MOSCOW EXCHANGE

Q2 2021 IFRS results conference call

20 August 2021

Moscow Exchange Speakers:

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

Participants asking questions:

- Elena Tsareva, BCS GM
- Sergey Garamita, Raiffeisen Bank
- Andrew Keeley, Sber CIB
- Olga Veselova, Bank of America
- Mikhail Butkov, Goldman Sachs
- Samarth Agrawal, Citi

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Operator

Good day, everyone, and welcome to MOEX's Q2 2021 IFRS Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr Anton Terentiev, Head of Investor Relations. Please go ahead, sir.

Anton Terentiev – Director of IR

Thank you. Good afternoon, everyone, and welcome to Moscow Exchange's second quarter 2021 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 for the second quarter of 2021. Our management presentation is available on the Company's Website in the Investor Relations section. I will now hand the call over to Max Lapin, CFO of Moscow Exchange. Max, please go ahead.

Max Lapin – CFO

Thank you, Anton, and thank you all for joining us today to discuss Moscow Exchange's financial results. Let's start with slide 2. Delivery on strategic initiatives in 2Q 2021 and beyond.

First, the Exchange continues to add new products. European Medical Center (EMC), Russia's leading private healthcare company, completed an IPO on MOEX, raising USD 0.5 bln. It was the first IPO of global depositary receipts completed exclusively on MOEX. HMS Group, one of the largest pump and compressor producers in Russia, became the 17th Russian company incorporated abroad to obtain a secondary listing on Moscow Exchange. The non-CCP Loan Market was launched as a part of the Money Market, expanding liquidity management opportunities for banks and corporate clients. 24 new ETFs began trading on MOEX since the previous earnings call. We now have 103 ETFs available with a total NAV of some RUB 226 bln. 99 foreign equities were added to the existing product range of international securities, bringing the total number of such stocks to 204. We continue strengthening our International Securities business by expanding the product range as well as introducing new, state-of-the-art solutions for our clients. We also launched options on US stock index futures following the start of trading in underlying contracts on the SPDR S&P 500 ETF.

Second, we continue to work on new services. MOEX acquired a 70% stake in the Inguru platform, which is represented by two separate legal entities that you can find in the financial statements. The platform allows customers to compare and purchase a range of financial services, such as compulsory and comprehensive automobile insurance, mortgages and consumer loans. Also, we published the second sustainability report in the Company's history. It complies with GRI Standards for Sustainability Reporting and contains metrics inherent to SASB and WFE frameworks. The City of Moscow issued Russia's first sub-federal green bonds following the corresponding change in MOEX's Listing Rules. We prepared two separate issuer guides: one on bond issuance and the second on ESG reporting and best sustainability practices. NTPro's infrastructure is now integrated with the FX Market to offer OTC services. And precious metals became eligible as collateral for GCC repos, expanding liquidity management options for repo market participants.

Third, we continue to develop our client base and partnerships. As of the end of July, the number of retail clients exceeded 13 mln. More than 4 mln new clients have joined since the beginning of the year. The total number of Individual Investment Accounts has surpassed 4.2 mln. 63 corporates – including 12 newcomers – placed 153 bond issues, raising a total of 802 bln rubles in the second quarter. Credit Bank of Moscow, Energotransbank, Fora-Bank and Maritime Bank joined the Finuslugi.ru platform, further broadening the range of available deposits. In June, MOEX participated in SPIEF'21 and signed 8 memorandums of cooperation with new & existing partners.

Let's move on to slide 3 on the sustainability agenda. A focus on sustainability in general and ESG in particular has become a 'must' for listed companies. On top of being a publicly traded company, MOEX is a financial market infrastructure provider, a national exchange. With that in mind, we strive to serve as an example and promote best practices among Russian issuers. In July, we published an ESG Guide for issuers that covers a broad range of sustainability-related topics, including the non-financial reporting process, integration of ESG principles into a company's strategy and business model as well as aspects of responsible investment. We also continue to improve disclosure. In May, we published a Sustainability Report for 2020. The Report is based on materiality assessment and provides a comprehensive overview of key focus areas. It also contains key non-financial results for 2020, quantitative data for 2018-2020, sustainability management approaches, statements on important topics on the global agenda and MOEX's contribution to the UN SDGs.

A new version of the MOEX Listing Rules came into force, allowing sub-federal and municipal bonds to be included in the Sustainability Sector. The City of Moscow pioneered green bond issuance under the new Listing Rules, raising RUB 70 bln to further develop metro lines and replace diesel-powered buses with electric buses. Together with the CBR, we developed a financial literacy programme based on IOSCO recommendations that will be available to retail investors at no cost. This is one of the many initiatives in the area of customer education and the matter of sustainability for MOEX.

On a separate note, MOEX has signed a contract with a renewable energy provider, which brought the total share of renewable energy used by the Group to nearly 50%. We plan to bring this number to 95% in the foreseeable future.

Let's move on to slide 4. 2Q financials. Operating income improved by 10% YoY. Fee income grew 24% YoY, more than offsetting a 23% YoY decrease in net interest income. The share of F&C income remained above the 70% mark for the fourth quarter in a row. This means our financial performance is driven predominantly by F&C income, a more predictable business line, which is one of our strategic priorities. Operating expenses amounted to RUB 4.9 bln, increasing by 19% YoY mainly due to growth in G&A expenses, which I'll dissect later in the presentation. The recurring cost-to-income ratio added 3.1 pp YoY and 2.3 pp QoQ. Adjusted EBITDA grew 3.4% YoY and decreased by 2.4% QoQ for a margin of 68.2%. Adjusted net income added 1.5% YoY to RUB 6.4 bln.

Following a court ruling in favor of Moscow Exchange, MOEX received insurance proceeds of RUB 675 mln related to provisions accrued in 1Q'19 in connection with the grain case. These proceeds are reflected in 2Q'21 financials and split across two P&L lines – other operating income and movement in allowance for ECL. We continue to pursue all possible legal remedies to recover the remainder of these provisions.

Slide 5. Diversified fee and commission income. Double-digit F&C growth this quarter accelerated to 24%, outpacing our strategic target despite the elevated base of last year and subsiding levels of volatility. The top-3 leading contributors in both absolute and relative terms were the Money Market, Depository & Settlement Services and the

Derivatives Market. The Money Market generated all-time high revenues of RUB 2.9 bln and reached a record share in the total F&C income mix. The only market that experienced a downturn was the Bond Market, which I will discuss later in the presentation.

Money Market, next slide. Fee income from the Money Market gained 42% YoY, while trading volumes grew just 13.1% YoY. The effective fee dynamics were driven by two main factors. First, the sustained expansion of overall repo terms. The environment of shifting RUB interest rates continued to put pressure on market participants to lock in the repo conditions for a longer term. Second, it's the increase of the value-added CCP repo, both single-security and GCC. In total, the share of CCP repo volumes in total volumes reached the sound level of 94%.

Slide 7. The recent trends for Money Market. The average on-exchange repo term increased by 40% YoY. Our efforts to develop the Money Market via GCC came to fruition as we witnessed a steady and meaningful increase in GCC repo terms that surpassed the 7 days mark. It is supported by the rising interest rate environment and the desire of market participants to lock in repo rates for a longer term. As a result, the aggregate position remained elevated during the quarter. Open interest of non-banking participants reached nearly RUB 700 bln. A significant contribution comes from the Federal Treasury.

Slide 8. Depository and Settlement. Fees and commissions from Depository and Settlement improved by 32% YoY. The main factor behind this growth was the 30% expansion of average assets on deposit at NSD. The growth occurred across all asset classes but was most pronounced in government bonds. The gap between growth rates of fee income and assets on deposit is the result of business lines beyond safekeeping. Clearing and collateral management services showed outstanding fee growth in 2Q'21 amid higher demand for repo operations at NSD.

Equities Market. Slide 9. Fee income from the Equities Market grew 23% YoY, following a corresponding increase in trading volumes of 24%. Both fees and volumes were supported by strong stock market performance, with the MOEX Index posting an all-time high for the fourth quarter in a row. MOEX's market share vs the LSE in trading of dual listed stocks reached 82% for the first half of the year. Velocity of trading volumes remains elevated in historical terms thanks to activity from some 12 mln retail investors during the quarter. The evening session accounted for 7% of Equities Market total trading volumes in 2Q'21. Foreign equities trading accounted for 2% of the total in the second quarter with a daily high hitting 5.5%. As previously mentioned, we continue to expand the range of foreign instruments available for trading on our platform. By the end of this year, we will have 500+ foreign names and more than a thousand next year. Moreover, I am pleased to invite you to join our presentation on Moscow Exchange's further developments in the international securities market on September 16th. We'll walk you through the new, best-in-class solution for global liquidity insourcing along with other initiatives that we have on the agenda.

IT Services, Listing and Other Fee Income – ITSLOFI. Slide 10. This line exhibited a 16% YoY increase. Listing fees decreased by 8% YoY. Information services fees grew 24% YoY with 2 main factors driving these dynamics. First, the proceeds from the information audit, and second, the launch of a new information product on aggregated repo deals information. Sales of software and technical services were up 22% YoY. On top of organic factors, this growth was driven by proceeds from a recently launched ASTS FIFO MFIX protocol. The protocol generated solid demand in the second quarter. The users are HFTs, algo and ultra-low latency clients. Other F&C income added 21.6% YoY, mainly driven by the consolidation of Inguru; the line includes RUB 118 mln of Inguru revenue. More details on the acquisition are available in our financial statements.

Slide 11. Derivatives Market. Fee income from the Derivatives Market improved by 31% YoY following an identical increase in trading volumes. FX futures were by far the main volume driver, expanding by 37% YoY. The share of options decreased by 0.4 pp YoY coming at 3.8% in the second quarter. Speaking of the standardised OTC derivatives market, trading volumes surged as shown in the top right corner of the slide, surpassing the RUB 1 trillion mark. This growth is the result of two main factors. First, we observed a higher demand for such instruments as additional tools for FX and interest rate risk management. And second, we are actively onboarding new clients and conducting training sessions on standardised OTC derivatives. Developing the standardised OTC derivatives business line is one of the priorities of our strategy.

Next slide, on the FX Market. The FX Market fees were flat YoY, while trading volumes improved 14% YoY. Spot volumes grew 8% YoY, while swap volumes increased by 17% YoY. The lower share of spot trading remains the primary explanation of effective fee dynamics. USD/RUB spot volumes grew 7% YoY and remained the main contributor to spot market performance among all FX pairs. The number of active retail clients increased nearly three-fold, approaching one million clients. Retail volumes represented 13% of the spot market in the second quarter. Corporates' ADTV surged by nearly 155% YoY. Corporates' share in the spot market reached 2.6% in Jun'21. The morning trading session proved its viability as more than 270 banks and brokers as well as 366 thousand retail clients traded pre-market. The morning session accounted for 5% of total volumes in the second quarter. Our efforts to develop the FX Market won global recognition as MOEX FX Market ranked second among trading platforms globally in an authoritative client satisfaction survey conducted by Euromoney.

Fixed Income Market. Next slide. The Fixed Income Market showed subdued performance amid rising RUB interest rates. Total trading volumes declined by 24% YoY. Fee income decreased 6% YoY. Primary market placements excluding overnight bonds fell 16% YoY. However, bond market activity started to pick up the pace on a QoQ basis. The negative volume effect during the quarter was mitigated by OFZ tariff adjustments as well as by a higher share of corporate bond trading on the secondary market. We also continue to expand the product line. Just a few days ago, MOEX admitted the 100th Eurobond issue to trading. Eurobonds mostly trade in split lots starting from USD 1,000, and therefore are accessible to retail investors.

Interest and finance income in 2Q'21. Net interest and finance income contracted by 23% YoY. Excluding the effect of portfolio revaluation in the base quarter, Core NII was down 18% YoY. The negative effect from declining interest rates offset the growth of USD client balances. Our investment portfolio's value declined by 7% YoY and the effective yield narrowed by 0.3 pp YoY. The currency mix of client funds shifted in favor of USD. As for composition of the investment portfolio, FX deposits and current accounts remain the largest constituents, while smaller shares of RUB deposits and RUB securities remain major income generators.

We are now approaching the inflection point on Core NII, with client balances being the main variable. For 3Q'21, we'll probably see Core NII in the range of RUB 3.0 – 3.3 bln. If client balances stay resilient, we might get to a quarterly Core NII run-rate of RUB 3.5 bln towards year-end. As long as interest rates continue to rise, one shouldn't expect any meaningful portfolio revaluation in the P&L.

On a side note, two days ago Fitch Ratings affirmed NCC's Long-Term Foreign-Currency and Local-Currency Issuer Default Ratings at 'BBB', reflecting NCC's exceptionally strong credit profile. This rating is on par with Russia's sovereign.

Operating expenses in 2Q'21 (excl. provisions). The line increased by 19% YoY, driven mainly by administrative expenses. Non-organic contribution from Inguru consolidation is 2.7 pp Since this M&A effect is rather minor, we have not presented separate pro-forma financials. This acquisition highlights our ability to expand the business in strategic areas while keeping the quality of our P&L intact. The total contribution from Marketplace including Inguru is 5.6 pp Therefore, core business OPEX together with associated projects added less than 14% YoY last quarter. We did deliver positive fee-level operating jaws and expect this effect to persist in the full year 2021. In other words, our FY21 fees and commissions are set to grow at a higher rate than our costs for the full-year, provided that current trends continue.

Personnel expenses added 15% YoY. On a QoQ basis, personnel expenses stood nearly unchanged, up just 1.2%. Personnel expenses' YoY growth decomposes into 4 main factors: 6.4 pp comes from performance-linked bonus provisions, which stem from stronger-than-planned F&C growth; 4.9 pp is the net effect from LTIP – it's basically a low base effect – last year, the LTIP programme started in July and today we are reporting 2Q financials; 3.6 pp are related to Marketplace-linked headcount growth, and the remaining 0.4 pp come from other minor factors. As you see, overall wage inflation is a non-factor so far in 2021.

D&A costs increased by 11% YoY due to higher CAPEX spending last year. Together with equipment and intangibles' maintenance, the line added 16%. Remaining admin expenses grew 34% YoY. 81% of this growth comes from 2 lines – professional services and marketing costs. 2/3 of professional services growth are linked to the Marketplace project and Inguru consolidation, while the remaining 1/3 is attributable to the core business. The significant increase in advertising and marketing costs is linked to the Marketplace project, as we commence a marketing campaign. Thus, the Marketplace marketing option is activated.

The updated FY21 OPEX guidance of 13.0% - 20.0% includes 2-3 pp of Inguru-related expenses and the semi-annual effect of the Marketplace marketing option. Basically, marketing savings realised in the first half of the year get offset by Inguru. Other guidance components, including the core business one, remain unchanged.

CAPEX for the quarter amounted to RUB 0.6 bln and was spent on purchases of equipment and software development. We keep the CAPEX guidance unchanged at RUB 3.0-4.0 bln in FY21.

Last but not the least: I'd like to let the market know that the CFO's contract is approaching expiration. Following conversations with the Supervisory Board, we agreed to initiate a transition. I will conclude my four-year tenure as CFO of the Company, which will open up a path for my further professional growth. We have prepared a transition plan and will make sure that the new CFO is fully onboard and up to speed. We have a short-list of candidates and a succession plan in place. Therefore, it will be a controlled transition over the next few months according to the plan. My successor will definitely join a very professional and stable team. We'll keep you updated on the subject and provide more details in due course.

Over the last four years, I have fundamentally upgraded the financial function and processes, developed an ERP system, brought forward financial planning and analysis (FP&A), supported the transition to flexible and paperless office and fine-tuned the procurement process. I've had some thousand investor meetings and lived up to the role of accomplished public CFO that the investment community has always appreciated at MOEX. More recently, we've made big advances on ESG and Sustainability. The professional team that made it all happen remains in place. I'm proud to move on from the Company that's become stronger, faster and more sustainable.

This concludes my overview of the quarterly results. We are now ready to take questions.

Operator

Thank you. The first question today comes from Elena Tsareva from BCS.

Elena Tsareva – BCS GM

Thank you very much for the call and for more details and guidance in NII and quite a robust disclosure of OPEX guidance. And my personal wishes of good luck with a new career stage to Max. I have several questions. The first one is on Inguru. You guide for respective 2-3 pp guidance for OPEX. What should we see on the income side and, maybe, more details on the whole idea of Inguru? Also, in addition to this question, do you have any other ideas to do any M&As to contribute to the Marketplace initiatives? This will be my first question.

Max Lapin – CFO

Wonderful, Elena. Thank you. The Inguru acquisition is an important part of an inorganic expansion of the Marketplace project. When we've been discussing that early in the year, we had two options at the table: the inorganic expansion through acquiring an existing platform and the marketing option – when we run marketing campaigns. We initiated Inguru negotiations in December last year and concluded the acquisition of the platform in May. Therefore, the data that you see in the financial statements covers two months. From that data, you might infer the following: that Inguru acquisition enables us to generate approximately RUB 50-60 mln of revenue probably up to USD 1 mln of revenue a month. Therefore, RUB 0.5 bln of revenues attributed to the Marketplace project could be a good guidance for this year. The Inguru costs are adding approximately 2-3 pp to the overall cost of the Exchange. All-in-all, Inguru by itself is a profitable business. What's been happening next? This summer, we started a marketing campaign for the Marketplace project, including co-partner promotions with the leading banks, which effectively drove our volumes in deposit opening essentials via the Marketplace to the tune when we can get in a day or two the volumes that we were getting previously in a month. So that means that the Marketplace project is entering its very active phase when we have the inorganic arm that was added that allows for cross-selling, and we're also building a marketing campaign. Speaking of the marketing option, previously, we've been covering that the marketing option would be between 0-6 p.p. of the expenses this year, which roughly translates to RUB 1 bln size war chest for the marketing of the Marketplace. We started using that war chest, and approximately 1/10 of that war chest was spent already. So that means that the Marketplace is entering its active marketing campaign this fall. The credit solution is just around the corner, it's a question of weeks. Once the credit solution is launched, you will see marketing campaigns which we are preparing for the Marketplace project, and the expansion is to follow. So far, we are very satisfied with the strategy that we chose for inorganic expansion and organic marketing campaigns. I hope this answers your question, Elena.

Elena Tsareva – BCS GM

Understood, thank you. The next question is on your future plans. Do you feel there could be any other M&A opportunities?

Max Lapin – CFO

Oh, good question. I missed that part. Wonderful. So far, the next acquisition that we are planning — that's also mentioned in the statements — is not linked to the Marketplace project. For the Marketplace, we are entering the organic part of the development. We will run our own marketing campaigns and do the cross-sell using the Inguru instrument that we have. The additional acquisition that we have in place — the NTPro or Bierbaum acquisition — is not linked to the Marketplace. It's an OTC FX platform. We acquired 25% last year, and it seems that we will approach closing the deal half a year earlier than we expected. Earlier, we've been talking that the deal is to be closed in Q1 next year, but we are actively negotiating the moment to conclude the deal and get the Company consolidated. The deal for NTPro will be around 70%, bringing the total value in NTPro to 95% ownership. So that's our next deal that's just around the corner. It's about to happen.

Elena Tsareva – BCS GM

Just a bit of technical update on this grain provision recovery. Is there any update and timeline you see visible?

Max Lapin – CFO

The grain provision. Okay, for consistency reasons, let me step back just a little to what we've been disclosing historically and what's going to happen next. Historically, when the grain provision happened, we mentioned that we had substantial insurance coverage, but, unfortunately, it was not covering even half of the provision. It was covering a fraction of the total provision because what happened is the grain market was well beyond what we imagined. So, the RUB 675 mln insurance coverage is all insurance coverage that's to be received. I would not be expecting any material additions on top of that. So, we got the insurance coverage, and it's unwoundable. It's recognized as revenue on one hand and an offset to the provisions on the other hand.

The future development of the grain provision will be linked to the civil and criminal courts proceedings, where we sue the grain storage facilities and their owners. So that might evolve… we can't provide a guidance here, as to the success rate and potential recovery but for RUB 675 mln that we got from the insurance company, it's already a done deal. It's on the books of the Exchange. It's cold hard cash received.

Elena Tsareva – BCS GM

Thank you very much and very good luck again, Max, on the career opportunities.

Max Lapin – CFO

Thank you, Elena. It was a pleasure.

Operator

Our next question comes from Sergey Garamita of Raiffeisen Bank.

Sergey Garamita – Raiffeisen Bank

Yes, thank you for the presentation and also sorry to hear that Max is leaving and good luck. I have several questions. First of all, I need to clarify, Max, you said Inguru contributes RUB 15-16 mln per month. I had a bad connection. Just to clarify.

Max Lapin – CFO

50-60. A month. RUB 50-60 mln a month. Slightly less than a million US dollars, but it could be a similar number.

Anton Terentiev – Director of IR

Yes, Sergey, we have disclosure of the particular contribution that Inguru made since consolidation, so you can easily split it across months and then adjust for some growth.

Sergey Garamita - Raiffeisen Bank

Okay. The next question is regarding your CAPEX. You said that the next M&A you expect is just raising the stake in NTPro. But currently, in cash flow, we see that you basically spent M&A a little bit over RUB 300 mln, and previously you guided for M&A CAPEX of RUB 1-2 bln. Surely, it doesn't mean that the rest of the planned CAPEX would go to the purchase of NTPro? Or am I mistaken in the M&A CAPEX you are guiding for this year because I thought the range of RUB 1 bln in CAPEX was due to that, but still, even at the lower end, it seems too high. That's the second question. The third question is regarding the update on your required capital. Previously it stood at RUB 80-81 bln, and on top of that, you could easily spend the rest of the money on dividends. Does that stay the same, or are there any changes? And also another question, just a clarification, if I may, do you provide any forecast for Inguru and the Marketplace growth for next year or this year? I mean, for both top line and EBITDA, if you disclose any of your forecasts. That's it from my side. Thank you.

Max Lapin – CFO

Thank you, Sergey. Let's start with the question on M&A CAPEX. You've got it right, we disclosed RUB 300 mln that are driven by the Inguru acquisition. That's it. The guidance that we mentioned on RUB 1-2 bln was also including our expectation for NTPro, and it's to happen. We are not officially moving that guidance. But let's say the NTPro acquisition will be within that range. So, we will not provide a surprise on the total sum of acquisition this year. As for other material acquisitions that are going to happen this year, NTPro is the acquisition for this year, which is being in the preparation and closing stage. That's going to be it.

In terms of Inguru and Marketplace guidance, and so on. We will be satisfied this year with growth jump up in the Marketplace numbers, which will enable us to create a business plan for the Marketplace because we will have everything in place. We have Inguru, we have all the product lines in place, and we have the marketing campaign tested and checked. We will know the conversion factors in and out. That will enable us to allocate advertising campaign money for the next year and then drive the expectations. In terms of Marketplace revenue, if you would annualize what we are getting this year, the conservative range there should be probably RUB 1 bln in revenues, but we cannot yet guide for EBITDA for one simple reason: because we've originally been mentioning that the Marketplace is scheduled to get to the breakeven point of operational profitability probably in the year 2024. In 2023, it will not yet be expected to generate an operating profit. We'll be running the marketing campaign. Numbers on that later, but revenues – we are already seeing them flowing in, they are in the financial statements. So, annualization with some trend is doable.

In regards to the required capital position level, Anton, please go ahead.

Anton Terentiev – Director of IR

Thank you, Max. Sergey, we're not updating the required capital figures. You can refer to what you see in our presentation, which is RUB 83 bln split across three main entities. This figure is not changing unless there's anything new on the regulation front. One thing I can tell you is why that is sufficient. You know that we pay dividends at the end of June. In early July, this is our low point for the year on the capital adequacy of our main entity, NCC. You can see this in the presentation that is on the website, that as of the 1st July, our N1CCP ratio was 133.6%. We've mentioned on numerous occasions that our comfort level there that allows us to pass all the stress tests is 130-135% usually, so we have just enough capital there after the dividend. This is the situation, and, as I said, we're not building capital requirements unless anything new happens on the regulatory front.

Sergey Garamita - Raiffeisen Bank

Thank you. If I may, just another clarification. Do you update your net interest income guidance in regards to the recent key rate changes?

Max Lapin – CFO

Let me specifically address that. Sergey, that's a good question. Previously, we've been hovering around RUB 3 bln. Now, we think that third quarter number between RUB 3 bln and RUB 3.3 bln could be possible. Then, 4Q'21 numbers could be RUB 3.5 bln.

And then, further increase in 2022 will continue to happen as interest rates continue to rise and we have a rollover of our portfolio. Our portfolio duration spans from the short-term portfolio on the deposits and up to a three-year portfolio in some bonds. A rollover effect, the lag effect, will be happening throughout 2022. It will be positive for the Exchange because interest rates are already rising.

Sergey Garamita - Raiffeisen Bank

And for the year 2022, you do not provide any guidance. So just the year-end RUB 3.5 bln per quarter.

Max Lapin – CFO

Definitely, it's going to be something like RUB 3.5 bln, given the existing interest rates in the existing portfolio structure with the existing volumes of collateral. RUB 3.5+ bln works, but a specific number… let's look into the budgeting process first.

Anton Terentiev – Director of IR

Yes, Sergey, just imagine ourselves giving that sort of guidance a quarter or couple of quarters ago. That would be just ridiculous because you see how fast interest rates change. Us giving any outlook on a quarterly basis relies on the fact that interest rates remain unchanged. We don't have a crystal ball to forecast interest rates and key rates in Russia. We just rely on what we have, and therefore the visibility is usually one quarter or maybe a couple of quarters. And then we also have to adjust ourselves to the changing market environment.

Sergey Garamita - Raiffeisen Bank

Yes, of course, I was talking about the current rates, not focused on any theory changes further on. Thank you very much.

Max Lapin – CFO

Thank you, Sergey.

Operator

Our next question comes from Andrew Keeley of Sber CIB.

Andrew Keeley – Sber CIB

Good afternoon. Thank you for the presentation. A couple of questions from me. One on equities. Obviously, in Q2, you're still seeing a lot of retail investors being onboarded. Just wondering whether you can share any colour in terms of the share of retail investors in equities volumes. How that may be changing? That would be very helpful. The second question is, it's very interesting to see the kind of explosion in the standardised OTC derivatives volumes in Q2. How are you seeing this influence your revenues in the derivatives market? Any kind of thoughts on the impact of that would be good. And then the final question on Inguru. You know, you mentioned that it also offers (aside from insurance) consumer loans and mortgages. Any colour on the number of banks, or whether there are big players there that are included in that offering? That would be very helpful. Thanks very much.

Max Lapin – CFO

Wonderful. Thank you, Andrew. Let's talk about equities first. In the presentation, not this specific one that we have today, but in our investor presentation that's updated monthly, that's page 7. On the monthly updated investor presentation on page 7 in the upper right corner, you would see the share of retail investors. It will be shown there that the share is approximately 40+%. And the share is changing compared to what was before. But it's not going to be 80% or 60%. The reason is very simple. Because Moscow Exchange has a fully developed HFT section, and a lot of HFT providers are trading on the other side with the retail investors, for every additional volume that's brought by retail investors, it's replicated through the HFT or other partner. Therefore, the share is not visible to grow. The volumes grow, but there is a parity, as I would call this. HFT and the algo investors' parity versus the retail investors. Retail investors are bringing the new money. The way I suggest looking into it is on another slide in that investor presentation that shows the amount of retail money brought into the market and the respective split across instruments. So those are the money that matter. I hope this answers your question about the share of retail investors in the Equities Market.

Anton Terentiev – Director of IR

I'll just add that even if retail investor volume trading goes through the roof, their share will not change that much because we have many client categories. We have local investors, we have foreign investors, we have traditional ones, we have algo traders, we have HFTs – different categories with different strategies. So, every deal has two sides. We usually have different investors on different sides of the deal. We have been observing the growth in retail activity for many quarters in a row, but pretty resilient market structure. We keep reiterating this message call after call, and I think we stand by it today that the share of retail investors has gone up versus a couple of years ago, but it's not going up dramatically. Volumes do, but not the share.

Andrew Keeley – Sber CIB

Ok, that's really helpful. Thank you.

Max Lapin – CFO

The second question on the standardized OTC derivatives market. Again, let me step back a couple of years ago when we've been publishing the strategy in the fall of 2019. In our strategy, we've been mentioning that one of the most important developments in this strategy, besides the retail investor development, is the development of OTC solutions. In OTC solutions, our strategy is simple. The OTC platform acquisition for FX, OTC bond solution, and OTC derivatives as well. For the OTC derivatives, we've been trying to grow that market for several years straight, and we've seen that we found the recipe for success. It took off. In terms of share in revenues, the OTC derivatives tariffs are the same or better than the tariffs for the derivative market, therefore, share in revenues should be higher than share in volumes. So far, the share in volumes, judging from these slides, is 3%. They start to be meaningful. The share in revenues should be 3+%. I think we're going to cover it better in the future. Thank you for the notion.

In regards to Inguru. With Inguru, one of the most successful stories that we have, as of now, we partnered up with a Credit Bank of Moscow, and we've been promoting together a deposit with an interest rate of 8%. This deposit is the best deposit in the market, and it's one of the most successful that we have seen so far. Partnering up with the Bank of Moscow did really help us. We will be onboarding a lot of other mid-tier banks, but again, Marketplace is a platform for the mid-tier banks and international banks operating in Russia that like to reach to the customers if they have a lack of physical retail footprint. That's how it works. We are getting the bank that we want. As for the big gorillas that you might imply, not every big gorilla is interested to be on the Marketplace. But whatever. It still fits our strategy.

Andrew Keeley – Sber CIB

Brilliant. Thanks very much, Max. Likewise, it's been great to work with you and good luck in the future.

Max Lapin – CFO

Thank you, Andrew. I appreciate that.

Operator

Our next question comes from Olga Veselova of Bank of America.

Olga Veselova - Bank of America

Thank you and good day. I have several questions. My first question is about your cost growth guidance. Remind us what is the family of development projects and what is the timing horizon?

Max Lapin – CFO

Wonderful, Olga. Let me talk overall about the projects that we have on the Moscow Exchange so you would get a flavour of where we put our efforts. For example, evening trading sessions and morning trading sessions, international stocks. When I talk about morning trade sessions, I'm talking about equities and bonds. Those are visible revenue-generating projects that are visibly adding to the top line. Also, we are migrating step by step to a flexible office and digital office solution. We're also researching the reserve data centre option, so we have some expenditures on that. Some of that money also goes into compliance solutions, like FATCA compliance solutions and W-8BEN forms' service for the retail clients – all those things. It's really a family. It spans from revenue-generating projects, as I mentioned, to infrastructure regulation and compliance projects. The biggest project by far is, of course, the Marketplace. If I would be looking at the Exchange, Marketplace is the biggest project that we are running. Olga?

Olga Veselova - Bank of America

Yes. Marketplace is a separate thing in your cost growth guidance. I'm wondering about this family of development projects, will they feed into cost growth in 2022? This is basically the core question that I want to understand.

Max Lapin – CFO

Wonderful. Let me then comment on the cost guidance. We split out the factors for this year guidance, and we have to prepare the market for what's going to happen next. We are looking into several things like flexible office and data centre. We have one Tier-3 data centre that we migrated to in 2016. Currently, we are thinking about moving our reserve data centre to a Tier-3 facility. That will happen also over the next year. It will not happen in one year, but we are looking into that. Why are we doing that? Because with the pandemic situation, we understood that we could simultaneously do several things. We will be exiting our rented office facility in a couple of years. We will not be spending money on rent. We will fit all of our personnel, including new staff that we've been hiring, into our own buildings. To enable for flexible office and hybrid model when people are working from home and from the office and have a shared workspace, we will have to have server support for that. That's why we're looking into a data centre. Those projects will be analysed and looked into in the 2022-2024 business plan that will be developed this fall. But this is what's going to happen in 2022-2024. In terms of overall guidance to the tune of that projects, I would say, on one hand, I can't provide you with a good guidance support, but I can provide you with a historical guidance. In our investor presentation we have a slide that shows the share of our CAPEX to the operating income. We will not turn into a CAPEX-heavy company. Don't expect that. Our CAPEX will be a fraction of our earnings. It will not be an outlier by historical standards.

Olga Veselova - Bank of America

Very helpful, thank you.

Anton Terentiev – Director of IR

Also, to the point of your question, yes, we do have the Marketplace sitting in the family of development projects, and we do have the Marketplace marketing option as a standalone thing. The Marketplace development goes on and on, irrespective of our marketing efforts. We basically timed the start of the marketing campaign for the Marketplace with the acquisition of Inguru, with the consolidation of the two platforms. That's why we separate them. If your question is, do you have any development projects beyond the Marketplace? Yes, we do, and we did talk about it during our FY 2020 call. Specifically, we mentioned long-term risk management initiatives, regulatory framework, compliance-related improvement and stuff like that. And then we have the Marketplace there as well. And then there is a separate marketing option that we didn't use for half a year because we didn't know if we could do the M&A or if we could have enough banks and stuff like that. Now we do, now we're comfortable, and we are starting the marketing campaign. And we continue developing the Marketplace as well, as a project.

Olga Veselova - Bank of America

Thank you. My second question is about RUB 1 bln revenue expected from the Marketplace. Where in PnL can we see that? Will this sit in the other services, this income?

Max Lapin – CFO

Olga, let me immediately clarify here. The number for this year is RUB 0.5+ bln. It stems from what we already see. The RUB 1 bln potential number that could be calculated for the next year comes from the annualization of what we already see. That's what could happen, given what we already see from the combination of Marketplace and Inguru together. Just through the annualization and some trend on the existing monthly revenue that we've been observing – that's how we get to that number. It's not that we are planning RUB 1 bln of revenues for the Marketplace for the next year, it's how I would be running the assessment seeing how the consolidation is going. In terms of where you would see it, so far, it will be shown in the Other fee income on the ITSLOFI slide. In the existing presentation, that's slide number 10. The top of the bar in the ITSLOFI chart in pink colour includes the Marketplace and Inguru revenues. That's where you would see that pie growing. Once it grows big enough, we will have to separate it and show it separately.

Olga Veselova - Bank of America

Very clear. Thank you. My third question is about the money market, which became the driver for your fee income dynamics. Do you think the trend is sustainable? We see that the average trading volumes grow moderately, but the repo period became longer, and the share of CCP went up. Do you think these are sustainable, or over time repo will get shorter, and the share of CCP can possibly go down a little bit? Can we talk a little bit about the money market trend?

Max Lapin – CFO

Yes, Olga. The money market. Let's talk about various factors in the money market. There are several. Let's start with the simplest one shown in the top right of that page with CCP repo share of 94% in total repo volumes. That means the market is already consolidated. Consolidation already happened, so it won't be a driver, and it's not the big driver nowadays. Second thing, I would name it 'open interest / open position' type of a driver. Where does it come from? What are the reasons for that? Pretty straightforward. A couple of ideas to chip in: onboarding more corporates – more open interest on one hand – on the other hand, the money market is also supported by the value of collateral that could be pledged to the money market as the repo collateral. That means that with the growing amount of equities available out there, and the appreciation of the index, some spillover happens from that into the money market because there is more collateral available against which repo trades are doable. So, this one might be somewhat linked to the index of the overall financialization of economy. That's the driver. Then, there is the Federal Treasury participation. The Federal Treasury comes and goes. It's been particularly active for the past couple of years. That's hard to tell for the future. To sum it up, consolidation happened. Repo terms might even continue to grow because more corporates are bringing money to the market and the longer repo terms are logical for the market participants. The money market grows diverse from overnights to longer deals, which we like since we charge by the day. As for the overall pledged collateral or the pool of securities available for repo collateral, the proxy for that would be like NSD assets under the custody like a rough proxy for that. It's not the collateral, but it's a correlated metric. The only thing that's left unpredictable is the amount of Federal Treasury operations. I hope it helps.

Olga Veselova - Bank of America

It does help. Thank you.

Anton Terentiev – Director of IR

We have this initiative to grow repo terms. We want to support that trend. We said at the previous call that we don't expect this extraordinary situation that happened in Q1 to persist, where we have overall on-exchange average repo term of 7.5 days. You see that we had a bit of a retracement in Q2. At the same time, GCC repo terms continue to expand. This is precisely the submarket, the segment of the repo that should help us build terms further because, as you know, for regular CCP repo or how we call it – single-security CCP repo – in the main trading mode, we only have one-day and one-week trade. That is a limitation. For GCC repo, because it's a pooling of liquidity, it's not a single instrument but a portfolio of instruments, then the liquidity is pooled and allocated across terms. We can support trading liquidity in the long term there, and that's exactly what we do. That's exactly what we've been doing. That's exactly what we've been aiming our marketing program at for GCC. Now we can see the result. It just coincided that in the current interest rate environment and after all our marketing efforts, it's finally coming to fruition, as Max said during his speech, that our efforts to develop GCC repo are becoming visible in the PnL.

Olga Veselova - Bank of America

Thank you, Anton. I have my last question, and apologies that I'm asking this so directly. Where does the discussion of successor start from? Was this your initiative, Max? Was this a mutual both-way communication? And if I can also ask, if you could draw some conclusions, summarize for us what went right and what could have been done a little bit better over the past 4 years, in your opinion, if we can summarize it here.

Max Lapin – CFO

It was a mutual discussion. It opens up a path for my growth, and it enables the rotation of the CFO of the Company to bring in a fresh look at the function. I would say that the past 4 years went amazingly well because there have been a lot to see and to get done. On one hand, the business itself has grown a lot, which made it a pleasure to work with you and explain the results of the Moscow Exchange that our fees and commissions and the strategy was being executed well, and it showed. On the other hand, yes, we had several missteps with the reserves, but it happens with the financial institutions, and provisions do happen. As we see it, Q2 that I'm reporting for today is a terrific quarter. We are in a very strong part of growth, so I think the Exchange is in a very good way to go into the future. That's basically it. The particular thing that I'm proud of is the very high reputation of the Moscow Exchange in investor perception studies. We put a lot of effort into that. It's a good cost to income ratio, that's crucial for the Company to deliver. Cost to fee income ratio was improving all those years. It's a clarity of growth and return to a path of growth of 10+% and even more than that. A substantial chunk of that growth is driven by crisp and clear business initiatives that were included in the business plan of the Company. That's all those things are to be proud of. Revenue is fine, costs are under control, the operational leverage versus fees and commissions was improving. We're on the path of improving net interest income into the future, and we are decently capitalized with the dividend story in place, Look, the way we're discussing the Company today, we're looking into the dividend formula that we published – we have a separate slide on that – and it's a transparent discussion. I'm very proud of the team that I built here at Moscow Exchange – the people are capable of running it. It works. I'm very pleased with that.

Olga Veselova - Bank of America

Right. Thank you very much for your answer and I send my sincere best wishes for your future career, Max. Thank you.

Max Lapin – CFO

Thank you.

Operator

Our next question comes from Mikhail Butkov of Goldman Sachs.

Mikhail Butkov - Goldman Sachs

Good day. Thank you very much for the presentation. I have a couple of questions. Firstly, on the fixed income side, there was also some increase in revenue yield for a number of quarters. Of course, that was driven by some mixed effects but, going forward, do you see that this level stays sustainable? Another question is also on increasing share of NTPro ownership. As you consolidate that, will we see some changes to revenues and operating expenses, some contribution from that, or will that have some not really visible effect on financials? These are the two questions. Thank you.

Max Lapin – CFO

Let me start with the second question on NTPro, and then I'll pass the floor to Anton on the fixed income mix. With NTPro, we will do exactly the same thing in reporting that we've done with Inguru. We will provide you with balance sheet data, the goodwill calculation, the reflection of revenues and the impact on the costs. So, you would see that input from NTPro. NTPro is a bigger company than Inguru. You will see the impact definitely on the top line and the bottom line of the Company. NTPro is a profitable company, so it will not be a loss-making acquisition for us. It will generate profits. The period: it might happen in Q3, it might happen in Q4, so it's just around the corner. We will provide numbers on that in the coming disclosures. Not today. On the fixed income market, Anton, the floor is yours.

Anton Terentiev – Director of IR

Yeah, Mikhail, hi! For the fixed income market, as you mentioned, there are always mix effects that vary from quarter to quarter, but there are also some secular things. The first is that we rebalanced, and we tell about it in our press release and I think, we told about it some quarters ago that we rebalanced our tariffs in OFZs, in ruble government bonds, so that we favour electronic order book trading. We made it a bit more expensive to trade direct bilateral deals, a trading mode called RPS (рус. Режим переговорных сделок). This is a thing that we did a couple of quarters ago, and it's working. Then I think we can see in Q2 in particular support from corporate bonds trading in the secondary market, so there we might also be seeing just a general shift towards electronic order book trading, rather than these bilateral deals. And that might be as well attributed to retail activity that is gradually building up in the fixed income market. But the mixed effect, I think, is the thing that will inevitably influence the performance of the fixed income market going forward. At least between the primary and secondary markets and within the primary market as well.

Mikhail Butkov - Goldman Sachs

Alright, thank you very much. Good luck, Max. Thank you for the presentation today.

Max Lapin – CFO

Thank you, Misha.

Anton Terentiev – Director of IR

All right, gentlemen, while we are waiting for more questions over the phone line, I will read out loud the question from Samarth Agrawal from Citi that is coming via the webcasting interface, and I'll start answering it. Samarth has 3 questions.

The first question is on IT services and software sales growth. He wants to understand how much of the growth is one-off, and how much is in the nature of recurring business.

So basically, we're talking here about the two income lines. I've just put it on the screen now, from the ITSLOFI section. Sales of Information Services and sales of software and technical services. Usually, these two lines don't have too many one-offs. But when we talk about the sale of information services, we have these audit proceeds that aren't recurring every quarter. We are not really counting on them. We cannot call them a true one-off because we had these proceeds before, few times in history, but we shouldn't expect them to happen every quarter. You can call it not exactly a one-off, but a non-recurring income stream. And then the sale of software, the driver is this ASTS FIFO MFIX protocol. With this protocol, we actually saw the marketing program expire. This lifts the blended tariff. It's not a one-off, it's a step up in revenues. Beyond that, just organic things like the volume of sales for this particular service and volume of sales of other technological services. Summing up, a couple of things that are non-recurring or step-up in income, but that's about it. Everything else is recurring.

Now, continuing with a question on a lower end of the Marketplace marketing option guidance. How should we infer that? Are you planning similar growth in a more efficient way? Or should we assume that part of this spending is now shifted to 2022?

Max Lapin – CFO

With the Marketplace ads, we started running the promotions recently. We know that for this year we have this option to utilize, and so far, we are planning on utilizing it. In our previous calls when I was mentioning this 0-6% impact on cost from the marketing option, I was talking about why we delayed it the first time, then we engaged in Inguru acquisition next time, so we delayed it again, and now we started spending it. That means that in that 0-6 p.p. range for this year, the likelihood is on the left side, not on the right side – it's rather to be closer to 0 than closer to 6. Speaking of 2022, we're developing the marketing campaign for the next year. Last year, when we were budgeting, we budgeted the marketing campaign up to approximately RUB 1 bln size, give or take. It's happening this year, more or less. Next year, I would say that, since the project is growing, the numbers have to be bigger, but I cannot yet vouch for that number because we're in the market testing and the marketing campaign strategizing for the Marketplace next year. But it started to happen. We activated the Marketplace advertising option.

Anton Terentiev – Director of IR

Thank you, Max. There is one more question from Samarth. The third one. Could you provide more colour on the traffic growth at Finuslugi.ru in terms of the products or client regions?

Max Lapin – CFO

For the traffic growth, I would recommend you to use the generally available to the wide public website Similarweb.com. At Similarweb.com, you might type in there two websites, Inguru.ru and Finuslugi.ru, and you will see the publicly available level of traffic. I'd rather suggest you look at those numbers because they show the overall traffic to the platform. In terms of the conversion funnel, what we've been observing this month is that conversion started to happen real fast once we launched the marketing. And I'll repeat what I've mentioned before, we are getting similar conversion in a day or two that we've been having in a month during the early part of the year, so the traffic is growing by order of magnitude. I will not be talking about the number of conversions. We've talked about overall revenues today. I guess we'll be talking about additional revenues in the next earnings call.

Anton Terentiev – Director of IR

I'll just add here that what I see with Finuslugi.ru. The momentum there is building up nicely since we have brought the two platforms together and initiated a marketing campaign, specifically the one with the Credit Bank of Moscow that Max was talking about with the 8% rate. Since then, client onboarding has really accelerated to the order of magnitude, and the deposit inflow has intensified, where we had more than RUB 300 mln of deposit sold in just one day. That's a big thing, and we are on track to see our first billion of roubles in deposits raised through our platform sooner rather than later. We already have 10 banks connected to Finuslugi.ru platform. It's already a decent group of banks with some top-10 leading banks available there. Again, the momentum is building up. We're looking forward to seeing better results from Finuslugi.ru going forward.

This is it on Samarth's questions. Operator, can we double check if we have some follow-ups?

Operator

Certainly. There are no questions at this time.

Anton Terentiev – Director of IR

All right, then we'll just start wrapping it up and come to concluding remarks. Thank you, everyone, for following us and staying with us today and for your good insightful questions. We'll soon be reporting next quarter, so we are looking forward to reconnecting at the end of October. Thanks, everybody.

Max Lapin – CFO

Thank you very much.