MOSCOW EXCHANGE

Q3 2021 IFRS results conference call

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Moscow Exchange Speakers:

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

Participants asking questions:

- Sergey Garamita, Raiffeisen Bank
- Andrey Mikhailov, Sova Capital
- Mikhail Butkov, Goldman Sachs
- Olga Naidenova, Sinara Financial Corporation
- Andrew Keeley, Sber CIB

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Operator

Good day, everyone, and welcome to MOEX's Q3 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 3Q 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 third 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 3Q 2021 and beyond. First, the Exchange continues to add new products. Renaissance Insurance Group, a leading privately-owned Russian insurer, completed an IPO on MOEX, raising nearly RUB 18 bln and becoming the first company in its sector to go public. The Derivatives Market expanded its product geography by launching deliverable futures on the Chinese equities. 11 new ETFs have begun trading on MOEX since the previous earnings call. We now have 114 ETFs available with a total NAV of some RUB 251 bln. 157 global equities were added to the product range, bringing their total number to 361. Next week, we will add another 80, bringing the count to 441 – it's a remarkable progress in global equities since the beginning of the year. It's our goal to keep adding 80 global equities a month or better.

Second, we continue to work on new services. In the global equities segment, we have introduced a number of upgrades and solutions, delivering on the commitments made during the September 15 presentation. I'll discuss these in detail on the next slide. Consumer lending is now fully functional on our financial marketplace Finuslugi.ru. An evening trading session was introduced on the Bond Market. Federal government bonds and Eurobonds now trade from 7:00AM to almost midnight Moscow time. As a result, the Bond Market is open for trading for 13 hours and 40 minutes daily. Moscow Exchange launched the Mortgage-Backed Bond Index, tracking bonds secured by DOM.RF. The index is the first mortgage-backed bond market benchmark in Russia that retail and institutional investors can use to assess market performance and trends.

Third, we continue to develop our client base and partnerships. As of the end of September, the number of retail clients had passed 14.5 mln. But yesterday, we hit 15 mln. More than 6 mln new clients have joined since the beginning of the year. The total number of Individual Investment Accounts exceeds 4.5 mln. 77 corporates – including 17 newcomers – placed 175 bond issues, raising a total of almost a trillion rubles in the third quarter. Just two days ago MOEX acquired a 65.5% stake in OTC FX platform NTPro, bringing the total ownership by MOEX to 95%. We now have a strong footprint in the OTC FX market. Expobank and Rosgosstrakh Bank joined the Finuslugi.ru platform, further broadening the range of available deposits. On the Money Market, we expanded the client base by providing non-government pension funds as well as corporates and banks from the Eurasian Economic Union to access CCP deposits. We intend to acquire a minority stake in Potok, a Russian crowdfunding platform which facilitates SME lending. The partnership will expand MOEX's presence in the SME sector and create new financing options for such companies. MOEX held a ceremony to support Ring the Bell for Financial Literacy, an initiative that brings together global exchanges and demonstrates the responsibility and commitment to educate retail investors.

Slide 3. MOEX strengthens its foreign equities business. Following our September 15 event on development of our global business, we launched several initiatives that were announced during the event. These initiatives will continue improve our footprint in global equities trading.

First, USD order books became available alongside RUB ones. This means investors can now choose foreign currency for global equities' trading in line with their preferences. We know there's demand for both USD and RUB order books. Second, NCC obtained Qualified Derivatives Dealer status, or QDD. This allows fully functional repo operations with global securities. Third, we introduced a convenient service for automated administration of W-8BEN tax forms for retail clients. And last but not least, global equities became eligible collateral on MOEX, providing market participants and their clients with additional flexibility to fund operations and, therefore, the scope to increase trading activity.

Other initiatives scheduled before the year-end include accelerated onboarding and early trading hours of global equities as well as links with global liquidity providers. During the September presentation, we also outlined seven key issues inherent to legacy solutions for global equities trading provided by other Russian venues. Two of those issues have already come into the spotlight, validating our assessment. I'm referencing verified compliance risks that were widely discussed in the press and problems with market data that had to be addressed through legal means. In its turn, MOEX will continue providing state-of-the art solutions and upgrades to this market, helping it to grow and unlock its potential – and capturing 50%+ market share along the way.

Slide 4. 3Q 2021 summary of financials. Operating income improved by 18% YoY. Fee income grew 25% YoY to an all-time high of RUB 10.4 bln on a quarterly basis. Net interest income stood virtually flat YoY, declining a mere 1.9% YoY. The share of F&C income hit a new record of 78%, remaining above the 70% mark for the fifth quarter in a row. This means our financial performance is more driven by F&C income than ever before and hence became more predictable. Operating expenses expanded to nearly RUB 5 bln, staying virtually flat QoQ and increasing by 17% YoY mainly due to growth in G&A expenses, which I'll dissect later in the presentation. The recurring cost-to-income ratio improved by 0.2 p.p YoY and 0.4 p.p QoQ. Adjusted EBITDA grew nearly 18% YoY for a margin just short of 70%. Adjusted net income gained 19% YoY to reach RUB 6.7 bln. Adjusted ROE surpassed the 20% mark for the first time in 5 years, although back in 2016 it was achieved with the 44% to 56% share of fees vs NII in total revenues. This time around, we managed to beat the ROE mark with nearly 80/20 breakdown in favor of fees.

Slide 5 on diversified fee and commission income. Growth of 25% YoY helped achieve all-time high quarterly F&C revenues, outpacing the strategic target despite the elevated base of last year and subsiding levels of volatility. The structure remains well-diversified. The top 3 contributors in absolute terms were the Money Market, Depository & Settlement Services and the Derivatives Market. All these business lines set new record highs. The only market that experienced a downturn was the FX Market, which I will discuss later in the presentation.

Slide 6 on the Money Market. Fee income from the Money Market gained 34% YoY, while trading volumes grew just 17% YoY. The effective fee dynamics were driven by two main factors. First, the expansion of the overall repo terms. Despite recent QoQ normalization of repo terms in line with our prior communication, the YoY growth remains substantial. Second, it's the prominent 94% share of the value-added CCP repo, both single-security and GCC, in the total repo volumes.

Let's look into the recent trends at the Money Market on the next slide. The average on-exchange repo term increased by 14% YoY. Average GCC repo terms extended 35% YoY. Repo terms dynamics are smoothening out compared to the previous two quarters. We would not expect a significant step-up from here in the immediate future. The aggregate position remained elevated during the quarter. Open interest in GCC repos continues to gain share in the overall mix on the back of continuous demand from different client categories.

Depository and Settlement, slide 8. Fees and commissions from Depository and Settlement improved by 30% YoY. The main factor behind this growth was the 34% expansion of average assets on deposit at NSD. The growth occurred across all asset classes but was most pronounced in the government bonds. A slight 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 3Q'21 amid higher demand for repo operations at NSD. The Money Market at NSD remains strong.

Derivatives Market, slide 9. Fee income from the Derivatives Market improved by 36% YoY, while trading volumes gained 16%. The effective fee dynamics are explained by a favorable shift in trading volumes mix towards single-stock and commodity derivatives, which are pricier. These are more profitable products. Trading in commodity contracts nearly doubled YoY, increasing by 92% YoY. The share of options increased by 0.6 p.p YoY coming in at 4.3% in the third quarter. Standardized OTC derivatives trading volumes tripled YoY, as shown in the top right corner of the slide. Despite a nearly twofold decrease QoQ in trading volumes, revenues were still up because of the improvement in average duration of these instruments. Starting from October 1, interest rate derivatives in Russia became obligatorily cleared through the CCP. This adds some future upside to our OTC derivatives segment.

Slide 10. ITSLOFI. The line exhibited a 36% YoY uplift. Listing fees decreased by 7% YoY. Sales of information services stood virtually unchanged YoY, down by a mere 0.7%. Sales of software and technical services were up 33% YoY. On top of organic factors, this growth continues to be driven by proceeds from an ultra-fast ASTS FIFO MFIX protocol. The protocol generated solid demand since its launch in the fourth quarter of 2020. Its users are HFTs, algo and ultra-low latency clients. Other F&C income was up 2.6 times YoY, largely driven by the consolidation of Inguru; the line includes approximately RUB 200 mln on quarterly basis of Inguru revenues. More details on the acquisition are available in our financial statements.

Equities Market, slide 11. Fee income from the Equities Market grew 24% YoY, following a corresponding increase in trading volumes of 25%. Both fees and volumes were supported by strong market performance, with the IMOEX Index posting an all-time high for the fifth quarter in a row. MOEX's market share vs the LSE in trading of dual listed stocks reached 82% YTD. Velocity of trading volumes remains elevated in historical context, despite a 3 p.p decrease YoY. The number of retail investors increased to 14.5 mln by the end of the third quarter. Nowadays it's 15, as of yesterday. The evening session accounted for 7% of 3Q'21 total trading volumes in the Equities Market. Global equities trading accounted for 3.3% of the total in the third quarter with a daily high hitting 8.2%. We observe a continuous onboarding of new brokers to our global equities segment, which indicates upside potential.

FX Market. FX Market fees and trading volumes were down 10% and 12% YoY, respectively. Spot volumes decreased 8% YoY, while swap volumes fell by 14% YoY amid subsiding volatility. But now we have NTPro. Thanks to the NTPro acquisition, we can go more smoothly through volatility cycles. The effective fee dynamics are explained by two main factors. First, it's the higher share of spot trading. And second, it's retail participation in the spot market. USD/RUB spot trading corresponded to 82% share of the overall spot trading volumes during the quarter. The number of active retail clients was up 2.5 times, surpassing the one million mark. Retail volumes represent 12% of the spot market in the third quarter. Corporates' ADTV expanded 2.4 times YoY. Corporates' share in the spot market reached 2.8% in September. Like in the previous quarter, the morning trading session proved its viability as more than 270 banks and brokers together with nearly 400 thousand retail clients traded pre-market. The morning session accounted for 6% of total FX volumes in the third quarter and 10% of the overall spot volumes.

Fixed Income Market on slide 13. Fee income from the Bond Market improved by 10% YoY despite a 9% decrease in trading volumes. Primary market placements excluding overnight bonds fell 34% YoY due to ongoing hikes in RUB interest rates. We expect this market to stabilize when RUB interest rates come to balance. At the same time, higher RUB rates translate into higher NII going forward. Secondary market trading volumes gained 33% YoY, where the leading contributor was trading in government and CBR bonds, up 44% YoY. The negative YoY volume effect during the quarter was mitigated by a higher share of corporate bond placements on the primary market.

Interest and finance income in 3Q'21. Net interest and finance income decreased by 2% YoY while Core NII stood flat. The value of our investment portfolio increased by 7% YoY and the effective yield narrowed by 0.2 p.p YoY. The currency mix of client funds shifted in favor of USDs. As for the composition of the investment portfolio, FX deposits and current accounts remained the largest constituents, while smaller shares of RUB deposits and RUB securities remain major income generators. I should remind you that it takes more than a year for the positive effect of rising RUB interest rates to fully feed into P&L given that the majority of the RUB portfolio is classified via other comprehensive income (through FVTOCI). It's been half a year since the CBR began monetary tightening, so one might reasonably expect a quarterly NII acceleration starting next year.

On the previous quarterly call, we communicated the vision for 3Q'21 Core NII in the range of RUB 3.0+ bln had client balances stayed resilient. However, they did not. We observed an approximately RUB 18 bln decline in client balances QoQ, which is a seasonal move that happened before. This missing amount would have been invested in money market instruments that soak in new rates almost instantly. But this wasn't the case. Therefore, we are now standing at Core NII of RUB 2.9 bln in 3Q'21 and will probably see it in the range of RUB 2.9–3.1 bln in Core NII in 4Q'21 – again, depending on client balances. However, we see that higher RUB interest rates are starting to feed into the NII. By the end of the year, Core NII run-rate might approach RUB 3.3 bln. One should not expect any meaningful portfolio revaluation on the P&L amid rising interest rates.

Operating expenses. Operating expenses in 3Q'21 increased by 17% YoY, driven mainly by administrative expenses. Non-organic contribution from Inguru consolidation was 4.0 p.p. The total contribution from

Marketplace including Inguru was 7.0 p.p. Therefore, core business OPEX together with associated projects added approximately 10% YoY. Positive fee-level operating jaws remain in place for 9M 2021 and we expect this effect to stay through the end of 2021.

Personnel expenses grew 8.5% YoY, of which 7.1 p.p come from headcount growth, which brought us up to 2,146 employees. On a QoQ basis, personnel expenses declined by 2.6%. D&A costs increased by 8% YoY due to higher CAPEX spending last year. Together with equipment and intangibles' maintenance, the line added 12%. Remaining admin expenses grew 49% YoY. 2/3 of this growth came from two business lines – professional services and information services. 3/4 of professional services growth are linked to the Marketplace project and Inguru consolidation, while only 1/4 is attributable to the core business. The increase in information services costs is rather technical. It's linked to the Derivatives Market and is fed into Derivatives Market revenues. Therefore, I would consider those costs as reimbursable from the clients.

We update and narrow down our FY21 OPEX guidance range to 18.0–21.0%. 6 p.p. are business as usual; 7–8 p.p. stem from a family of development projects. 2–3 p.p. are attributed to the Marketplace marketing option and another 3–4 p.p. are non-organic factors coming from the M&A activity. CAPEX for the quarter amounted to RUB 1.1 bln and was spent on purchases of equipment and software development. CAPEX since the beginning of the year amounted to RUB 2.2 bln. We also update our FY21 CAPEX guidance range to RUB 3.0–3.7 bln.

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

Operator

Thank you. The first question comes from Sergey Garamita of Raiffeisen Bank. Please, ask your question.

Sergey Garamita – Raiffeisen Bank

Thank you for the presentation. Just one clarification question on NII. Do I get it clear that basically you expect RUB 3.1 bln only, like, next quarter and RUB 3.3 bln by the end of next year, or do you revise it by the end of this year? I didn't quite get it, so do expect RUB 2.9-3.1 bln in NII just for two quarters and then it goes to RUB 3.3 bln? Doesn't it seem too conservative considering the recent spikes in interest rates, including USD interest rate? Thank you very much.

Max Lapin – CFO

A wonderful question. I would be looking into probably RUB 3.1 bln for the next quarter, and then starting at the beginning of next year a run-rate of around RUB 3.3 bln. The catch is that had the client balances remained flat, we would have had that number to the tune of several hundred million rubles higher, so it's the function of client balances as well.

In terms of interest rates, what we observe internally is that effective yields on RUB portfolio in 3Q 2021 are better than 2020. Therefore, we passed the inflection point in terms of effective yields, they start to seep into the portfolio. The fastest seep happens in the money market instruments, but when portfolio client balances decline, that's the missing part. Because usually the short leg of client balances portfolio is investable in the money market instruments. Once they are back and we expect the client balances to be actually back in the fourth quarter as it happens usually, the interest rates will start visibly to seep in to the portfolio. That's speaking of RUB interest rates.

In terms of dollars, the effective yields from the dollar portfolio are still below the last-year benchmarks. 3Q 2021 vs 3Q 2020, the dollar yields are a lot to be desired.

Anton, any clarification on top of that?

Anton Terentiev – Director of IR

Just presenting it from a different angle of view, this range RUB 2.9–3.1 bln that we have announced is based on flat client balances versus 3Q. If client balances stay where they were in 3Q, then we'll get RUB 2.9-3.1 bln. However, it might be different, and you know that in 4Q we sometimes have elevated market activity and balances might recover. If that happens, then the result will be higher.

Again, just like Max has said during his speech, we had this 18 bln reduction in RUB client balances QoQ in 3Q versus 2Q. This money would have been invested in those money market instruments that soak in new rates almost instantly. That's why you don't see much of an effect, because we lost the money that would have shown you performance on the raise. If this amount gets back then we'll see new raise generating our income.

Sergey Garamita – Raiffeisen Bank

Understood. I just wanted to clarify if you forecast any rise in client balances or not.

And also on CapEx. I just wanted to clarify, you said now the range is RUB 3-3.7 bln. But it's just a couple of months till the end of this year. Doesn't this range still seem quite wide or do you expect some of the CapEx going to 1Q'22? That's my second question.

Max Lapin – CFO

It is a fair question, is it too wide or is it not. Usually what it happens in the fourth quarter is that we have a lot of CapEx rolling in by the end of the year. If it rolls in by December 31, then it will be RUB 3.7 bln. If some of that CapEx gets delivered, let's say, in the first couple of weeks of January, then it is closer to RUB 3.0 bln. It's a fair question, but I cannot basically narrow down the range as of now.

Anton Terentiev – Director of IR

Yes, Sergey. It's just a matter of bookings falling into late days of December or early days of January. That's what we cannot predict.

Sergey Garamita – Raiffeisen Bank

Okay, thank you. And just a quick one more global question. Do you expect any significant negative effects on your trading from the current increase in interest rates? Your net NII is lagging by one year or two years behind the interest rate hikes. How long do you think it will take trading to reflect the current hike in yields? Do you expect any short-term negative effects, or do you expect your inclusion of global equities and extension of trading hours to just mitigate everything? Thank you.

Anton Terentiev – Director of IR

Ok, Sergey. I'll just give you a context. The majority of our portfolio will rebalance within a year. More than half of the portfolio will see new rates within a one-year timeframe. That's just the maturity schedule of our bond portfolio. You are probably asking a question whether our trading markets will perform differently because of the new rates? Is that true?

Sergey Garamita – Raiffeisen Bank

Yes, exactly.

Anton Terentiev – Director of IR

Ok. I can just say that so far, we are not seeing much of an effect, apart from fixed income market. Fixed income market cannot perform when rates are on a perennial move. We want to see those rates stabilize before primary market will again produce some performance. That is probably the market most affected by this changing interest rate environment. Equities market is thus far broadly unaffected. We do see a bit of decrease in market activity as measured by the turnover. But it's only a minor decrease.

These higher interest rates will at some point feed into higher discount rate. So, we'll see what happens there. But at the moment, we only see effect on our fixed income market.

Max Lapin – CFO

Precisely and this message is consistent with what we've been mentioning before. Fixed income market have been showing, let's say, relatively flat, or slightly negative performance because of the movements in the interest rates, and that is the only visible impact that we see on our business. No visible impact on the money market and the equity market. It's hard to discern, because the IMOEX is on the rise, the velocity is relatively stable. And in the money market, the open interest position is growing, and the duration of repos is getting longer. So, there is no obvious impact except for the fixed income market.

Sergey Garamita – Raiffeisen Bank

Ok, thank you very much. That's all from my side.

Anton Terentiev – Director of IR

Thank you, Sergey. While we're waiting for some more questions over the phone line, I'll just read out loud one question that we have from the webcasting interface.

Andrey Mikhailov is asking: "First, thank you very much for the call. Could you please share the amount of commissions and deposit turnover generated by the deposit segment of Finuslugi in 3Q'21, 9M'21, as well as their evolution in October and expectations going forward. Many thanks."

Unfortunately, we have to revert back to the statement that we delivered and have been actually delivering since late January this year. We're not yet ready to provide you details on Finuslugi's performance because of a very competitive environment. You see that every day there are some new marketplaces seeking license. Therefore, we are not comfortable providing this information. I can just say that results of Inguru, which specializes in insurance products, are disclosed in our financial statements. They represent, let's say, vast majority of the combined result of our Marketplace business. This is all I can tell you at the moment.

While we're waiting for maybe a few more questions, I'll just read Mikhail Butkov's question on 4Q fixed income: "Usually, 4Q is the strongest on the fixed income market. Is there anything that we can provide as expectations for this year?"

We discussed this with my colleagues when preparing for the call. Basically, we do expect this strong 4Q seasonality to repeat itself. Although in nominal terms, it might not be to the tune of last year, because last year was truly extraordinary. 4Q'20 on the fixed income market was beyond our expectations. It was super strong, because the rates were very low and activity was very high. This time around, rates aren't that low and we expect them to stabilize because they keep increasing and that somewhat repels borrowers. And more importantly, it repels buyers, because buyers are reluctant to invest their money when rates are on a continuous rise. So, we'll see, but seasonality is there, but magnitude might not be that substantial.

Next question is coming through our webcasting interface, from Olga Naidenova of Sinara. Olga is asking about the net cash position. Actually, this is in our press release. I'll just open it up for you. From my memory, it's RUB 88 bln. Let's check if I'm correct... Indeed, RUB 88 bln. It's one of the last bullet points of the press release, we always put that figure in there.

Another question from Mikhail: "What do you expect from other securities income, i.e. income from placements and other. Can it beat last year?"

We can't really provide much of an insight here. That is not a big line, and if I remember correctly, other securities income line mostly represents listing, and listing is more than 50% maintenance or at least 50% maintenance. So, it should not change too much, or at least historical result for that particular line wasn't much of a change on a quarterly basis.

Operator

Thank you. Our next question comes from Andrew Keeley at Sberbank. Please go ahead, sir, your line is open.

Andrew Keeley – Sber CIB

Hi. Thank you. I'm sorry, I missed the start of the call, so you may have talked about it. In the press release you mentioned that you are intending to buy a minority stake in the crowdfunding platform, Potok, before the end of the year? Could you just tell us a little bit about what's the thinking is there? What kind of size, what the plans are? That would be helpful. Thank you.

Max Lapin – CFO

It's a relatively minor acquisition. It's got to be a little bit smaller than either Inguru or NTPro. We think to acquire the Potok platform for SME lending and then snap it on to the Finuslugi proposal. It's within the mandate, within strategy that we'd like to grow beyond the exchange. So, Potok is about that. We will disclose more data once the deal goes through. So far, I would not mention specific things, but I would mention that it's a relatively smaller deal compared to Inguru and NTPro.

Andrew Keeley – Sber CIB

Ok, thank you, Max.

Anton Terentiev – Director of IR

I think now we can just move on to some concluding remarks. Thank you, everyone, for asking your questions. We didn't have too much today, but these were all good ones. Next time, we'll hear each other at full-year results. Thank you for following us. We are looking forward to reconnect next year.