Moscow Exchange

MOEX Q1 2015 IFRS RESULTS

Conference call and webcast

Event Date: 14 May 2015

SUMMARY: Strong earnings growth was driven by fees and commissions generated by Money Market and Depository and Settlement Services, as well as higher net interest income.

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SERGEY KLINKOV – ***Director of Investor Relations, Moscow Exchange***

Good afternoon, everyone, and welcome to the Moscow Exchange Q1 2015 IFRS results conference call. This is Sergey Klinkov, Head of IR, and I am joined today by MOEX CEO Alexander Afanasiev and CFO Evgeny Fetisov.

As usual, we will walk you through the earnings presentation posted on our website and today we will also present the key pillars of our new strategy, after which we will move on to the Q&A session. Before we get started, I would like to remind you that certain statements in this presentation, including the Q&A session, may relate to future events and expectations and as such constitute forward-looking statements. Actual results may differ materially from those projections. The company does not intend to update these statements to reflect the events occurring after the date of the call, prior to the next conference call.

By now you all should have received our press release containing the Q1 results and the presentation can be found in the IR section of our website. I will now hand the call over to Alexander Afanasiev, Chief Executive Officer of the Exchange. Alexander, over to you.

ALEXANDER AFANASIEV – ***CEO, Moscow Exchange***

Thank you. Ladies and gentlemen, let us start our session again. Let me shortly initially explain a bit about the main developments in Q1. Then I will pass the floor to the CFO of the company Evgeny Fetisov to explain a bit more regarding IFRS results and then – because I have got an impression that there are still expectations of a bit more precise explanation of the strategy by investors and by analysts – then I will do it also here again despite having published our strategy and discussing it already in some sessions with the Supervisory Board and with investors during our webinar. We discussed it with journalists, with mass media. We have presented it already to market participants, but we will do it repeatedly and I will provide you an opportunity to ask your questions.

Firstly, on page 2 of our presentation, we demonstrate some of the key results of Q1. Well, to me quite important was the annual General Shareholders Meeting because of some of the decisions like the dividends payment and the amount of dividends, which was decided in the amount of RUB 3.87 per share or 55.12%, which is again above the promised level of the dividend payments in our dividend policy of 50%. Compared to some other Russian companies especially from the financial sector it looks from my point of view pretty interesting for investors.

The second important decision was the election of the Supervisory Board. I would like to point your attention to the fact that next year we will have five independent directors. It was also our plan to have one third of the Supervisory Board as independent directors. One more important and interesting decision was that starting from the next year the shareholders decided to make the next step to decrease a bit the number of Supervisory Board members to make it more workable.

After getting the status of a public company some years ago we started with 19, because after the merger of two companies all the supervisory boards merged together that was over all the practical levels of course. Then gradually the shareholders decided to decrease the number of the Board members. Another decision, not unimportant at least to me, was the election of the CEO or re-election of me as the Chairman of the Executive Board.

The Supervisory Board approved our strategy. This strategy is our view for 2020. We will discuss it in more detail. We have had some new listings in the Equities Market recently. First was Magnit with a very successful SPO. There was also RUSAL.

Then there was United Wagon Company's IPO - the first IPO after many, many months. We are quite happy about it.

The expansion of international presence continued. We started offering network connectivity to financial centres globally using TMX Atrium infrastructure. It is a very good tool. FTSE, as you may know, began using MOEX closing auction prices for listed Russian securities. We have done some fine-tuning to our product offering. This fine-tuning was connected to the execution of options. Now this is done automatically and fully automatically. We extended also our product offering in derivatives by Chinese Renminbi – Russian Rouble and some other pairs of currencies, which are very interesting for our customers.

The annual MOEX forum was also held recently. Maybe some of you participated in the event. I liked the event very much because the level of the event is increasing year for year.

On the next page I would like to show you where we are compared with international exchanges from the developed markets and emerging markets. In terms of equities, it was not an ideal Q1 for the exchanges in general. In the first two months, January and February, we have had surplus to year ago by approximately 19%, but March of the previous year, because of some political events, was very, very volatile in Russia, as you know. That is why we are a bit behind the level of Q1 from the previous year. However, April already looks better. As for bonds, it was a bad quarter for almost all exchanges in the world. Moscow Exchange unfortunately is also not an exception to that trend. However, in April and May we already see good developments in the secondary and in the primary market in fixed income. In terms of derivatives, we are a bit better than average both in the core markets and emerging markets. Now let me hand it over to the CFO of the company Evgeny Fetisov.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thank you, Alexander. We will continue with the financial results on page 3. Operating income in Q1 increased by 82% YoY to RUB 11.5 bn, thanks to both fee and commission income and interest income growth. OPEX grew, but slower than inflation, by 11.9% YoY to RUB 2.9 bn. As a result, net profit increased to RUB 7.2 bn up 127% YoY. EPS grew up 124% to RUB 3.25 from RUB 1.45 a year ago. EBITDA increased 116% YoY to RUB 9.41 bn, while our EBITDA margin reached a new record-high of 79.3% versus 66.9% in Q1 2014. So as you can see our financial performance remained remarkably strong in Q1.

Let's turn to slide 4. MOEX diversified business model delivered once again, showing 8% YoY fee and commission growth. The largest contributors to the fee and commission income remained FX Market – 23%, Depository and Settlement services – 22% and Money Market – 21%. Money Market was the fastest growing segment in terms of fees and commissions with the growth of 39% YoY.

Despite the high base effect of last year the FX market showed fees and commission growth of 8%. Depository and Settlement services grew by 12% while the Fixed Income Market demonstrated a 3% growth YoY. The Equities Market declined by 5% YoY amid lower volatility while Derivatives Market fees contracted by 43% YoY due to the shift in the product mix and accounting for long-term instruments on accrual basis.

All in all, our model showed its resilience again as softer fees from equities and derivatives markets were more than offset by strong performance in Money Market, FX Market and Depository and Settlement services. I will now walk you through some of the highlights of each of the markets.

Equities Market: In Q1 2015 trading volumes on the Equities Market declined by 9% YoY amid lower velocity – 36% versus 35% last year – and high base effect of March 2014. Fee and commission income decreased 5% YoY to RUB 430 m. MOEX average market share versus LSE remained about 50% in Q1 and we continue to see the growing interest of non-residents to trading Russian local shares. In Q1 2015 net inflow of non-residents amounted to RUB 26.3 bn versus a RUB 17.2 bn outflow in Q1 2014.

Let's move on to slide 6 – Fixed Income Market. Fixed Income Market trading level declined by 21% YoY due to continued muted market activity amid higher interest rates and lower risk appetite among market participants mostly at the beginning of Q1. Throughout the quarter, we started to see changes in the market sentiment and recovery of primary placements, which led to a 3% YoY growth of fees and commissions. In Q1 2015, primary corporate bond placements amounted to RUB 545 bn versus RUB 182 bn in Q1 2014.

Please turn to slide 7. Demand for derivative products shifted towards FX derivatives, which comprised 54% of total trading balance in Q1 2015 compared to 49% in Q1 2014. Trading balance declined 8% in contract terms YoY and grew 18% YoY in rouble terms mainly due to the rouble depreciation, which led to higher notional amount of contracts on currency pairs. This led to lower effective fees as they are charged on a "per contract" basis. Fees and commission in this segment decreased 43% YoY. However, due to the growth of long-term instruments trading across all MOEX markets in Q1 2015 commission income is deferred over the life period of such instruments. Without this change RUB 52 m would have been accounted for in Q1 and fees and commissions would have declined by 31%.

On to Money Market on Slide 8. The volume of REPO transactions remained almost flat, up 1% YoY. However an increase of average REPO maturity from 3.9 days in Q1 2014 to 12.5 days in Q1 2015 as well as a growing share of REPO with CCP led to a 39% YoY fees and commission growth. REPO with CCP remained one of the most rapidly growing products up to 2.6x and comprised 16% of total REPO volumes. As a result money market fees and commission grew by 39% in Q1. Please note that following the increase of long-term REPOs since Q1 of this year commission income is deferred over the life of such instruments, which means that fees for one year REPO will be recognised over the year.

FX Market. In Q1 FX Market trading volumes grew 4% YoY. Spot trading volumes grew 9% YoY to RUB 20.8 trln while swap trading volumes remained flat. The FX spot market comprised 36% to total FX Market trading volumes, which resulted in an 8% fee and commission income growth compared to the last year. Also I am pleased to draw your attention to the Chinese yuan – Russian rouble currency pair trading volumes, which continued to perform well and reached RUB 110 bn in Q1 2015.

Off to the Sepository and Settlement services. Assets under the custody at NSD increased 28% in Q1. Fees and commission growth of 12% YoY was driven by an increase in assets under custody, market capitalisation growth and admission of DRs and Eurobonds as collateral for REPO as well as on-exchange Eurobond trading. In Q1, a leading global rating agency for depositories *Thomas Murray* confirmed the rating of NSD at AA- with a stable outlook. NSD continued to develop its product portfolio and launched new services. In Q1 the number of clients linked to the collateral management services reached 216 versus 174 as of the end of the last year. While a new service of REPO transactions with the collateral management system for the Federal Treasury was launched in Q1. Also we moved forward with the corporate actions reform. In Q1, 172 shareholder meetings were held using the e-proxy voting technology that allowed electronic voting.

Other fee and commission income. In Q1, other fee and commission income grew by 46% YoY mainly due to listing fees and information services. Listing fees grew from RUB 35.4 m to RUB 86.4 m and comprised 22% of other fee and commission income. They were driven by both new placements and the new pricing structure following the completion of the listing reform. Fees from the sales of software and technical services were flat at RUB 127 m. Information services fee grew by 68% YoY driven by the new contracts – 36 in this quarter – and price increases for the market data. Rouble depreciation also contributed to higher revenue from the sales of information as we have some contracts, which are FX denominated.

Investment portfolio. The investment portfolio grew 203% YoY in Q1 to RUB 1.3 trln driven mostly by the growth of client balances. Non-rouble client balances comprised 85% of total. Rouble rates remained high during most of the quarter. As a result the blended effective yield grew to 2.4% from 2.1% in Q4. While interest income nearly doubled QoQ up to RUB 8.1 bn. Going forward, we expect the normalisation of the share of interest income in total revenues. April numbers is a good illustration with RUB-YUAN balances declining to RUB 142 bn – the lowest numbers since October 2014.

Operating expenses. Slide 16. In Q1 2015 MOEX continued to demonstrate cost discipline as one of the priorities for the management. Personnel cost remained under control and grew just 9.1% contributing to 51% of total costs. Total OPEX grew 11.9% YoY. The growth was primarily driven by higher administrative and other operating expenses caused by one of factors such as accrued provisions of RUB 133 m for anticipated payment related to the rental contract of one of the MOEX locations. MOEX has preliminary agreed to the one-off payment in exchange for significant reduction in the rental rate. Another expense item was RUB 103 m impaired due from the financial institutions in Ukraine. That was PFTS's deposit with Ukrainian Delta Bank that was considered insolvent in March. So at this point we have now completed our regular earnings presentation. And now I will pass the word to Alexander who will walk you through the key points of MOEX's new strategy. Over to you.

ALEXANDER AFANASIEV – *CEO, Moscow Exchange*

Thank you. I would rather call it an updated strategy because the previous strategy, which was prepared and finalised at the end of the year so that almost all initiatives were already implemented. Now we also see some new challenges and so an update according to our understanding is really needed to motivate the staff and management of the company.

But at the same time despite some new challenges we do not expect any very crevolutionary changes in the updated strategy. I would say it is following the previous one.

First of all what was already finalised. You remember that in the previous strategy, the target for the management of the company was to establish the central securities depository, to establish the CCP function, full-fledged across all the markets, to finalise implementation of the T+ settlement cycle, establishing DMA across all the products to make the Russian securities Euroclearble and Clearstreamable. Some critical regulatory reforms should be in place and almost all of these initiatives are already implemented and finalised. It does not mean that we have fulfilled all the targets. However, this was already done.

Now the Moscow Exchange Supervisory Board has approved the updated Group strategy – that is our vision for 2020. The vision is, as I would say "Why we do exist in this world and how we would like to implement our goals and our visions". The vision – you can read it on page 15 – is to become the global financial centre for capital formation, price discovery, settlement, risk capital management, across all types of Russian financial assets and to develop the efficient and transparent financial infrastructure offering diversified, competitive and integrated services. That means that we think that trading is getting more and more global. And we would like to be part of this global trading, settlement, clearing, and depository system.

However, we see a stronger localisation of listing, localisation of regulations and we would like to establish a very strong infrastructure centre initially for trading and settling the Russian assets or assets of Russian origin. That is why our mission is to support economic growth and the restructuring of the local economy by extending capital raising opportunities for issuers and facilitating a client-friendly, safe and transparent environment for both local and international customers.

How we would like to achieve these goals? Page 16 – diversification – is the first of our five pillars. Diversification is the key element already of the existing strategy. You know, of course, that we are offering a number of asset classes which are absolutely unique. This is a proven business model of the Moscow Exchange, and we would also like to keep this advantage of being widely diversified; we would not only like to keep it, but we also have an intention to expand to new markets.

Diversification is actually about the markets. So we would like to enter actively the commodities market, the OTC derivatives clearing, and also the OTC securities market by establishing and further enhancing tri-party services. Also, we would like to develop classical services, which are typical for the so-called "old" exchanges. We are a relatively new exchange, and such classical services are in our case sometimes a bit underdeveloped, so we receive a share of our revenue that is not satisfactory for us, despite the markets are there for that product line. I'm talking about market data, indices and benchmarks and technical services. And also we would like to introduce some products to provide synergy for other products by bringing more quality to the products, by making trading, clearing, settlement with Moscow Exchange more comfortable for the market participants. It is about the corporate information centre – one source for all corporate information in Russia; the valuation centre, very important especially for the Russian companies, for instance, for taxation purposes; repository, and maybe consolidated tape in the future. So these are the key initiatives, and how we would like to further diversify our activities.

The second pillar among the five on page 17 is market penetration. That is about clients. We have already made some changes, listening very carefully to the customers from international global markets, which are very well acquainted with many emerging markets, they are highly professional specialists in that regard, so they can define their requirements very precisely.

The Russian local demand shall be woken up, so to say, we shall establish such a demand. Why? Because our market share, as you can see, in different markets, especially in the local market, is now higher than ever in the past having recovered in almost all asset classes with a lot of the local flows. Now we can grow only together with the market development, together with our new customers, new clients, which, we think, shall be the Russian retail customers and Russian funds of collective investments, first of all.

And here we see a lot of potential. Maybe it is the biggest potential among all the emerging markets in the world. That way we would like to develop a new demand. We believe that it is a good time because of the not increasing, let me put it that way, not increasing share of the international flows in Russia. So that is why many market participants, regulators and so on do understand the need of enhancement of the local demand very well. And the potential is really huge, so you know the diagrams, which we also publish quite often – we show the penetration of the financial market in Russia – it is really pretty low. Our key initiatives in that regard are increasing financial literacy of local investors, marketing programmes, development of the public fixed income market, attracting new listings, because the more products, the more names we have, the more interesting it might be for some of the customers; and also the products, which are driven by the local investors demand.

Page 18. The next pillar is sophistication. Sophistication is about products in terms of competition. We should naturally follow our unique diversification by providing unique quality of services. We are of course competitive in each particular product, matching some particular products, like risk management, clearing and settlement. But we might be really uniquely competitive when we offer some sort of a set of products, a set of products meaning a set of different functionalities, covering particular markets. That will be absolutely unique, and such uniqueness shall follow our unique diversification.

It is about quality of the products and the long-term competitive position. We started in early 2013 or end of 2012 these fragmented functionalities, processes, and offering different types of products like access, trading, risk management, collateral management, settlement, clearing. Our target is by 2017 to make a lot of functionalities unified especially in electronic access to trading processes in risk management and in collateral management, and in clearing, of course, it is netting. We are talking about a unified clearing and settlement pool, single collateral pool and new collateral management services, and unification of the risk management principles across all the asset classes we are trading.

The next page, pillar 4, is standartisation. Standartisation means we shall adhere to the requirements of the global market participants. Global market participants are trying not just to establish, but also to unify some of the key requirements. The Moscow Exchange has made a lot in that respect, and this pillar is about international flow. With regards to international flow we have already launched the central depository, NCC qualified as a central counterparty (CCP), established a repository, changed the trading mechanism to T+2, and so on. But the requirements from the global world are also changing from time to time. So now we see the need to get the recognition by ESMA and CFTC to adhere to the EMIR requirements. This is one side.

Another side is that we shall continue to make trading in Moscow as comfortable as in other locations by simplification of access for international investors, optimisation of documentary and technical interface by increasing the standards of the corporate governance. A lot has been already done in that respect, but it is really not enough. So, this is our target to attract more international flow.

And the last, but not the least, is optimisation. Optimisation is about efficiency which has, I would say, two main directions. It is financial efficiency and managerial efficiency. Having such a good plan, we should have a very good control of our cost, of our headcount, of our efficiency, of our functions, of our processes. And the key element here should be the new IT platform, because a unified IT platform is the base for optimisation of processes. On the other hand, in terms of managerial efficiency, there is corporate culture enhancement and client services enhancement.

So, these are the five pillars. Again, a lot was done according to the previous targets set up in the previous strategy, we have gone public, we have a very strong market share, we started a wave of repatriation of flows and placements to Russia, and now we have a proven business model which is based on the very wide diversification of our product offerings. Now we would like to enhance it by the five pillars: further diversification, penetration of the local markets, higher sophistication of our products, better standartisation according to the international requirements, and a strongly optimised structure of the company.

SERGEY KLINKOV *– Director of Investor Relations, Moscow Exchange*

So, at this point we have completed our initial remarks and are ready to take questions. Nina, please go ahead with questions.

Operator: Thank you. As a reminder, if you wish to ask a question, please, press "*1" on your telephone and wait for your name to be announced. If you wish to cancel your request, please, press the "#" key. Your first question comes from the line of Jason Hurwiz. Please, ask your question.

JASON HURWITZ *– Analyst, VTB Capital*

Good afternoon. I was wondering if you could give us a little bit of an update regarding your OPEX plan this year, given that the rouble has depreciated significantly since our last call, and perhaps that would have impacted your expectations for some of the FX-related spending. Also, relating to dividends, if you could outline under what scenarios it might be possible for you to have an interim dividend for, let us say, the end of this year, given the reduction in risk-weighted assets, that, maybe, has already begun and could go further by the end of the year? Under what scenarios might you consider a payout? Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*

Thank you, Jason, this is Evgeny Fetisov, I will take your question. On OPEX, we are currently looking for about 20% growth y-o-y, given the changes in the FX rate, so this is what we are seeing. So, about, say, 13% on the personnel side and about 26% on admin and other. We may also touch on our CAPEX plan. At this point in time we do not have great visibility, but we expect that given the FX rate decline, we would see about RUB 700–800 m less on the CAPEX side as well. So, that is the OPEX and CAPEX outlook.

As for the interim dividends, we have stated before that our overall approach is that the Company pays back any extra cash that it does not need for CAPEX plans or for capitalisation of the clearing house. So, we do not expect to have any major news before the second half of this year in relation to the NCC's capital. I think we would be looking to the dividends payments, as usual, at the beginning of the next year. We have also spoken to a number of investors, and so far the indication is for one payment during the year, I mean, the indication for support is one payment a year.

JASON HURWITZ *– Analyst, VTB Capital*

Just for a little bit of clarification on the CAPEX side. So, you are saying it is about RUB 700 m less than you had previously said, which was RUB 3.8 bn, if I recall correctly.

EVGENY FETISOV *– CFO, Moscow Exchange*
That is correct, yes.

JASON HURWITZ *– Analyst, VTB Capital*

OK, very good, thank you.

Operator: Thank you for your question. Your next question comes from the line of Alexander Kantarovich. Please, ask your question.

ALEXANDER KANTAROVICH *– Analyst, J.P. Morgan*

Thank you. This is Alex Kantarovich from J.P. Morgan. Just a follow-up, if I heard you correctly. Is it possible that you would consider an interim dividend?

EVGENY FETISOV *– CFO, Moscow Exchange*
Alex, what I have said is that it looks like we will be paying the next dividend next year, given that we do not expect major changes regarding NCC's capital before the second half of the year. So, we will have more clarity on the NCC's capital requirements, I would say, in the second half, and then there will be a decision on what to do with, say, extra capital if there is any.

ALEXANDER KANTAROVICH *– Analyst, J.P. Morgan*

OK, thanks for that. And on the overall dividend policy given that you had a very well defined flow for the payout ratios for the three years and in 2014. Given a bit of uncertainty regarding interest income, which is now 60% of revenue, and this creates some uncertainty for the bottom line, sticking to a fixed payout would perhaps result in a volatile dividend outlook. So, my question is if you would consider a new payout target or, let us say, some sort of a dividend schedule going forward.

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*
OK, this is Alexander Afanasiev speaking. Actually, the Supervisory Board will define the new dividend strategy later on this year, and of course they will also consider a uniquely high part of the interest result which we achieved in the first quarter.

However, as we have talked already about a lot, our business model is based on the diversification of products mostly focused on the fee and commission income. So, it is great that we achieved such a good result in the first quarter, for us it is important to be safe in terms of the results of the first half of the year and so on. However, that will be a special decision of the Supervisory Board in terms of the three (or more) years' dividend strategy. Frankly speaking, I do not have any reason to think that the dividend payout ratio shall be decreased.

ALEXANDER KANTAROVICH *– Analyst, J.P. Morgan*

Right, that is great. But would you perhaps prioritise steady or rising dividend, or is this a function of payout as a ratio?

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*

That will be decided by the Supervisory Board, and we cannot talk about it, because it is not our decision. However, we have demonstrated that it was a good policy in the previous three years, showing some increase in percentage, so, now the minimal rate is 50%; for the Russian financial sector; it is a very high rate of the dividend level, which is promised by the Supervisory Board. So, this will be a point of discussion.

ALEXANDER KANTAROVICH *– Analyst, J.P. Morgan*

Thank you. And switching back to financials, how do you see the balances of the market participants progressing through the year, given that we are late in Q2?

EVGENY FETISOV *– CFO, Moscow Exchange*

This is Evgeny Fetisov. You probably saw the April numbers, where the average rouble balances went down to RUB 142 bn. We are currently close to RUB 120 m but this again might be seasonal. So, we think we are getting back to normal on the rouble side, and we are currently seeing higher balances in euros, which has just touched 6 bn in April. So, there is not much visibility there, and again, this is something which is mostly driven by our clients, this is excess cash on the books.

ALEXANDER KANTAROVICH *– Analyst, J.P. Morgan*

OK, thank you, no further questions.

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

ANDREW KEELEY *– Analyst, Sberbank CIB*

Hi, good afternoon. Just a question on strategy. Thank you for the presentation, it was very helpful. I am wondering whether you have any financial targets for the next five years that you can share with us. I am aware that this is very much about, you know, it is a function of trading volumes and growth in markets, and interest rates etc., but I am just wondering whether that was part of your strategic review, whether there is any financial targets in terms of things like EBITDA margin, cost ratios, revenue split etc. that you came up with as part of this strategy. Thank you.

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*

Thank you. Of course, we have many assumptions. Frankly speaking, it is sometimes easier to share the assumptions for five or ten years than for the next year. However, we really have calculated and made many assumptions – it is Alexander Afanasyev speaking.

We expect some of the asset classes volumes to rise by 2–2.5x within five years, as well as revenues. It is about equities and, of course, it is about dividends. To a lesser extent, it is about fixed income and FX revenues also. We expect the Money Market revenues to increase within five years by approximately 1.5x because of the possibly better liquidity situation in the market. At the same level, we also expect an increase in depository fees and commissions. The other non-trading commissions, like for commodities, data and technology services shall rise by 3x and more. In terms of interest income, we expect to come to the better structure between the fee income and interest income, which is today, as you have mentioned, 40–60. We expect it to do in a different way, by 65–70 to 30–35. These are our main assumptions based on our calculations, projects, customers demand, and new sources of income.

ANDREW KEELEY *– Analyst, Sberbank CIB*

Thank you, Alexander. Just a couple of follow-ups: the growth that you were giving, such as 2–2.5x, that is relative to year-end 2014 levels, is that correct?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes.

ANDREW KEELEY *– Analyst, Sberbank CIB*

Right, OK.

EVGENY FETISOV *– CFO, Moscow Exchange*
Let us say, 2020 compared with 2014.

ANDREW KEELEY *– Analyst, Sberbank CIB*

OK, thank you. Just on the interest and fee income breakdown: did you say 65–70, 30–35? Was that right? Fee is 65–70, is that right?

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*
Yes, exactly. Fee and commission income shall increase – their share, I mean – up to 65–70%, and interest income shall decrease to 30–35%. That is our target.

ANDREW KEELEY *– Analyst, Sberbank CIB*

Great, thank you. And maybe a question for Evgeny: on your OPEX guidance – I am not sure I quote it correctly – but I think you said you were guiding 20% growth this year, 13% on staff and 26% on admin. We have had obviously under 10% on staff cost growth in Q1 and if you account for one-off very low double-digit in terms of other and admin expenses... I am just wondering whether this guidance seems to be slightly on the conservative side or do you actually think this is going to be some notable kind of pick-up in costs over the next few quarters? Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you, Andrew. We are exactly trying to be slightly more on the conservative side, but this is what we have seen in our projections as of now. We will definitely try to get to the better numbers, but I would rather stick to 20% at this point of time.

ANDREW KEELEY *– Analyst, Sberbank CIB*

OK. Just a final question: you had a very good quarter in terms of foreign exchange swap income, which I think was something like 900 m. Can you explain exactly how this has been derived? We do not have a full currency breakdown of the balance sheet, and the rouble was obviously up and down in the quarter, but pretty much flat in the quarter, and I am just wondering whether you can give us any sense of how we should see the run rate for this line over the year, perhaps, over 2Q into 2H, if possible. Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*
We would recommend to sum it up to the interest income line and consider it as a one total interest income, because there is nothing else in these swaps apart from the client and our own fund management, so what we do is whenever we can get better result by using effect swaps to place the extra funds, we will use these swaps – this is the only explanation for that. I do not think we will be able to give a more detailed breakdown, which will be meaningful, because our treasury works on a daily basis, and they decide whether it is more efficient to use the deposits or to use effect swaps.

ANDREW KEELEY *– Analyst, Sberbank CIB*

All right, that is OK, thank you.

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*
I can only add that such FX swaps are very short-term and are used, as you know, by Russian treasurers in Moscow as a Money Market instrument, not as an FX instrument.

ANDREW KEELEY *– Analyst, Sberbank CIB*

OK, thank you.

Operator: Thank you for your question. The next question comes from the line of Dmitry Trembovolsky. Please ask your question.

DMITRY TREMBOVOLSKY *– Analyst, Goldman Sachs*

Hi Alexander, hi Evgeny. Thanks a lot for you presentation. I have a number of follow-ups. Some of the questions have been already touched upon, but I have to come back to them. First of them is on cost – I am quite surprised that you are guiding 13% percent for personnel and 26% for non-staff. I am looking at your 4Q presentation, and the last page of your 4Q presentation is saying that because of the rouble devaluation from 45 to 70, you are raising the cost growth to exactly the same numbers as you are guiding now despite the fact that rouble is now 50. So we are pretty much back to the level when you were sharply increasing your cost guidance last year. What is the reason for your not changing the cost guidance despite the favourable performance of the currency?

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you for your question, Dmitry. First of all, if I remember exactly, we are revising it down from 25–27% growth in August down to 20%. One of the reasons we are not improving it as you might be expecting is that we are still too early in the year to have a good visibility on how it develops. We do have fairly good numbers for Q1, and I think we will be in a better position to discuss a cost guidance for the full year in 2–3 months time, when we will have the first half of the year behind us.

DMITRY TREMBOVOLSKY – *Analyst, Goldman Sachs*

Understood. And can you remind us what percentage of your cost is FX-based?

EVGENY FETISOV – *CFO, Moscow Exchange*
It is 16% on OPEX side.

DMITRY TREMBOVOLSKY – *Analyst, Goldman Sachs*

16% is on OPEX… That is including staff and non-staff, right?

EVGENY FETISOV – *CFO, Moscow Exchange*
Yes.

DMITRY TREMBOVOLSKY – *Analyst, Goldman Sachs*

All right, OK. So if we plug in the current inflation and the current rouble depreciation, assuming they stay the same, we should pretty much get to your cost growth and that would be a correct assumption, right?

EVGENY FETISOV – *CFO, Moscow Exchange*
Yes, I think so.

DMITRY TREMBOVOLSKY – *Analyst, Goldman Sachs*

All right. I am just trying to make sure there is nothing beyond the currency depreciation and inflation in your cost growth that we are not aware of or […] are raising it beyond.

EVGENY FETISOV – *CFO, Moscow Exchange*
There are two items that we did not plan for, and these are the one-offs that you see in the report, RUB 230 m which relate to Ukrainian impairment and the rental contract. And apart from that everything is more or less in line with what we expected to have.

DMITRY TREMBOVOLSKY – *Analyst, Goldman Sachs*

RUB 230 m of one-offs, that is it?

EVGENY FETISOV – *CFO, Moscow Exchange*
Yes.

DMITRY TREMBOVOLSKY – *Analyst, Goldman Sachs*

OK, that is clear, thanks a lot. Now on your interest income. I am looking at page 13 in the presentation and I see that your rouble client funds are around RUB 100 bn and your own funds, I guess, are around 50 on top, so we get around 240 bn of total rouble assets that you have. Plugging the 16% interest rate that the Central Bank had in Q1, we are coming close to RUB 10 bn of interest income, and you have reported RUB 8 bn. Could you just give us a bit more colour on how the funds were invested, because it seems that you achieved interest rate that is substantially below the Central Bank's rate for the quarter?

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you for the question. Given that we have certain devaluation of portfolios, some investments and deposits were made before the hike in the interest rate, 40% of the portfolio was placed at the old rates, 8–10%, and the rest was short-term, so current rates plus certain amount at the rate of the Central Bank. That is the reason. So we got part of the portfolio priced at the – I do not want to use the word "crisis"– pre-hike levels, and this has given us the result.

DMITRY TREMBOVOLSKY *– Analyst, Goldman Sachs*

And this 40%, it will be re-priced this year or long-term?

EVGENY FETISOV *– CFO, Moscow Exchange*
Some of that will be re-priced in Q1, and some of that will be re-priced in 2Q. Normally, the average duration is three months, but normally the longest deals will be somewhere around a six month horizon.

DMITRY TREMBOVOLSKY *– Analyst, Goldman Sachs*

Understood. OK, this is clear. And I just wanted to get back to the numbers that Alexander mentioned, I did not get all of them. I have heard you said that the money market revenues are expected to grow by 50% or 250% in five years? I just did not get that.

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*
1.5x. That is our assumption.

DMITRY TREMBOVOLSKY *– Analyst, Goldman Sachs*

OK, 1.5x. And then depository also by 1.5x?

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*
Exactly.

DMITRY TREMBOVOLSKY *– Analyst, Goldman Sachs*

OK, understood. OK, that is pretty clear. That is it from me, thank you.

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*
Thank you.

Operator: There are no further questions at the moment. Once again, if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced.

Your next question comes from the line of Maria Semikhatova from Citibank.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

Thank you for the presentation. I have a couple of questions. First of all, maybe you can share similar assumptions on the cost side that are included in your strategy?

ALEXANDER AFANASIEV – *CEO, Moscow Exchange*

Well, our assumptions and not only assumptions, but the plan is that the OPEX shall be below both inflation and the revenue growth. So higher efficiency, better cost/ income/cost ratio. This is our plan.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

I see, understood. And if we talk about the priorities for this year – because you have five different pillars – where do you expect management to focus in 2015 in terms of the strategy implementation?

ALEXANDER AFANASIEV – *CEO, Moscow Exchange*

We will focus on all five, because they are equally important for us, because they are about local and international demand, about product quality and diversified model, about new markets and customers. However, by implementing the annual plans, business plans – because our business plan is usually for two years and budget plan is for one year and has very exactly calculated targets, projects, plans for spending, for different projects and so on – we will of course prioritise one or other group of products. So prioritisation will be done year for year according to our short-term business plan, and Strategy 2020 is the picture we would like to achieve in five years, and in that picture all the pillars are very important for us.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

Understood, thank you. Turning to your Q1 financials, we have seen very strong growth in information services fees and you mentioned that this was driven by number of factors, including rouble weakness. Can you disclose which share of information services fees are charged in US dollars or linked to FX?

EVGENY FETISOV – *CFO, Moscow Exchange*

Maria, this is Evgeny Fetisov. As far as I can say, this is about 80%, which is FX-linked. But I think the important fact is that we have increased prices for the real-time data and for the end-of-day data, by 15% and 80% respectively.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

Understood. Turning to the depository and settlement services fees, we have seen a material slowdown in growth rates compared to the previous quarters. How do you think this fee development is going forward?

EVGENY FETISOV – *CFO, Moscow Exchange*
Well, the depository fees…Which page is it, excuse me?

ALEXANDER AFANASIEV – *CEO, Moscow Exchange*
11.

EVGENY FETISOV – *CFO, Moscow Exchange*
Well, it is mainly because of one factor. It is the special product of NSD, the repo with the collateral management, and it is a product, which is, so to say, competitive to some other products, which are offered by the group also in terms of repo, repo with the Central Bank. The customers are applying to one or another product from time to time, moving their activity from one product to another because of various reasons. In 4Q 2014, they applied much more often to the NSD-provided repo with collateral management structure with the Central Bank. Starting from the Q1 2015, they are doing it to a lesser extent, using more of the products provided by the Exchange itself. So this is, so to say, left pocket and right pocket, NSD and the Exchange.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

These fees are partially reflected in the Money Market, if I understand it correctly?

EVGENY FETISOV – *CFO, Moscow Exchange*
Exactly.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

You mentioned that you see increase in non-resident interest in the securities market. Have you seen any changes in the share of foreign investors in your trading volumes over the quarter?

EVGENY FETISOV – *CFO, Moscow Exchange*
Not much. Actually, in 2014 the average in equities was something like 47, so for Q1 it was 44, if I am not mistaken. So it is just a bit less, but the scale is quite high.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

Understood. Finally, you included this information in your previous presentation, the split of client funds by the market? Have you seen any changes in the share of securities market?

EVGENY FETISOV – *CFO, Moscow Exchange*
Not really. That is why actually we decided not to include it this time, there are not much changes.

MARIA SEMIKHATOVA – *Analyst, Citi Bank*

OK, understood. Thank you so much!

ALEXANDER AFANASIEV – *CEO, Moscow Exchange*
I can give you some update. In equities, the share of the international account – but

remember, international accounts are just non-resident accounts – in 2014 it was 46%, in Q1 it was 44%. In derivatives it was 47% and 44% respectively, and we see an increase of international accounts in the FX market, from 12% in 2014 up to 17% in Q1 2015.

MARIA SEMIKHATOVA *– Analyst, Citi Bank*

I see, thank you.

ALEXANDER AFANASIEV *– CEO, Moscow Exchange*

And there is also an increase in the Money Market from 15% up to 17%.

Operator: Thank you for your questions. Your next question comes from the line of Olga Naydenova from BCS. Please ask your question.

OLGA NAYDENOVA *– Senior Equity Analyst, BCS*

I have a couple of follow-up questions. One is about potential charges for placing euros with you. You noticed that you are coming back more to normal in roubles, but it is much harder to place euros with you. Are there any expectations in this regard? And my second question would be: are you planning to change your pricing policy and FX derivatives which are priced per contract given the volatility of the rouble, is there any progress in this discussion? Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*

OK. The first point is about charges for maintaining funds in euros, if I am not mistaken – the sound quality was not very good – right?

OLGA NAYDENOVA *– Senior Equity Analyst, BCS*

Yes.

EVGENY FETISOV *– CFO, Moscow Exchange*

Look, we are not attracting the funds.

OLGA NAYDENOVA *– Senior Equity Analyst, BCS*

Not attracting?

EVGENY FETISOV *– CFO, Moscow Exchange*

We are safe-keeping the collateral, and we are safe-keeping the collateral almost on the basic conditions, which are provided by the banks where we are placing the most part of our assets. After such banks – clearing banks –start to charge fees for maintaining euros, we will have, unfortunately, to start doing this also with our customers too. Question two about FX derivatives tariffs. There was a discussion with the market - I believe you followed that. We discussed it with the users community of the derivatives market, some changes which shall be made, and it is not only about FX derivatives, but also about the principles of charging in the derivatives market. The discussion is on-going, it is not yet finalised, we do not have any particular decision so far, but we will continue the discussion with the market participants and with the users.

OLGA NAYDENOVA *– Senior Equity Analyst, BCS*

OK, thank you very much. But if I return to the euro question and the amounts the market participants keep with you. How much does this affect your capital adequacy ratio and do you expect any changes in NCC capital requirements that will not have a negative effect on your capital adequacy, so that you do not have a negative effect?

EVGENY FETISOV *– CFO, Moscow Exchange*

Well, that will depend on the behavior of the customers, because the charges for euros … we are one of the important bases, which are maintaining euros by the customers, and are still so far not charging anything. That will depend on the wish of the customers to maintain extra volumes in euros with us. We do not believe that only starting to charge any commissions will immediately lead to strong changes, but again, it is up to the customers, they will compare the conditions of accounts maintained within NCC with the conditions of the other banks, and not only in terms of maintaining fees – for instance, they will also compare the capital costs and so on.

OLGA NAYDENOVA *– Senior Equity Analyst, BCS*

Ok, thanks.

Operator: Thank you for your question. The next question comes from the line of Dmitry Trembovolsky from Goldman Sachs. Please ask your question.

DMITRY TREMBOVOLSKY *– Analyst, Goldman Sachs*

Hi, I just have a follow-up question. Could you tell us the income from repo with CMS? You usually disclose this in the presentations. The corresponding number in the previous quarter was approximately 200 m and 21% was the share of the CMS.

EVGENY FETISOV *– CFO, Moscow Exchange*

Dmitry, may we follow up with the exact number? It went down, but I do not have it in my head right now, so we will just follow up with the exact number for you.

DMITRY TREMBOVOLSKY *– Analyst, Goldman Sachs*

OK, very good, thanks.

Operator: Thank you. There are no further questions over the line.

SERGEY KLINKOV *– Director of Investor Relations, Moscow Exchange*

OK. If we have no further questions at this moment, I think we may finish the call. Thank you very much everybody for your participation, I think we managed to cover most or all of your questions. In case you have any further questions, please feel free to call me back or just drop me an email. I think at this point we may conclude the call.

Operator: That does conclude our conference for today. Thank you for participating, you may all disconnect.