Moscow Exchange FY 2015 Financial Results Conference Call

Event Date: 3 March 2016

SUMMARY: Higher trading volumes on the FX, Bond and Money Markets, as well as increased interest income coupled with strict cost control, helped Moscow Exchange to deliver record financial results.

Investor Relations contacts
Sergey Klinkov, Director of Investor Relations – Tel. +7 495 363 3232 – Email ir@moex.com

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

Good afternoon, everyone, and welcome to Moscow Exchange's 2015 IFRS Results Conference Call. As usual, after the prepared remarks, we'll have a Q&A session.

Firstly, I'd like to remind you that certain statements in this presentation and during the question-and-answer 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 doesn't intend to update these statements to reflect 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 results for the fourth quarter and full year 2015. Our investor presentation is available on the company's website in the Investor Relations section.

So now I will hand over the call to Evgeny Fetisov, Moscow Exchange Chief Financial Officer and member of the Management Board. Evgeny, please go ahead.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thanks, Sergey, and thank you all for joining us today to discuss Moscow Exchange's financial results. Before we start with the review of key developments and financial results for 2015, I'd like to remind you of the macro environment at which Moscow Exchange operated last year.

To put it briefly, there was a combination of negative factors, including the onset of recession in Russia, a sharp decline in the oil price, a similarly sharp decline in the ruble rate and continued western sanctions against Russia.

In other words, 2015 was another volatile year for the Russian financial markets and a challenging year for the Russian economy. Even if we put Russia in the context of emerging markets, 2015 cannot be said to have been a supportive year. EM countries faced a capital outflow of $765 billion and local currencies depreciated against the U.S. dollar. In this environment, MOEX's diversified business model once again demonstrated its stability and resilience to external factors and delivered another set of record financial results.

It is particularly pleasing that our investors clearly appreciated this. MOEX market cap reached RUB 208 billion at the end of the year, while our share price grew by 55 percent, outperforming both the Russian market and EM peers.

Now let's move to the key developments of 2015. I'm pleased to say that we had a number of record-breaking achievements this year. The foreign exchange market recorded new record trading volume in both spot and swap sections.

REPO with CCP (central counterparty) launched as recently at the middle of 2013, continued to perform extremely well and become an important liquidity distribution mechanism for the Russian banking system and partially substituted REPO directly with a Central Bank.

According to Euromoney data, dollar-ruble futures were the most traded currency derivative contracts globally. And finally, in another relatively new market, precious metals trading produced outstanding growth of 4.7 times year-over-year. Over the course of 2015, the Supervisory Board has made a number of key decisions. Key steps included the approval of the company's new strategy, the reduction of revised dividend policy with a payout for raised to 55 percent, and the creation of MOEX corporate governance code, which is based on the new Russian Corporate Governance Code, and focuses on better protection of minorities rights.

Moscow Exchange remains the marketplace of choice of our clients, with a growing local investor base and continued shift from foreign to local listings by Russian issuers. The number of newly-opened individual investment accounts exceeded 80,000 in 2015 and well above our initial forecast of 50,000 for the first year. The new opportunity for retail investors to open broker accounts remotely is likely to give an additional boost for this process.

While 2015 was not a great year for equity capital market transactions in Russia, Russian issuers successfully completed 8 share replacements either in the form of IPOs or SPOs, raising a total of RUB78 billion. We are proud that six transactions were completed only in MOEX, while the next two opted for dual listings.

And finally as you know, in February of 2016, our former shareholder, Chengdong Investment Corporation successfully sold its stake in MOEX to more than the 30 institutional investors in the U.S., U.K., Europe and Russia. The transaction, worth $136 million and carried out as an accelerated book build, is the largest and the only Russian ECM deal to date in 2016. Again, underscoring that healthy investor demand remains for high-quality Russian local shares. As a result of the transaction, our shareholder base has become even more diversified, while our free float of 57 percent is the highest of any Russian listed company.

Now let's move on to our financial results. Alongside the important operational developments I already mentioned, 2015 was a year of extremely good financial results for Moscow Exchange. Operating income grew by 51 percent year-over-year, which is the fastest pace of growth in the exchange’s history. Growth of operating expenses at 8.7 percent remained below the level of inflation for the third consecutive year. The cost to income ratio declined from 34 percent in 2014 to 25 percent in 2015.

Strong revenue growth, coupled with our continued focus on strict cost control meant that we were able to increase the EBITDA margin by 8 percentage points to 79 percent. Net profit grew by 74 percent and reached a record-high of RUB 27.9 billion. EPS was RUB 12.5. In 2015 Moscow Exchange continued to operate as the highly cash generative business with zero leverage.

Now I would like to walk you through the markets to give you an overview of key operational achievements.

FX Market. Let me start with the single biggest contributor to fees and commissions growth, the FX Market. Trading volumes demonstrate very strong growth of 33 percent year-over-year, thanks to a solid performance across both of the sections, the spot and the swap segments. And the spot market was mainly driven by high volatility dollar-ruble, trades and increased activity across all groups of market participants. Swap transaction volumes increased and it continued demand from local banks to manage their liquidity positions and to hedge FX rates. Trading in Chinese yuan-ruble currency period continued to grow rapidly, 3.8 times, and reached a new record high of RUB 858 billion in 2015.

Money Market trading volumes both on exchange REPO and REPO through the NSD, National Settlement Depository, remained also flat in 2015, and amounted to RUB 260 trillion. The average maturity of REPO increased from 5 days to 6.6 days, mainly driven by long-term FX REPO with the Central Bank of Russia, which was in great demand here in the first half of 2015.

REPO with the CCP remained one of MOEX's fastest-growing products, up 2.7 times year-over-year. We believe that market participants appreciate REPO with CCP as a convenient mechanism for liquidity redistribution among Russian banks, which partially substituted direct REPO with the Central Bank and inter-dealer REPO.

Depository and Settlement business. A very steady depository business continued to perform well. Assets under custody at the NSD increased 27 percent year-over-year to RUB 28.4 trillion. Admissions of DRs and eurobonds as collateral for REPO, primarily bond placements and on-exchange eurobond trading were among the key drivers of growth in assets under custody.

Equities Market. The Russian macro environment inevitably had an effect on the dynamics of the Equities Market. Equities trading volumes declined both domestically and internationally. However, amidst a 9 percent year-over-year decline in volumes, MOEX increased its market share of dually listed stocks against the London Stock Exchange by 3 percentage points: to 58 percent in the fourth quarter of 2015 versus 55 percent in the fourth quarter of 2014.

In addition, MOEX was the primary venue for 100 percent of Russian listings in 2015. Russian issuers successfully completed eight total listings and two dual listings through which they raised RUB 78 billion in total.

Fixed income market. Trading volumes on the fixed income market grew by 5 percent year-over-year. And as interest rates normalized and substitution of international debt continued, local primarily placements demonstrated solid performance. Placements of corporate bonds reached a historical record of RUB 2 trillion, up 31 percent year-over-year.

Derivatives Market. Due to high markets volatility throughout the year, particularly on the FX side, derivatives trading volumes grew by 70 percent year-over-year in contract terms, reaching a value of RUB 94 trillion. Commodities futures increased 4.7 times on the back of oil price volatility and accounted for 7.6 percent of total futures trading volumes in contract terms versus just 1.5 percent in 2014, driven by strong demand from retail investors.

And now let's move to Slide number 7. I would like to reiterate that our well-diversified business model and sound strategy allowed us to deliver very solid fee and commission income growth of 14 percent year-over-year in a very challenging environment. The FX Market was MOEX's fastest growing business in 2015 with fees growth of 27 percent year-over-year due to increased volatility of the float in ruble rate. Dollar-ruble swap and spot rates remain the key contributor to total FX Market income growth.

The second biggest contributor was the Money Market, which grew by 20 percent year-over-year driven by strong growth of REPO with CCP and extension of average REPO maturity. Equities Market and Derivatives Market fees were the only markets in the negative territory, minus 7 percent and minus 10 percent, respectively. Lower trading volumes affected fees on the Equities Market, while in derivatives, a continued shift in the product mix led to a contraction in annual fees.

The Fixed Income Market revenues grew 14 percent year-over-year, thanks to a robust growth in sovereign bonds primary issuance, 3.6 times growth year-over-year and corporate bond primarily issuance plus 5 percent year-over-year with flat secondary trading volumes. It is worth noting that corporate bond placement set a new all-time record in 2016, like I just said before. Depository and Settlement Services income increased 9 percent year-over-year, thanks to new assets under custody and market cap expansion. Other fees and commission income grew 30 percent, mostly due to a solid increase in fees from information services, 58 percent year-over-year, while listing and other fees related to the Securities Market grew by 28 percent year-over-year.

The largest contributors to total fees remains the FX market with 24 percent share of total fees and commission income, the Money Market was

22 percent, and Depository and Settlement Services with 19 percent to the interest income. The total investment portfolio enjoyed strong growth of 64 percent year-over-year in 2015 and amounted to RUB 1.1 trillion versus RUB 700 billion in 2014.

Key drivers included the continued growth of market participants' average balances mainly placed with the exchange in foreign currencies, the tax inflation effect and an increase in MOEX own funds available for investments. The average effective yields on the investment portfolio increase from 2 percent to 2.4 percent, thanks to high average ruble interest rate and the successful allocation of FX funds in the second half of 2015, which returned a higher than average yield on the FX portion of the investment portfolio. The share of FX-denominated client balances, mostly played by customers on the FX Market, accounted for 87 percent in 2015. To reiterate, our investment policy prioritizes liquidity and safety over returns, as such we don't take any currency risk on our balance sheet.

Operating expenses. For all of 2015, we continued to manage our costs effectively. Operating expenses grew by 8.7 percent year-over-year, which is well below the average annual inflation of 12.9 percent. 2015 was the third consecutive year when we managed to keep cost growth under inflation. Administrative and operating expenses grew by 10 percent driven by higher spending on maintenance of equipment and intangible assets due to the commissioning of new IT facilities and spending on IT systems, maintenance and improvement as well as depreciation of property and equipment.

Personnel costs increased by only 7 percent year-over-year, while MOEX continued its staff optimization, which led to a 2 percent decline in the headcount.

And now I'd like to share with you some projections for 2016. So on CapEx and OpEx. In 2015, we continued to implement our CapEx program and spent RUB2.5 billion. However, that was below our own projections, so part of that spend in 2015 is expected to be carried forward to 2016.

As a result, we expect to spend RUB 4.1 billion in 2016 with further normalization of annual capital expenditures at the level of RUB 2.5 billion to RUB 3 billion as we guided before. The scope of projects we're working on remain the same. Key projects will include the new IT architecture and new data center; hardware upgrade and replacements, as well as implementation of advance quality assurance practices; other projects, including the grain market and the reform of corporate actions.

We expect 16 percent growth both in personnel and administrative and other costs. Personnel cost growth will be driven by hiring additional IT staff, higher social tax payments due to the changes in taxation and selective pay increases.

The rest will be largely driven by IT spending and expected ruble devaluation effect.

Slide 11, NCC target capital. So now I would like to touch on the topic of MOEX needs for capital in the clearing center next year. The new target level for NCC capital has been set at RUB55.6 billion based on (1) central counterparty stress test as the capital should be sufficient to cover potential losses under this stress scenario and keep the NCC business operational, (2) new Central Bank regulation of the capital adequacy ratio. So the capital adequacy ratio should be sufficient under Basel III rules with a minimum of 8 percent versus 10 percent before and following adjustment of capital risk-weighted assets.

As you can see, there have been some changes affecting capital requirement calculation. Capital adequacy ratio calculation had been aligned with Basel III requirements, minimum was set at 8 percent, while NCC target level is 11 percent – this is the internal number that we're using, and we think that is a prudent target. The new risk-waterfall structure, which was aligned with CPSS-IOSCO requirements: the "skin in the game" size was set in line with the CBR requirement, it is RUB 6.5 billion starting November 2015 and RUB 9.5 billion from July 2016 as currently planned.

And finally, the Central Bank required all CCPs to be incorporated as entities with clearing and non-credit banking organization licenses. This regulatory change may also reduce capital requirements for the NCC in the long term.

Now let me walk you through the key priorities of Moscow Exchange in 2016, so what we plan to do in 2016 to continue our success. I would like to highlight several areas where we think MOEX can find the next drivers of business growth. We will continue to focus on new product development. We have recently launched REPO with General Collateral Certificates, which combines the advantages of the two most popular products on Russia's Money Market; centrally cleared REPO and (JC) basket REPO with collateral management. We expect that in addition to value-added service for market participants, this will increase turnover on equity and bond markets and money markets.

We will focus on direct market access for Russian corporates to the FX Market, Fixed Income Market and Money Market. We will continue to focus on development of the Bond Market. We believe that funding through the debt capital markets should be the best and easiest option for companies to raise debt. We will focus on further simplification of the bond placement process, development of certain bonds and development of securitization. And we strongly believe that the trends of the replacing bank lending with public capital markets should continue. This year, we will focus on expanding our market data business as we see that as an area of high growth potential.

Corporate actions reform will be another step in improving Russia's financial infrastructure. We made good progress in this area in 2015 with the implementation of ISO standard for AGMs of Russian corporates and we will continue to move forward.

We will continue to spend our markets through efforts to grow the investor base through the infrastructure developments, foreign clearing memberships on the FX and derivatives markets, NCC accreditation by EMIR/CFTC and creation of trading links between Russia and international markets that we believe will help us to increase foreign flows.

In addition to these, online marketing tools, product and brand development, and educational efforts for retail investors that will lead to greater retail participation on financial markets.

Cross-market services are another important area for development where we will focus on a unified collateral pool across all markets, further development of collateral management services and cross-margining. As mentioned during our discussion of our CapEx program, we are continuing to upgrade our software, hardware and network. The Exchange's new IT-architecture and migration to the new tier-3 data center are among key priorities in this area.

And finally, the Russian market offers vast organic growth opportunities with future progress in privatization as well as an increase in public debt are among the key drivers that may bring additional growth to MOEX.

So as you may see, we have a number of very promising initiatives in the pipeline that will make trading on Moscow Exchange even more attractive and convenient for investors and help further diversify and strengthen our business. The exchanges landscape may be changing globally, but we firmly believe that the MOEX model will continue to prove successful in any economic environment as today's results demonstrate to the benefit of our stakeholders.

So, that concludes our opening comments, I think, and I would like to open the call for any questions. Thank you very much for your attention and we're ready for questions.

Operator: Thank you very much. Ladies and gentlemen, as a further reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request, you will need to press the hash key. So once again, it's star and one if you wish to ask a question.

And so we have the first question coming from the line of Alex Kantarovich.

ALEX KANTAROVICH *– Analyst, JP Morgan*

Alex Kantarovich from JP Morgan. Gentlemen, congratulations on the great results. Very impressive. Clearly surprising to ask on the consensus in general. As you are making much more money than the Street expected, can we perhaps assume better-than-expected dividends, not only in terms of the higher earnings base, but a higher payout ratio since you pledged to return unused cash to shareholders. Thank you. That is my first question.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you, Alex. As for the dividends, we are currently having a Board meeting in progress. So we expect the decision on the dividend payout will be announced later today, within a few hours. So this is a very short way to get the results.

ALEX KANTAROVICH *– Analyst, JP Morgan*
Very clear. Second question that I have - I noticed that the guidance in your presentation, it focuses on controllable items like OpEx and CapEx, and I appreciate that markets are quite volatile and you have many business lines. But to the extent you can share outlook for 2016 in terms of revenue that would be very interesting for us.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thanks, Alex. As usual, this is a very challenging question. We are very careful in giving guidance, because that is largely dependent on the external factors such as the volatility in the oil price, ruble-dollar, and directions in the ruble interest rates to start with. We, as usual, are moderately positive on all the lines of the business, with priority coming to the Fixed Income Market, where we expect to see the growth first. Possibly, moderate growth in the Money Market and FX, and derivatives and equities follow that. I don't think I can be more specific than that, unfortunately.

ALEX KANTAROVICH *– Analyst, JP Morgan*
Yeah, thanks a lot. And if we look closely at the interest income, can we perhaps discuss the underlying drivers here to the extent possible?

EVGENY FETISOV *– CFO, Moscow Exchange*
You mean 2016.

ALEX KANTAROVICH *– Analyst, JP Morgan*
Yes.

EVGENY FETISOV *– CFO, Moscow Exchange*
As we said, I think we expect to have roughly RUB120 billion rubles worth of client funds in rubles on average, with smaller number in euro and dollars than last year, but this is something which is very difficult to forecast as the FX balances are largely uncorrelated with the trading volumes.

Then - whatever directions, you believe the interest rate will take. We were thinking about the 2 percent decline of the ruble interest rate for the year. And then this is something we need to see as the Central Bank and the market turns out.

ALEX KANTAROVICH *– Analyst, JP Morgan*

Right. That's a bit optimistic or pessimistic in comparison to some other market participants, but I appreciate your view. Did you say RUB 120 billion of client funds on average?

EVGENY FETISOV *– CFO, Moscow Exchange*

RUB 120 billion of client funds *in rubles* on average. This is the expected number that we have in mind. And like I said, whatever may come out in dollars and euros as the client funds are not directly linked to the trading volumes. But we expect that throughout the year this number may decline. But again, I'm afraid I can't be more specific.

ALEX KANTAROVICH *– Analyst, JP Morgan*

Right. Is it – perhaps to rephrase my earlier question – is it fair to assume moderate to positive trends in fees and commissions for 2016?

EVGENY FETISOV *– CFO, Moscow Exchange*

Yes, that's what we assuming for our our plans.

ALEX KANTAROVICH *– Analyst, JP Morgan*

Thank you very much, no further questions.

Operator: So we have the next question coming from the line of Andrey Klapko. Please ask your question.

ANDREY KLAPKO *– Analyst, Gazprombank*

Good evening, gentlemen. Thank you for the call and I share previous congratulations on the great results. My question will be about interest income, obviously a great surprise work in Q4, the interest income exceeded even the result in Q1, even though the rates declined substantially since then.

So my question is: as far as I understand, that was due to the extra income that you received on the FX investments and more focus on the securities investments. So should we expect the further shift in 2016 in terms of investment mix, I mean, toward securities or any possible one-off on the FX side?

EVGENY FETISOV *– CFO, Moscow Exchange*

Thanks for the question. We actually consider those to be one-off items. So we don't expect them to be repeated in the coming quarters. Our Treasury has been successful in making some good FX deposit deals. But those were single deals, which we don't expect to be repeated.

ANDREY KLAPKO *– Analyst, Gazprombank*
OK, thank you. No further questions from me.

Operator: So we have the following question coming from the line of Andrew Keeley. Please ask your question.

ANDREW KEELEY *– Analyst, Sberbank CIB*
I just want to, first of all, come back to this dividend question. If we look at your guidance in terms of the NCC capital requirements then, obviously, your target for 2016 is some way below where the capital position is at the end of 2015. You've also given guidance in terms of your CapEx expenditure. Can you give us a sense of basically – do you expect to stick to this kind of rule? The capital that the – sorry, the profits, that basically the capital requirements for the NCC and the CapEx and the rest of the profits are basically going to be distributed back to shareholders, because it suggests that there should be a very big step up in terms of dividend payout. And do you have any comment in terms of whether there would be any kind of a special dividend or anything like this that we could expect to see?

EVGENY FETISOV *– CFO, Moscow Exchange*
Thanks for the question. The thing is that the Board has been discussing this or it may be discussing this as of now. So I don't think it will be proper for me to comment on this. So like I said, I think we will have a release of information on the dividend payout for 2015 within the next few hours. So that will cover all of your questions.

ANDREW KEELEY *– Analyst, Sberbank CIB*
OK. All right, I'll wait for the news from them. My second question is in terms of your cost guidance. So I think when we had the third quarter call back in November, you were guiding 12-14 percent cost growth for last year and, obviously, you beat that pretty comfortably. Can we assume that your 16 percent guidance is rather conservative I mean, particularly given that we have inflation now falling to single digits. I'm just kind of wondering whether that's the case. And perhaps you can elaborate a little bit in terms of pay rises, what's the situation there? Were there any pay rises or pay cuts last year and what are the plans for this year? Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*
Our guidance is moderate to conservative. We'd rather be on the conservative side although, the next year will prove whether we were right or wrong.

The savings of the last year came from three major parts. The first one - we spent less on IT CapEx, which resulted in less associated expenses, i.e. depreciation and amortization, VAT taxes, license payments, et cetera. We've been fairly successful in our purchasing activities and we reduced costs with that respect for, I would say, rather substantial amounts. Secondly, we've been able to get very good deals for equipment purchases, and that contributed to the savings. Finally, the exchange rate was lower than we initially expected. So that also translated into the lower IT expenditures.
If we spend as much as we planned on IT CapEx, and if we hire all the people that we want to hire, I think we will likely to hit the 16 percent growth number. Anyway, we will definitely be trying to focus on maintaining the strict cost control as we did before.

In terms of the selective salary increases: what we have had last year was something in between 3 percent to 4 percent in nominal payroll growth. And this is something, which we have in mind for this year as well. So we're focusing on being efficient in terms of the number of people and trying to contain the overall labor costs. I hope that answers your question.

ANDREW KEELEY *– Analyst, Sberbank CIB*
Yes. That's very helpful. Thank you. And just quickly on the CapEx. So was I right in hearing that after the spike this year you expect CapEx to return to a run rate of around the RUB2.5 billion to RUB3 billion in future years?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, that is correct.

ANDREW KEELEY *– Analyst, Sberbank CIB*
Very good, thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you.

Operator: As a reminder, if you wish to ask a question or simply make a comment, please press star and one on your telephone.

And so we have the next question coming from the line of Andrzej Nowaczek. Please ask your question.

ANDRZEJ NOWACZEK *– Analyst, HSBC*
Thank you for the call. I noticed that there was some significant changes in mix within the key products. Can you review the pricing of your main products? For example, compare what the rates are on RTS index futures, and how they compare to FX futures? That will be one. What about swap versus spot transactions in the FX Market? What is the differential here? And finally, primary versus secondary markets in Fixed Income please.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thanks for the question, Andrzej. The thing is our fees are public, this is something which can be taken out from fees. We normally do disclose the blended one. So what I can say is that the futures on indexes are the most profitable ones, if I can say so, they're yielding the highest number, with then commodities and equities, and the FX futures are the ones which are yielding less.

On the FX swap side, this is the cheaper product versus FX-spot. And I would say that yes, on the corporate bond side, they're yielding more than the government bonds.

ANDRZEJ NOWACZEK *– Analyst, HSBC*
OK. And those changes in the structure of volumes, do they look sustainable to you?

EVGENY FETISOV *– CFO, Moscow Exchange*
I wouldn't say they're sustainable. So they actually change as the market demand for product shifts. So much will depend on the external macro drivers, when we have lesser volatility on the FX side, we're likely to see a higher share of FX swaps as this is a Money Market product. Or if we see a shift, a pickup in equities trading activity, we will have more of index derivatives and single stock options in futures, which are higher-yielding products. There's no clear direction in that. We see changes in the product mix, driven by different factors.

One thing, which has a clear pattern is the growth of share of commodity derivatives, which showed a substantial share growth throughout last year, and the growth of the REPO with CCP, which is again is a high-yielding product. So the expansion of the share of the REPO with CCP within total REPO is beneficial for the average yield for the Money Market products.

ANDRZEJ NOWACZEK *– Analyst, HSBC*
Understood. Thank you, Evgeny.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thanks.

Operator: And so we have the next question coming from the line of Anil Sharma.

ANIL SHARMA *– Analyst, Morgan Stanley*
Just a couple of questions please. The cost guidance you've given, just wanted to check what FX rate you are assuming for the costs. And then just to make sure I've completely understood what you were saying with regards to the capital relief you're getting in the clearing house. Just what's the actual – I didn't quite understand how much of that or what's the ruble billion amount that could be returned to

shareholders, I didn't quite follow that. If you could just help clarify that for me.

EVGENY FETISOV *– CFO, Moscow Exchange*
I'm sorry, Anil, can you please repeat the last part of the question and the …

ANIL SHARMA *– Analyst, Morgan Stanley*
Yes, sorry, I understand the reason that the Board is currently in a discussion about potentially, or they're debating whether to have a sort of special capital return, if you like, but I just didn't understand what could be the potential quantum. It sounded like it was linked to the capital relief you were getting on the clearinghouse side on the NCC side. So I just wanted to check how do I link the two together?

EVGENY FETISOV *– CFO, Moscow Exchange*
OK. Let me start with the last part of the question. So we are not linking this together. What we're saying is – our policy, which was approved at the end of last year says that we return all unused cash to our shareholders and the uses of cash are capital of the key entities of the business namely NCC and NSD, our CapEx program, any reserves that we need to create for operational purposes, M&A, and this is it – so the rest is paid out to the shareholders, with a minimum payout of 55 percent. So this is the policy and this is something which will be used by the board for their decision; the decision, which we will make public today. So this is statement number one.

And quite separately, we're saying that the need for NCC's capital as we see it right now towards the end of the year will be lower. That's another point. So we're seeing some efficiencies from the changes in the regulation. And we expect that we will benefit from these changes in the longer term as well.

ANIL SHARMA *– Analyst, Morgan Stanley*
OK, I understood.

EVGENY FETISOV *– CFO, Moscow Exchange*
And on the cost guidance… Our exchange rate is around 70. So, it's somewhat below 70 as of now, as we made our plans in autumn.

ANIL SHARMA *– Analyst, Morgan Stanley*
OK, got it. And so just the Board discussion that's going on, at the year-end the cash position was RUB 80 billion. You potentially might get another RUB 10 billion from this – or not RUB 10 billion, another RUB 5 billion from this NCC capital being lower. So are you debating the uses of this RUB 5 billion? And minus whatever you're going to need for CapEx is near the point you just highlighted. Is that the way I should be thinking about the dividends?

EVGENY FETISOV *– CFO, Moscow Exchange*
I'm not sure I understand the question. So …

ANIL SHARMA *– Analyst, Morgan Stanley*
So correct me if I'm wrong – at the end of the year, you had cash of RUB 80 billion of cash and cash equivalents on the balance sheet. You don't have any debt so then that's kind of all potentially distributable, but then obviously, you have some uses of capital, which you've outlined for this year, but then you also get a little bit back from the lower capital NCC, so I'm just trying to make sure if that's the correct way I'm thinking about potential distributable reserves, if you like, or distributable capital?

EVGENY FETISOV *– CFO, Moscow Exchange*
I would still stick to the dividend policy definition, Anil. So this is something what we were using. And like I said, I would love to give you some numbers if I had them. But before the Board makes a decision and we make this public, I cannot disclose that. So they will stick to this policy and we will have the numbers very soon.

ANIL SHARMA *– Analyst, Morgan Stanley*
Got it. OK. Make sense. Thank you.

Operator: And ladies and gentlemen, as a final reminder, if you wish to ask a question or simply make a comment, please press star and one on your telephone and wait for your name to be announced.

And we have received one more question which is coming from the line of Svetlana Aslanova. Please ask your question.

SVETLANA ASLANOVA *– Analyst, VTB Capital*
Yes. Hello. Thank you very much. Evgeny, I just wanted to confirm that I understood correctly. The 16 percent OpEx growth that you mentioned as a guidance, it was calculated based on 70 rubles per dollar exchange rate. Is that correct?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, it was a number of around that.

SVETLANA ASLANOVA *– Analyst, VTB Capital*
OK. So if we see significant devaluation, so we might assume that your guidance might be increased. Is that correct?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, that's correct. Although, at the same time we will get more revenues from the revaluation of our FX hedging that we do to cover the exposure that we have on the OpEx and CapEx side. Like what we were saying before, we do keep a position in dollars or in euros to cover

the cost for the next 12 months, and that allows us to offset any negative changes in the exchange rate.

SVETLANA ASLANOVA *– Analyst, VTB Capital*

OK. And one minor question on interest income. During last call, you mentioned that there was some one-off income in the fourth quarter. Do you disclose the amount of this one-off?

EVGENY FETISOV *– CFO, Moscow Exchange*

So the amount that we had from this REPO deal was roughly about RUB 150 million to RUB 200 million per quarter, and that was a 6months REPO deal made in summer.

SVETLANA ASLANOVA *– Analyst, VTB Capital*

OK. So this is the same? OK. Thank you very much.

EVGENY FETISOV *– CFO, Moscow Exchange*

Thank you.

Operator: And so we have the next question coming from the line of Anil Sharma. Please ask your question, Anil.

ANIL SHARMA *– Analyst, Morgan Stanley*

Sorry, just one more follow-up. The investment portfolio has been declining for the last couple of quarters, and I just wondered if you could talk me through what's going on there?

EVGENY FETISOV *– CFO, Moscow Exchange*

It's just that we had less dollars and euros from the clients. This is it. So this is the biggest, or the more substantial change that takes place.

ANIL SHARMA *– Analyst, Morgan Stanley*

But why is that the case? Because the FX and Money Market volumes, obviously, going up quite a lot, so why are clients giving you less dollars and euros?

EVGENY FETISOV *– CFO, Moscow Exchange*

The reason for that is that most of the funds that we have in dollars and euros are not directly linked to the trading volumes or the margin requirements that we have. This is actually the free cash, which banks choose to keep with us. The key reason for that is that for a Russian bank, the risk weighting for dollars or euros or any foreign currency, which they keep at NCC, is lower. The risk weight is just 5 percent, compared to the 20 percent risk weight for a regular corresponding bank in say G7 countries.

So given that many of the Russian banks needed more capital or wanted to have more efficient use of their capital adequacy ratios, they place the extra FX cash with NCC, especially in the environment of either negative or close to zero interest rates.

ANIL SHARMA *– Analyst, Morgan Stanley*
OK. Got it. So with the raising of the rates in the U.S. and Q4 you've seen some of that reverse. So is that what you're saying?

EVGENY FETISOV *– CFO, Moscow Exchange*
We don't, and we cannot be precise there. It will depend on a particular client's capital requirement. So if a bank needs more capital, then they will be deciding whether they want to have less reserves by keeping money with us or they want to make more interest from moving this money elsewhere. We don't know how they will make these decisions. Generally we expect that these funds should be declining over the medium-term, although we cannot be precise in terms of the pace of this decline.

ANIL SHARMA *– Analyst, Morgan Stanley*
OK. So how has it trended so far this year? Are you seeing the continued pace of decline we've seen in the last quarter?

EVGENY FETISOV *– CFO, Moscow Exchange*
We're currently at RUB1.1 trillion.

ANIL SHARMA *– Analyst, Morgan Stanley*
OK, thank you.

Operator: And so we have the next question coming from the line of Maria Vasilenko. Please, Maria.

MARIA VASILENKO *– Analyst, UBS*
Hello, thank you very much for the presentation and congratulations to all on the results. I have a few questions. The first one is just to clarify on your OpEx and CapEx. Could you please tell us: what is the proportion of a FX in both OpEx and CapEx?

And second question is about the capital target. How should we think about the "skin in the game" part, this RUB 10.4 billion. I mean, how is it formed? And what are the drivers behind it? How should we think about it going forward whether it will increase or decrease? So maybe you could shed light on this, please.

EVGENY FETISOV *– CFO, Moscow Exchange*
The FX part in the OpEx is roughly 8 percent to 9 percent. So with CapEx, it's more than 50 percent because we would be mostly spending on IT and equipment, which is largely linked to FX.

And as for the "skin in the game", this is something which is set through a rather complex process of discussions with the market participants, risk management and the regulator. So right now it is set at Rub 6.5 bln, moving up to Rub 9.5 bln, and then we'll see how it develops. I don't think I can give you a clear indication of how fast we will be increasing it if the market grows or if it stays stable. This is a fairly substantial shift in terms of the structure of the risk management. We will need to see how our clients react to that.

MARIA VASILENKO *– Analyst, UBS*

OK. Thank you very much.

Operator: Thank you. And so we have the next question coming from the line of Olga Naydenova. Please, Olga, ask your question.

OLGA NAYDENOVA *– Analyst, BCS*

Thank you very much. I also have a couple of questions about your balance sheet structure. First of all, you said you of course have different proportion of cash on your balance sheet. So investment portfolio is not necessarily the same. And how do you manage this proportion? And do you have any guidance on how much cash you keep and how you talk to the rest?

EVGENY FETISOV *– CFO, Moscow Exchange*

I don't think we have any clearly set rule saying that we need to have “X” percent. Normally this is a day-to-day Treasury job to manage liquidity, alongside with trying to make some returns on that. I don't think I can be more specific than that. We have certain limits to the risk they can take, i.e. which bank they can place money with, which instruments they can buy, etc. Then, based on the amount of funds which we have from the clients, the currency split and the amount of our own funds, they make decisions on the types of instruments and the maturity of those instruments.

So, there could be a situation where they will have more securities, like OFZ, because that will get them higher yields or some price depreciation. Alternatively, they may switch to deposits or even do some REPO deals, where they will lend money through reverse REPO deals, so that largely depends on the market situation and I mean basically those arbitrage opportunities, if I may say so.

OLGA NAYDENOVA *– Analyst, BCS*

OK. And you also said that you had a certain proportion of one-off FX interest income coming from FX. Is there anything that will be booked for next quarters? Or that's completely set in this year's results?

EVGENY FETISOV *– CFO, Moscow Exchange*

We don't expect anything to be booked in the following quarters. And I have to say, I mean, I have to say, Olga, that there's still one month to go, this is something which is yet to be seen. But I mean, as of now, we don't expect anything unusual.

OLGA NAYDENOVA *– Analyst, BCS*

OK, thank you. And I have one more follow-up. I also understand that your CapEx is growing. And do you expect to accumulate a fixed asset? Or you will amortize them faster? Will the amortization rate generally grow up? What is your expectation on this line longer-term?

EVGENY FETISOV *– CFO, Moscow Exchange*

We don't expect to have any substantial changes in terms of the amortization rate. And on the CapEx, you can actually see the numbers. So we're looking forward to RUB4.1 billion this year and then down to say RUB2.5 billion to RUB3 billion in consecutive year, so this is the normal CapEx rate that we have in our plans.

OLGA NAYDENOVA *– Analyst, BCS*

Yeah, I was more focused on the amortization, rather than CapEx.

EVGENY FETISOV *– CFO, Moscow Exchange*

No plans to change any amortization rates as of now.

OLGA NAYDENOVA *– Analyst, BCS*

OK, thank you so much. And I also have a one follow-up question. Do you have any update on CFTC approval for your derivatives?

EVGENY FETISOV *– CFO, Moscow Exchange*

No news, as of now.

OLGA NAYDENOVA *– Analyst, BCS*

Thank you. Thank you.

Operator: Thank you. And it seems that was the last question for today.

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

All right. So if we have no further questions, I think at this point, we may conclude the call. Thanks, everyone, for participation and in case of any additional questions, please feel free to follow-up via emails or just give me a direct call. Thanks and goodbye.