

Rating Report

(Publication version)

(based on the agreement No. 30/RA, of June 01, 2010)



The credit rating of the bank on the Ukrainian national scale	uaBBB.amc
Interpreting the national scale rating:	The company with this rating with an acceptable probability will fulfill its fiduciary obligations to clients
Rating date:	October 11, 2010



Private Joint Stock Company Asset Management Company National Reserve

(Full name of the company)

Ukraine, Geroyev Stalingrada Ave, 12-L, Kiev, 04210
(Company legal address)

Ukraine, Geroyev Stalingrada Ave, 12-L, Kiev, 04210
(Company de facto address)

License info	Series AB No 534179 Issued 09/07/2010, Valid before 09.07.2015
Incorporation date	November, 21, 1994
Date of start of operations	November, 21, 1994
National enterprises register code	22904759
Account bank	PJSC 'First Ukrainian international bank'
Auditor	M. A.S. Audit
Actuary	JSC 'Financial Registration Company Avista', Branch of SE 'Avista A'
Depositories providing services to AMC	PJSC 'First Ukrainian international bank' (for own shares), JSB CLEARING HOUSE (for other securities)
Assets management license expire date	09.07.2015
President of the Company	Khlyapov Alexander Anatolyevich
Contact person	Asset Manager: Khmylevskiy Igor Leonidovich, (044)426-61-16
Phone	+38 (044)426-61-11
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Web address	http://www.reserve-am.com.ua/

The company's list of licenses: Professional activities in the stock market is the asset management of institutional investors on asset management.

1. Company description

AMC National Reserve is one of the oldest companies operating in the domestic stock market. On October 14, 1994 the investment company Congress-Invest was established. The activities of that entity preceded appearance of AMC National Reserve.

At the time of establishing the founding companies were: 'The International Fund for humanitarian and economic relations with the Russian Federation' and 'Tekhnoexport' Ltd. In 1998 the company was bought out by top-managers. At the moment the owners of the company are:

- **Oleg Likhovid**, Chairman of the Supervisory Board of AMC National Reserve, Chairman of the Committee of Entrepreneurs in Financial Services Market at the UCCI;
- **Alexandr Khlyapov**, president of AMC National Reserve;
- also natural persons-residents of Ukraine, identified by the Agency as 'persons associated with key shareholders' are shareholders of AMC National Reserve .

AMC National Reserve is part of the association of companies 'Business-Congress Corporation'. The president of this association is Oleg Likhovid, shareholder and president of AMC National Reserve. Besides AMC, the Business Congress Corporation includes:

- Congress-Invest Ltd, licensed securities trader and investment bank, securities trader serves the interests of AMC also;
- 'Financial company Congress Real Estate Finance Ltd', financial company that specializes in attracting investments to construction; 'JSC Holding Kievgorstroy' is one of the customers of Congress Real Estate Finance Ltd;
- Administrator of pension funds 'Administrator of Pension Provision'.

It should be considered that 'Business Congress Corporation' is not a registered association. AMC National Reserve voluntarily discloses to clients information about membership in association of companies. Membership of AMC Nationalniy Rezerv in association of companies gives it certain level of institutional stability.

AMC National Reserve is a core business of the informal association Business Congress Corporation. During 1995-1998, AMC National Reserve, which at that time was named JSC IC 'Congress-Invest', has invested more than 300 thousand privatization certificates into the shares of Ukrainian companies. The company took a full-fledged part in the process of denationalization. In 1995, the company had got its first large client, Krivoy Rog central ore processing and mining equipment repair plant, which was assisted in the process of voucher privatization.

In the late 90's the company Congress-Invest has helped a number of large clients to successfully buy businesses that were subject to privatization.

In 2005, the investment company Congress-Invest due to changes in activity profile was renamed into 'JSC AMC APF National Reserve'. The same year the company had got a license from Securities and Stock Market State Commission for asset management of investment and nongovernmental pension funds. In July 2005 Congress-Invest company was created, which has got the license to trade securities. Thus, within Business Congress Corporation the operation of investment bank, trader of securities and AMC, as potentially conflicting of interests for investors, have been divided into different legal entities. According to the adopted strategy of business development in 2006–2007 the agreements on asset management of seven non state pension funds (NPF) have been concluded.

In spring 2008 PNPf Perviy Profsoyuzny was transferred under management of AMC National Reserve.

In spring 2009, the amount of pension funds managed by AMC National Reserve reached 1 mln UAH. The amount of 'personal' customer funds was 250 mln UAH.

In 2010, JSC AMC APF National Reserve put its statute in compliance with the new Law "About Joint Stock Companies" and changed its name to Private Joint Stock Company AMC National Reserve.

In July 2010 the already fifth NPF managed by AMC National Reserve has exceeded the margin of 100 thousand UAH. Currently the total amount of pension funds is about 1.6 m UAH, of Public investment funds — 1.2 m UAH, Client funds is about 190 m UAH.

Key business lines for AMC National reserve is management of non-state pension funds as well as personal funds of private and corporate clients. The major emphasis of company development is to manage long term money and NPF is matching at the best such conception. Client funds are focused primarily on real estate transactions because of the specific clientele.

Among customers and partners of AMC National reserve there are such known companies as: JSC Holding Company Kyivgorstroy, JSC DSK-4, SPS, RovnoGaz, Ternopolstroy, UkrSibbank, VTB Bank, PUMB, UkrSotsbank, Bank Clearing House, AMC Art-Capital, Navigator-Invest , IC Troika-Dialog, IC Phoenix Capital.

Analysis of company financial performance over the past 3 years allowed the Agency making some conclusions:

1. Net assets under management of AMC National Reserve in 2007–2009 have increased by 2.35 times. The company provided annual managed assets growth by more than 50 mln.
2. Net assets of public funds managed by AMC National reserve was only 1.1 mln. The company did not claimed leadership in management of public funds. Nevertheless the total number of 31 funds under AMC management can be considered as essential.
3. Despite the crisis, AMC National Reserve managed to ensure revenue growth by 45% over three years.
4. The operation of AMC National Reserve has remained unprofitable for the past 2 years yet the level of loss can be considered as not essential. For example, in 2009 the company's losses was 762 th. UAH that makes less than 1% of the equity at the disposal of the company.
5. The company remained overcapitalized. Even after a significant growth of net assets under its management the equity/net assets under management ratio remained at the level over 60%. It should be reminded that AMC in foreign practices can take over assets under management in the amount by 50 times higher than equity.

Table 1

Key performance indicators of PJSC AMC National Reserve in 2007–2009

Indicators	2009	2008	2007	Growth rate in 2008-2009	Growth rate in 2007-2009	Difference over 2007-2009
Net assets under AMC management, total, ths.UAH	194,517.5	140,259.3	82,650.1	38.68%	135.35%	111867.4
Annual growth rate of net assets under AMC management, ths.UAH.	54,258.2	57,609.2	-	-5.82%	-	-
Public funds net assets, ths.UAH.	1,134.7	722.5	24.0	57.05%	4627.92%	1110.7
Number of funds under management (pcs)	27	27	24	0.00%	12.50%	3
Shareholders equity, ths.UAH.	123,017.0	123,779.0	124,008.0	-0.62%	-0.80%	-991
Authorized capital, ths.UAH	8,600.0	8,600.0	8,600.0	0.00%	0.00%	0
Proceeds, ths.UAH	818.0	772.0	563.6	5.96%	45.14%	254.4
Administration costs, ths. UAH	1,005.0	787.0	454.0	27.70%	121.37%	551
Net profit (loss), ths.UAH	-762	-229	6,048.2	-232.75%	-112.60%	-6810.2
ROE, %	-0.62%	-0.19%	4.88%	-	-	-5.5%

Source: data of AMC National Reserve, calculations by RA Expert-Rating

The company development is based on its own strategy. In Ukraine there are few AMC which basic strategy is participation in NPF market development. This activity will be unprofitable at the initial stage. Thus the second important area of activity providing necessary means for operation of the company are corporate services and management of large client portfolios. AMC National Reserve has survived the crisis with minimal losses and even in harsh times showed growth of revenue, of net assets under management and of number of funds managed.

2. Market share and business activity of the company

RA Expert Rating has estimated the share of AMC National Reserve in the Ukrainian market of ICI at the level of less than 1%. AMC National Reserve was established to manage NPF, which determines the nature of its business. Predominance of NPF under management in future will allow AMC to manage long term assets which guarantee business process steadiness and at the same time open up great scale growth prospects of operations in the Ukrainian market. As of 01.09.2010 the net assets managed by AMC NPF National reserve make up 2.8 m UAH. According to the Agency the hopes laid by AMC on NPF is quite justified. The agency expects intensification of growth in this market after the intensification of pension reform process in Ukraine.

If the amount of assets held in ICI and NPF only would be criterion of AMC share in the market, than the share of AMC National reserve at the end of H1 2010 will be 0.03%.

According to the Agency, at the moment AMC National reserve does not come to the fore in any of asset management market segment. In the company operation there is an increase in assets of one public ICI and of several NPF, but against the total market growth this index is not actually significant. AMC National Reserve managed to take significant market share in non-public (private) ICI. Over the past three years this share has grown steadily but in the first quarter fell down to just below 2%. The Agency cannot draw conclusion on the role of AMC National Reserve in the market of private fund management since the estimation of market share is always based on public ICI. The share of AMC National Reserve in NPF market is also negligible: less than 1% (Table 2).

Table 2

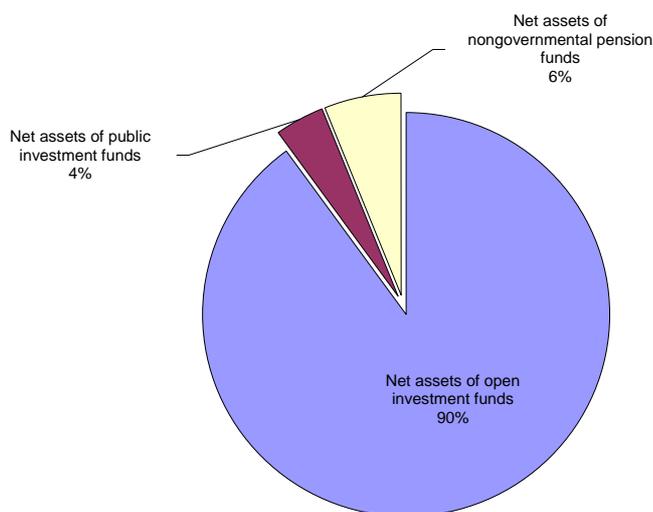
Dynamics of PJSC AMC National Reserve estimated market share in 2007–2009

Indicator	Q1, 2010	2009	2008	2007	Difference over 2007-2009
Market volume of public ICI and NPF (m. UAH).	8128.55	7048.92	5013.75	4402.14	3726.41
Company share at the public ICI and NPF market	0.03%	0.03%	0.03%	0.01%	0.02%
Market volume of nonpublic ICI (mln. UAH).	7189.15	6512.71	4564.35	4159.34	3029.81
Company share at the private ICI	1.97%	3.72%	2.14%	2.55%	-0.58%
Market volume of NPF (mln. UAH).	939.4	536.21	449.4	242.8	696.6
Company share at NPF market	0.14%	0.21%	0.16%	0.01%	-0.86%

Source: data of UAIB, AMC National Reserve, calculations by RA Expert-Rating

The current structure of net assets under company management reflects implementation of its strategy. AMC relies on NPF however due to low popularity of this instrument among customers the business did not and could not grow. Obviously already during the next 5–7 years the share of NPF in the net assets of AMC will displace the nonpublic ICI. Meanwhile 90% of assets in AMC on September 1, 2010 are assets of private funds (Fig. 1).

Fig. 1 Structure of net assets under the management of AMC National Reserve of 01.09.2010



Analysis of the competitive area of AMC National Reserve has shown that the following asset management companies can be considered as main competitors:

1. Which show intensive marketing activities in the sector of public ICI.
2. Which own two and more public ICI and NPF.
3. Which maintain and increase market share.
4. Which have regional network.

Among such competitors the following AMC could be separated out: Art Capital, UkrSib Asset Management, Investment Capital Ukraine, Diamant Invest Management, ITT-Management, KINTO, FINEX-CAPITAL, Dragon Asset Management, TASK-INVEST, SEB Asset Management Ukraine.

According to Agency the company has a logically organized sales system. Dominant role in the sales system is played by the president of Business-Congress Corporation and the employees of Tour de Finance Company, making part of corporation. The President working in conjunction with the personnel of sales company covers the segment of large customers focused either on private funds or on NPF that is corporate customers and large investors-natural persons are within their scope.

AMC National Reserve is cooperating with several effective regional agents, which are located in Rovno, Ternopol, Zaporozhye regions, the Autonomous Republic of Crimea and Kiev. There is a continuous rotation of regional agents in the company, strict requirements to their performance indicators are in place, i.e. actually the regional agent network is still in process of organization. By early 2011 the company is planning to cover a part of southern regions of Ukraine by the agency network. Quite often the sales are carried out by the own staff of the company for which motivational scheme have been developed.

Sales are focused on pension funds. The marketing plan mainly aims involving corporate clients into operations with NPF. Main communication channels are information materials, placed directly in companies and entities, communication with the senior personnel, lectures for students, demonstration of films about pension funds. Most of the regional agent job is focused on power sector enterprises. Considerable attention is paid to the development of company's web-site. In the future the company plans to increase the role of this web-site in the system of sales and customers informing.

According to the Agency the sales system of AMC National Reserve though meets the minimum requirements of the company and is based on many years' experience, is still in its initial stage of development. The company should more actively involve customers through banking sales channel, possibly use the existing network serving life insurers, to become more attractive to large corporate clients.

In general AMC National Reserve is at the very beginning of the struggle for NPF market share. This company has a good starting position in this race, but it can't be a guarantee of future leadership. Like most companies in the NPF management sector, AMC is in search of effective sales models and is expecting the pension reform.

3. Fiduciary risks for the clients

The analysis of taking investment decision in the AMC National Reserve has not revealed any serious violations from side of AMC. Despite the fact that AMC belongs to an informal association of companies with licensed dealer in securities, no eventual conflict of interest is possible. For transactions with the assets of pension and investment funds, AMC National Reserve uses services of other traders so that no conflict of interest would arise. A trader who is in the same group with AMC, is used exclusively as an obligatory second side in the exchange. Nor such trader provides any services to the underwriter, i.e. it does not have any public offering, and respectively any obligations to the issuer for redemption of certain amount of their securities. The agency believes that the relative weakness of investment banking within the informal association can for a long time serve as warranty of that AMC National reserve would have no potential conflict situation with the investors.

At the same time the management bodies of AMC National Reserve include persons that influence the business of securities trader. Due to small size no physical separation on the place of residence between AMC and trader. All this indirectly indicates that hypothetically sooner or later may arise conflict of interest at activation of investment banking operations of the group. The agency recommends investors to independently monitor the operations of the trader Congress-Invest Ltd and its participation in various kinds of private or public offerings. Potentially the presence of trader in the group increases the fiduciary risks.

To reduce such 'potential' fiduciary risks the Agency recommends to create the code of ethics for the members of the supervisory boards of the funds and for AMC as a whole. AMC must publicly commit to investors and depositors of NPF on notification of investors about all potential risks of fiduciary nature. Simply speaking, it is necessary to inform investors about each participation in offering of the trader of group, especially if securities offered are going to belong to NPF or public fund. This is the international practice and it disciplines the management of AMC and of the investment bank. Unfortunately, it is almost not used in Ukraine. And this fact has adverse effects on infrastructure ratings of AMC.

4. Financial soundness

Analysis of financial sustainability of the company has shown that AMC National reserve remains overcapitalized for many years and has no clearly defined credit risks. It operates in the legal framework complying with the regulator requirements to the main indicators of AMC operations in Ukraine.

In the AMC National reserve, the management sees two vectors of the financial stability of the company :

- stability of the company as a separate business, i.e. ability to pay salary, rent fee, etc.;
- stability of the funds under management, i.e. ability to make payments to the participants.

As regards the first aspect: There are no problems with support of business. And the well-weighed strategy of the company is a key factor for that. The company has no extra expenses for staff required for operation, such as mutual funds. The Company is engaged only in those business areas that can provide: long term money of pension funds and funds 'under concrete client'. Namely such strategy ensures financial sustainability of the business. In addition, other companies of Business Congress corporation are always ready to support AMC. However, although there is an external support, according to the Agency, it is not registered in written, and the Agency perceives it as an uncertain one. It should be remembered that among shareholders of AMC there are natural persons, residents of Ukraine, potential of external support from which is difficult to determine. The fact that part of companies belonging to Business Congress Corporation are the clients of AMC, and respectively, pay their fees and partially provide guarantees for some part of business smooth over the uncertainty of external support .

Regarding the second aspect, obviously the crisis influenced AMC profitability. But as we have seen the damages suffered by the company in 2009 are not significant for the Company. AMC National Reserve survived rather easily through the crisis. Main reason of that is the orientation of the company on long term money that most likely allowed the AMC even earn on panic sales of bonds. Crisis problems regarded mainly not to funds solvency, but the inflows of new customers, and as a consequence, distortion of development plans.

Development history of AMC National Reserve public funds is not so long for some significant events influencing its financial stability to happen. According to the Agency, country default can potentially become such an event since a significant part of assets in accordance with the Law, were invested in government bonds. However after Ukrainian government got support from IMF the probability of such scenario is reduced to zero in the medium term. Some other events are unlikely to have significant impact: pension funds have very conservative strategy. They cannot be affected neither by drop of interest rates nor by stressful situations in stock markets.

As regards the risks of personal client funds, all their operations are carried out solely by client order. AMC can just recommend using different investment strategies. Typically these are technical operations or short-term deposit placements. It goes rather on redistribution of financial flows than on investment.

Summarizing the analysis of AMC National Reserve financial stability it should be noted that the company as legal entity currently has redundant resources. Since shareholders equity/expenses ratio of the company in 2009 was over 32; the assets taken under management exceeded only by 1.58 times the shareholders equity of the company; for the last 2 years loss ration was kept at no more than 1% of shareholders equity (*Table 3*).

Financial soundness data of PJSC AMC National Reserve during 2007–2009

Indicators	2009	2008	2007	Difference over 2008-2009	Difference over 2007-2009
shareholders equity / expenses of AMC	32.67	15.51	2.49	17.16	30.18
Assets under management / shareholders equity	1.58	1.13	0.67	0.45	0.91
ROE	-0.62%	-0.19%	4.88%	-0.43%	-5.50%

Source: data of AMC National Reserve, calculations by RA Expert-Rating

5. Control system

AMC National Reserve is striving for complete openness. However, according to the Agency the transparency level of the company has not reached yet such degree when NPF investor or public ICI could fulfill follow up control over the work of investment managers. The Agency has examined company and group plans to improve transparency and has assessed them positively. Currently AMC National Reserve has the following advantages in achieving higher transparency:

- AMC publishes data on assets structure for each public fund;
- each operation of investment manager is described with a brief explanation of the rationale.

In whole in the section of public funds of company's website there are manager reports and all required informational minimum which describes activities and operational approaches in AMC. Nevertheless, there is a deficit of public information on AMC work. There is almost no system of relations with investors which could be integrated into the sales system. Partly such disclosure system, still missing in AMC National Reserve, on AMC operations and its investment managers, is needed for a branched series of public funds.

The Agency assesses as high the level of independence of investment managers in the AMC National Reserve. There is a committee on risk assessment organized in the company, working at high level. This committee establishes certain operational frameworks for managers. There is also a provision including list of fund managers duties, which provides certain independence and autonomy in decision making. In fact, Risk Management Committee is an Auditing Body for the managers, which establish limits on fund assets and in case of violations by the manager can provide recommendation to company administration for his dismissal. It is important that the executive managers of AMC can only report and submit proposals at the committee. They have voting right, equal to ¼ of committee members. AMC eliminates thus the influence of the administration on the work of managers insofar as Ukrainian legislation allows for that.

In addition, AMC National Reserve discloses the cost of administrative services. Each NPF pays to AMC the fee equivalent to 2.4% per annum.

In compliance with the requirements of regulators, AMC National Reserve has anti-money laundering control system. Control is carried out through the Audit Body, Risk Management Committee, which on monthly basis reviews manager activity. In case of occurrence of deviations in portfolio structure or sudden change of profitability (both rise and drop), the manager will have to explain that situation.

All buy and sale operations are performed through a manager independent back-office (back-office of the corporation trader). At this level, compliance with the regulatory base is monitored regarding the possibility of purchasing or selling a specific security as well as the adequacy of third party award. All buy and sale prices are checked vs. stock prices by financial department at the time of reporting.

6. Diversification of client base

The agency estimates the level of diversification of client base in AMC National Reserve as sufficient to ensure regular business processes. The company from the very beginning followed the strategy providing for creation of a client portfolio including customers belonging to different industries and pursuing different business goals.

Among the largest clients of AMC National Reserve under Private Funds there are: DSK-1, DSK-4, Poltava Elitstroy, B&C Law Company and others, including natural persons residents of Ukraine. Among the largest customers under NPF are: Rovnogaz, Slavianskiy Dom, Feofaniya, Ternopolgaz, Ternopolstroy, etc. Research of eventual relations between clients has shown that when excluding clients belonging to the same association as AMC, there are no commonly owned corporate customers in AMC client data base. Nevertheless, the Agency found certain relationship. Approximately 50% of AMC revenue comes from the companies being members of Business Congress Corporation. Also a part of the AMC clients from among construction companies were customers of Financial Company Congress Real Estate Finance (CRIF), making part of Corporation. It should be reminded that CRIF specializes in attracting investments for construction companies.

It is important that a part of large customers of AMC are companies with the state entering in shareholders structure. As AMC explains, behind this stays sales strategy of the previous years; sales department attracted trade unions and their satellites as customers for NPFs.

The disadvantages of client base diversification include significant amount of private funds managed by AMC for construction companies. Small number of customers remains a weak point of client diversification. For example, 96% of net assets corresponded to 5 top customers in private funds sector, and 100% of net assets corresponded to 5 top customers in the public fund Ulisse, i.e. AMC in fact did yet not used public fund status and did not ever worked with the open market. The agency recommends AMC to promote more actively its public fund. Share of 5 top customers in NPF is 64%, which also shows low level of diversification.

Specifics of NPF lies in that NPF's end customers are natural persons; and the legal entities specified in the rating questionnaire, conduct payments for their employees. Yes, they can stop paying any time but they cannot withdraw the paid money since it is the prerogative of Fund's clients, i.e. — natural persons directly owning pension accounts. On the other hand the statistics given by AMC on legal entities says that 64% of NPF's net assets correspond to 5 top customers. However the NPF managed by AMC, has more than 3500 clients in natural persons sector. This is the number of customers entitled to decide on withdrawing or no the money. Therefore in NPF sector AMC operation can be regarded as diversified.

In the whole we can conclude that the level of client diversification of AMC National Reserve remains close to satisfactory. The portfolio is filled by the customers who are in no way interconnected but they are few and a part of them belongs to construction industry, is in decline currently. The agency also draws attention to that in the income structure of AMC there is a marked bias towards private funds: AMC gets 90% of revenue from management of private funds, 8% — from management of NPF, and only 1% — from public funds. Private funds are specific one client — product. They do not assume heavy sales, and consequently they weaken promotion processes indicative for bulk product. AMC has only one public ICI fund under management, and in fact the Agency can't name it market-like because of poor client diversification within the fund.

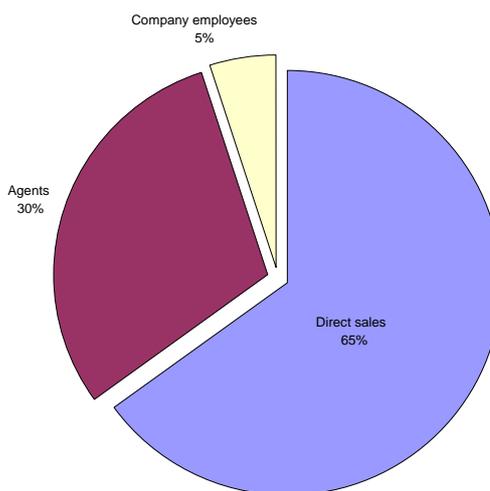
7. Diversification of sales channels

To improve the diversification of sales channels AMC regularly carries out a number of steps:

1. Hiring and rotating local agents in the regions; involving sales agents from other companies of Business Congress association in pension funds operations, improving motivation for the employees of the corporation for attraction of customers.
2. Constant efforts to transform company's website into sales enhancing tool.
3. Improving motivation of customers willing to draw in new customers.

AMC has several quite strong regional agents but their total amount is still insignificant. Main bulk of sales is made from company's headquarter and company management is involved in sales system. The agency believes that the sales channels efficiency is quite high: because of great part of direct sales company's distribution expenses are less than 1% of NPF's net assets. AMC independence from any intermediary sales channels should be regarded as positive. The Agency estimates that the AMC's direct sales make up 65% after 8 months of 2010 (*Fig. 2*).

Fig. 2 Sales distribution per channels as of 01.09.2010



8. Assessment of asset management quality

Assessment of AMC operation efficiency in fund management remains one of the main factors characterizing the output efficiency of investment managers. However, it is extremely difficult to assess working efficiency in AMC National Reserve due to at least two factors:

1. 90% of net assets are invested through private funds under AMC management. In these funds, AMC often serves as advisory body when the investment manager may give recommendations to the client, but the client makes the decision. Part of these funds are managed by AMC investment managers only formally, i.e., the investment managers follow the wish of the customer and control for compliance with requirements of Ukrainian legislation and the regulator of securities market when fund assets structure changes. Therefore, it makes no sense to assess efficiency of management for such funds as investment managers may only indirectly influence decisions of customers.

2. NPFs under management of AMC National Reserve, had mostly small size. Part of the NPFs was created only 1-2 years ago that is an extra short operation life for the pension funds. According to the statistical data given in the previous sections of the report, the NPF's assets managed by AMC National Reserve grow exponentially but they are still not sufficient to ensure large-scale work. Insignificant size of NPF results in corrosion of NPF profits from investment operations and this problem is specific not to AMC National Reserve alone, but to all AMC in Ukraine which just start working with NPFs. The period when commission fees for transaction are eating out the profits of NPF, is burdened at AMC National Reserve by the fact that it openly committed to use services of the third part vendor in order to eliminate potential conflict of interests. Probably that decisions leads to increase of commission expenses.

As a result, we have a situation where two main categories of funds, from which the AMC gets 99% of revenue, do not belong to the market type or due to objective circumstances are not ready for full-fledged benchmark identification of their efficiency. See profitability data in the *Table 4*.

Table 4

**Fund profitability data of PJSC AMC National Reserve.
in 2007–2009 and the H1 2010**

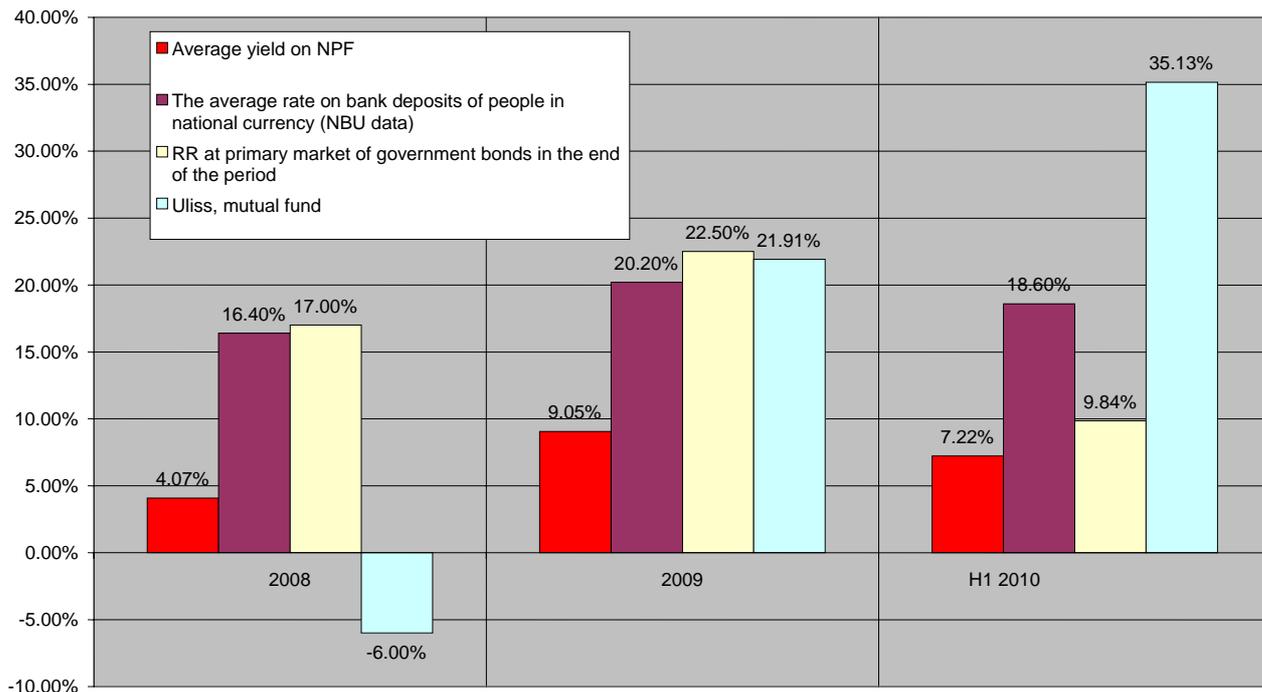
Name of the fund	Profitability in H1 2010	Profitability in 2009	Profitability in 2008	Profitability in 2007
Perviy Profsoyuzniy, NPF	-0.67%	13.82%	-5.75%	6.92%
Rezerv Zaporozhya, NPF	11.99%	4.40%	-	-
Stolichny Rezerv, NPF	7.86%	-	-	-
Chernomaorsky Rezerv, NPF	11.17%	8.48%	-	-
Rivenschina Rezerv, NPF	5.02%	4.84%	-	-
Ternopolschina Rezerv, NPF	5.41%	14.89%	9.51%	29.23%
Energorezerv, NPF	9.73%	7.88%	8.46%	22.70%
Average yield on NPF	7.22%	9.05%	4.07%	19.62%
Ulisse, mutual fund	35.13%	21.91%	-6.00%	34.73%

Source: data of AMC National Reserve, calculations by RA Expert-Rating

Main conclusion from the information on the profitability of NPFs and public fund Ulisse: during the crisis, investment managers have been able to prevent net assets value of funds from dropping and provided a yield to investors lower than the market average. One of NPF low yield reasons is commission fees eating the profitability of small funds. Other reason is the conservative strategy of the investment manager for most of NPF. The positions of the manager is that AMC pension funds do not intend to put under risk clients' money, therefore the bulk of NPF assets have been deposited into government bonds. That was the right position in the period of mass defaults on corporate bonds in 2008–2009. And that helped to save NPF assets.

Despite some limitations preventing from making a comprehensive efficiency assessment, the Agency compared the results of operation of NPF and the only public fund with deposit rates and profitability at government bonds primary market (*Fig. 3*).

3. Comparison of Fund Uliss profitability with the average NPF profitability, interests rates of population deposits and the profitability in government bonds market



The situation with public fund Ulisse was quite acceptable for the investors. The Fund overcame the efficiency threshold easily. In 2009 the Fund had shown higher rate of return than average rate on bank deposits in local currency. The first half of 2010 was a peak in amount of return: the Fund brought its depositors 35.13% per annum considering reduction of rates in the market of government bonds down to 9.83% and in the deposit market down to 18.6%. Such return looks attractive and shows the capacities of the team of fund managers.

9. Other factors

The agency has analyzed the interaction of AMC with market regulators, tax authorities and security agencies. No negative episodes in this interaction have been identified. Top management of the company hasn't been involved into criminal prosecution. Auditions analysis has not found essential violations. Tax audit of early 2010 did not find any significant violations. Inspection by Securities and Stock Market State Commission in 2009 found some minor violations in AMC. Those violations have been currently eliminated.

Analysis of AMC National Reserve staff schedule has shown that the company adheres to the conservative strategy of employment, maintaining a minimal number of staff, needed to take informed decisions (Table 5).

Table 5

Data on the staff of AMC National Reserve during 2007–2009

Indicators	2009	2008	2007	Difference over 2007–2009
Personnel no. at the end of the period	13	16	16	-3
Number of persons dismissed for the period	4	6	7	-3
Number of employed for the period	1	7	13	-12
Number of personnel with higher economic education	8	10	10	-2
Number of personnel with Sc.Cand. or Ph.D. degree	1	1	1	0
Number of workers with SSCMS certificates	6	7	5	+1
Number of personnel with working experience over 5 years	3	4	4	-1

Source: data of AMC National Reserve, calculations by RA Expert-Rating

Presence in company staff of persons with higher education and academic degrees as well as those who have worked in the stock market over 5 years should be regarded as positive fact. Rather great turnover of staff, that is not good for a NPF management business with long term periods is regarded as a negative factor by the Agency. However increased level of staff turnover is not critical for AMC.

AMC in its operation uses services of joint-stock bank Clearing House as depository and accounting bank. AMC has no corporate links with this bank through the owners. The cooperation with this depository does not bear any conflicts of interest with investors and depositors of NPF. According to AMC assessment the level of banking service remains good in this bank.

CONCLUSIONS

Following the rating research, RA Expert-Rating awards to JSC AMC National Reserve (code USREOU 22904759) the rating at the level **uaBBB.amc**. There is high probability of that the company with the given rating will discharge its fiduciary duties to the clients, having material and technical grounds, personnel and resource potential for that. Summarizing the results of the rating research RA Expert Rating highlights the following aspects:

1. AMC National Reserve occupies a small market share: less than 1% of public ICI and NPF market, on the nonpublic fund market the share of the company varies about 2–3%. Up to 90% of net assets of funds managed by AMC National Reserve, are owned by nonpublic funds, which complicates both evaluation of management efficiency and calculation of actual market share.

2. In the AMC National Reserve most potentially dangerous situations for investors eventually entailing conflict of interest, are solved by procedural methods: at the expense of NPF's profitability, AMC refused to interact with the trader belonging to the same Business Congress Corporation as AMC. The risk management committee is in place in AMC, where administration of the company responsible for the economic part does not have deciding vote. AMC does not practice selling products to issuers, securities of which are purchased by the funds. However, at the time of rating some measures undertaken hasn't been registered properly by internal documentation. Also, a part solutions eliminating the conflict of interests will be publicly announced only after publication of the rating report. That is the steps earlier aiming elimination of the conflict of interests with investors, have not been disclosed, that reduced their value. The AMC has comprehensive control system of investment managers work, which minimizes potential abuses.

3. Financial condition of AMC National Reserve has been determined by the Agency as very stable. The company is to large extent overcapitalized, has perfect financial strength margin, and the inefficient work of recent years is not a significant factor due to small losses and development strategy change towards the NPF management, an AM sector, which cannot be profitable at the start.

4. The Agency assesses as high the assets management quality in AMC National Reserve. On the one hand AMC has not yet worked at wide market and has a limited list of investors. On the other hand, after favorable market conditions are formed, the only public fund of AMC at once showed a return by an order higher than benchmarks. To make final conclusions, it is necessary for AMC to show similar results in the open market and with greater than now number of funds.

5. Diversification of customer base of AMC National Reserve is close to satisfactory. The public fund is based on investments of five investors. Private funds, by definition, cannot be based on massive investment. The only positive point in the diversification are NPFs, despite the fact that 64% of NPF assets correspond to 5 top customers. These funds are backed by a significant number of natural persons contributors. In the future, such model will open for AMC National Reserve the possibilities to work in the broad market.

6. RA Expert Rating focuses attention on the fact that AMC National Reserve already has an adequate system of management of client assets. The agency can only state the fact that the system worked in the past and is working now. Although, it works and is adapted for a narrow segment of clients. There is some risk of that when AMC enters broad market with mass products, the operational algorithms based on small number of investors would start failing. Currently the Agency doesn't observe apparent problems except a need for enhanced transparency. Increased transparency of AMC and successful implementation of its operation models in the open market can become reasons for raising the infrastructural rating.

Appendix A

Use limitations of the rating report

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Depositors, insurers, investors, when using the given rating report, do automatically agree that the contents of the given rating report are the opinion of analysts of Rating Agency Expert Rating.

For AMC the Rating is made according to the scale of RA Expert Rating Ltd (table A) which has been adapted to national standards.

Specially for Ukraine the RA Expert Rating analytical service adapted the national rating scale to infrastructural ratings (**table A**).

Table A

Adaption of national rating scale to infrastructure ratings

Rating	Probability of issuer compliance with undertaken liabilities	Scale for AMC	Scale for collectors	Scale for custodians	Probability of infrastructure company compliance with fiduciary obligations
uaAAA	Highest	uaAAA.amc	uaAAA.col	uaAAA.cus	Highest
uaAA	Very high	uaAA.amc	uaAA.col	uaAA.cus	Very high
uaA	High	uaA.amc	uaA.col	uaA.cus	High
uaBBB	Good	uaBBB.amc	uaBBB.col	uaBBB.cus	Good
uaBB	Acceptable	uaBB.amc	uaBB.col	uaBB.cus	Acceptable
uaB	Satisfactory	uaB.amc	uaB.col	uaB.cus	Satisfactory
uaCCC	Alerting	uaCCC.amc	uaCCC.col	uaCCC.cus	Alerting
uaCC	Low	uaCC.amc	uaCC.col	uaCC.cus	Low

Within the two last years Expert Rating RA was developing the methodology of rating infrastructural participants. In this development participated members of UAIB Council, workers of State Financial Services Committee, NBU, SCSSM and state entities.

How should be infrastructural ratings read?

We draw the attention of market participants to that the infrastructural ratings by Expert Rating RA do not show probability of a default of the company, and the alphabetic rating consists of three values.

For example, the rating **uaAAA.amc** should be perceived so:

- **ua** — national scale attribute;
- **AAA** — There is highest probability of that the asset management company with the given rating will discharge its fiduciary duties to the clients;
- **amc** — the letters designating that the rating made is for the asset management company

For example, the rating **uaAAA.col** should be perceived in the following way:

- **ua** — national scale attribute;
- **AAA** — There is highest probability of that the collection company with the given rating will discharge its fiduciary duties to the clients;
- **col** — the letters designating that the rating made is for the collection company.

Specifics of methodology of infrastructural ratings.

When the investor chooses a fund, he should necessarily study not only conditions of investment into the fund, but also to understand, how AMC does operate this fund. At the first stage the investor should make sure that AMC has everything necessary to make effective the processes of fund management. At the second stage the investor should realize the degree of AMC motivation in funds management efficiency. Namely after the synthesis of the two above listed aspects the AMC rating appears which indicates Probability of AMC compliance with fiduciary obligations.

When the bank having a portfolio of bad debts, chooses a collector, it should be assured that the collector has sufficient resources to execute the contract with bank. That is, that the collector has enough qualified personnel, developed regional network, worked out methodology of work with bad debtors etc. Besides, the collector should not have a conflict of interests which would prevent him from executing the obligations under contracts with clients. The methodology of Expert Rating RA on individual infrastructural ratings of collection companies accounts for both above mentioned aspects.

Expert Rating RA does disclose traditionally the technique of calculations at the publication of rating reports, the publication of reports on individual infrastructural ratings remains obligatory as it ensures compliance with basic IOSCO requests to rating agencies.