the webcasting interface. It comes from Irina Fomkina, ITI Capital. The question goes to Max. Does the OPEX guidance of 6.0%–8.5% include new projects?

Max Lapin – CFO

Yes, it does. When we provide the guidance, we account for the project pipeline. At the exchange, we have a robust pipeline of various projects. Usually we talk about Marketplace, but there are also stabilisation projects (e.g. the project on a single interface for corporate clients, the so-called Corporate Marketplace). So, yes, it does account for those.

Anton Terentiev – Director of IR

Could we share an estimate for additional revenues on OPEX relating to the launch of the evening session, for example? I should say that the evening session is one of our key projects and it is definitely included into the OPEX guidance. But in terms of revenues all our projects start from the low base. It will be a bit premature to give any precise guidance on a particular project and we have never done that. So, let us see how it starts, and when we have some initial data we can build a forecast around it.

Max Lapin – CFO

It would have been nice indeed to do a service where we would have disclosed the expectations on given projects. But I would encourage to regard MOEX as more of a type of a little bit venture style company when we experiment with relatively low cost but potentially high gain projects. In our case, the projects are not heavy in CAPEX but they create market niches. Market niches can be different in size.

If we were a retail or industrial company, we would have been able to tell you that we were going to open a footprint of ca. 100 retail points (on average two retail points per week), and drive your expectations through that. We would have been able to talk of an industrial company in terms of 1 mln t of capacity, utilisation of 70%, ramp-up over the next two years, etc. In our case, we would rather have several dozen projects, bigger and smaller, we would rather talk about the biggest project among them (the Marketplace), the rest be the portfolio projects that might fly high or fly middle, but they are not even likely to pose any capital threat to the Company if they are not successful. I would like to encourage you that in terms of decent governance practice, we have a process for annual performance reviews of all projects in the past

and existing portfolio (i.e. annual post-investment monitoring of all projects with lessons learned). In that post-investment project monitoring we see that our previous NPV for portfolio projects is certainly positive and it is roughly in line with expectations although there are outliers both up and down. We do see that. The predictability in our case is lower than for other industries. Thank you.

Anton Terentiev – Director of IR

I would like to add another point to that. We actually hired a senior team member that will be overlooking digital platforms development.

Max Lapin – CFO

Yes, we have a very reputable digital officer who joined us in May. So, we have been able to hire a Chief Digital Officer for the Company on a purely remote basis. Video interviews, video tests and even handling of all the paperwork on a distant basis – we have a new Chief Digital Officer to take care of those projects.

Anton Terentiev – Director of IR

Thank you, Max. Operator, we are ready to take the next question on the phone.

Operator

The next question comes from the line of Mikhail Shlemov, VTB Capital. Please, ask your question.

Mikhail Shlemov – VTB Capital

Good evening, gentlemen. Thank you very much for your presentation and congratulations on good results. I have a couple of questions related to the Equities Market. The first one is regarding the velocity that we have seen spiking in Q1 2020 to 56%. I was wondering if you could try to break it down for us. What part of this velocity increase is actually carrying forward into Q2 2020? The reason why I am asking is because driven by an increased participation of retail investors in the market, velocity has been going up quite steadily. I am wondering what kind of a sustainable increase in velocity we have seen in Q1 2020. That is my first question.

Anton Terentiev – Director of IR

Let me start answering it. In order to model that I would personally look back into the 2014–2015 situation. I think last time we saw these figures of extremely high velocity back in those days. I think over several quarters it was kind of subsiding and normalising and then came back to the region of 30%. I would look into that as an example and try to learn from that. But today, I do not think we have an ability to really decompose or predict that kind of thing.

Mikhail Shlemov – VTB Capital

Anton, thank you very much, but, perhaps, another way to approach it: is there any different sort of behavior from the new retail clients who are putting money into the market? Are they trading more actively or is it the buy-and-hold strategy like the one we have seen before?

Max Lapin – CFO

As for what we observe with retail clients, we see that retail clients (I mean new retail clients, or the retail clients who have not been on the exchange for a long time) nowadays represent low single-digit percentage points in the overall ownership of stocks so far. We expect them to add to represent high single-digit percentage points in ownership of overall stocks in five years from now. So, we expect them to roll their savings into ownership of equities.

Their fraction is yet small. So, the change in the behavior of that group is not affecting the market that hard. But what I would like to draw your attention to is that according to our current observations of the retail trade, the velocity of trading is higher than average in the market. They may rotate their portfolio every two months or so, and such rotation adds to the velocity. So, we see how it turns out: so far, we have been in the early stages of that. Anton?

Anton Terentiev – Director of IR

Yes, I just wanted to say that in our general corporate presentation we show the number of unique retail clients that has just hit 5 mln. The last reading was about 4.6 mln. At the same time in the next page, we show the number of active clients in the Equities Market as it is the first, or probably one of the top destinations for retail clients. In the two adjacent slides, 24 and 25, of the presentation, you can see that over the last three years or so they have been growing more or less coherently: the number of unique retail clients was 1.3 mln in 2017, and now it is about 5 mln. So, it has gone up by less than 5x. The number of retail clients is now more than 600,000, while it used to be about 110,000. So, it has gone up by about 6x. It has been going up pretty coherently, and even active accounts are performing slightly better if you take a certain timeframe.

In the previous slide, we show the number of retail accounts vs the value of securities held on these accounts. The value of the securities held is a little bit lagging behind the number, but at the same time they are coming pretty much hand-in-hand. That is what I could say on that. Does that answer the question?

I am afraid Mikhail has gone off the line. He may want to ask a follow-up, so we will wait for him to reconnect. Meanwhile, I will read out one of the final questions we have. It comes from Sergey Rodionov in our webcasting interface. The question reads as follows: "In the US, the trading in ETFs comprises 27% of all equity trading. What steps does the exchange plan to take to increase the share of ETF trading in Russia?"

I will probably start answering this question. We have seen a very substantial rise in the number of ETFs. We show how we expand this offering in every presentation. Even in today's presentation, it is one of the points shown on the very first slide. The combined NAV for these funds has surpassed RUB 50 bln, starting from zero not so long ago. I have not really heard of any existing obstacles that the exchange can solve or should solve. What we can do, we can provide every sort of support – give our platform for some events, seminars or workshops that tell about the product, and that is what we do. I think, as an exchange, we do everything we can to support the development. It is one of the interesting products, it is one of very fast developing sections with a rapidly growing number of products. And that is also an exposure we are giving to foreign stocks and global asset classes. Because if you look into the composition of these Russian-law and foreign-law ETFs you will see that it is nearly two thirds foreign securities. That is all I have to say on that.

Mikhail Shlemov – VTB Capital

I am sorry, my line has broken up. So, I have probably missed part of the answer related to whether the behavior of retail clients who are currently coming to the market is different from that of the ones previously present, especially if they trade more or they still stick to the buy-and-hold strategy.

Anton Terentiev – Director of IR

Well, the short version of the answer is that if you take the number of active accounts, the number of unique clients, and the value held

in securities on these accounts, these three metrics will be pretty proportionate and coherent over the last several years. I do not see much of a law of diminishing returns there, to be honest.

Mikhail Shlemov – VTB Capital

OK, thank you. The second question is somewhat related to the first one. We have recently seen some reports coming from St Petersburg Exchange, which is organizing trading of international stocks on their platform, and we are actually seeing a surge in interest from retail accounts and probably even capturing a half of the inflow of retail money, which is going into the market. In that regard, I was wondering whether you are revisiting your previous decision or ideas to launch trading in foreign stocks on your platform and whether we could see this coming to your platform in the near term.

Anton Terentiev – Director of IR

Yes, sure, we do that, and during our recent webinar with our retail shareholders, our Head of Equities Market Boris Blokhin was talking in detail about that. So, the short answer is yes, we do look into that, and we do recognize the fact that we need to expand our product line.

We have been adding ETFs that are a proxy to foreign stocks to our platform and quite actively. But that provides not pure, but a diversified exposure. So, to an extent, we have similar products already. These are Russian-law and foreign-law ETFs on global asset classes and global stocks. But I think, in terms of single stocks, we should be doing more on that. We have not stopped on that. We will continue our efforts to bring that asset class to our platform. I cannot give you a certain timeline yet, but we are looking to that quite actively.

Mikhail Shlemov – VTB Capital

OK, thank you.

Operator

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

Elena Tsareva – BCS Global Markets

Hi again. Thank you for taking my question. I just have one more addition on my side. I have a question on the timing of introducing a fee on euro balances, given that we have had negative euro rates for quite a long time. The fee has come quite recently. Do you see any possibility of introducing similar fees on dollars? Maybe you could specify other circumstances in which you think it is possible, just the ideas. Thank you.

Max Lapin – CFO

A great question, Elena. We have previously had, for quite a long, long time, a reimbursement clause on the funds provided. Whatever negative rate is out there, we have to allocate euros at that rate, we pass those costs onto the client. Let us say, the negative rate was -0.5 point, then we got a reimbursement from the client of -0.5 point if we could not initiate an offsetting trade. That has been with us for a long time.

What happened on 1 January? We have long seen that euro balances were spiking, well in excess of the overall collateral requirements needed. The excess collateral might exert some capital pressure on us. So, on top of that negative reimbursement clause, we decided to institute an additional clearing maintenance fee of 0.2%. So, the floating part linked to ECB negative rate persists as an interest component of that fee and is offset by the clients, passed through onto the clients. The clearing maintenance fee is added on top of that. What will happen if Fed goes negative? If

Fed goes negative, we are likely to repeat that similar clause. We will have a pass-through cost of the negative rate of the Fed. On top of that, we might probably replicate the solution that we have with euros and Swiss francs.

Elena Tsareva – BCS Global Markets

Thank you.

Anton Terentiev – Director of IR

All right. I see no further questions in the queue or on the webcasting interface as well. I think we have been with you for almost 1.5 hours. It is about time to wrap it up. Thank you very much, everyone, for your great insightful questions. Let us stay in touch and reconnect with the results of the second quarter.

Max Lapin – CFO

Thanks everyone. It has been a pleasure.