

The CII Market in Ukraine in 2005

As of 30.04.2006, 83 AMC had to file with the Securities and Stock Market State Commission the reports for year 2005 on 165 funds, including:

- 4 open-end unit investment funds;
- 15 interval unit investment funds (AMC *NIKoil-Ukraine* did not report on *NIKA Fund Conservative*);
- 2 close-end diversified unit investment funds (LLC *AMC AOLA* did not report on *PIF AOLA-Profit*);
- 9 close-end non-diversified unit investment funds;
- 115 venture unit investment funds (LLC *AMC UnIcom Plus* did not report on *UMF – D Fund*; LLC *Joint Investment Projects* did not report on *Financial Technologies Non-diversified close-end venture unit investment fund*);
- 11 close-end non-diversified corporate investment funds; and
- 9 venture corporate investment funds.

In 2005, 111 more funds were recognized as such that complied with the standards. The dynamics is as follows (Chart 1):

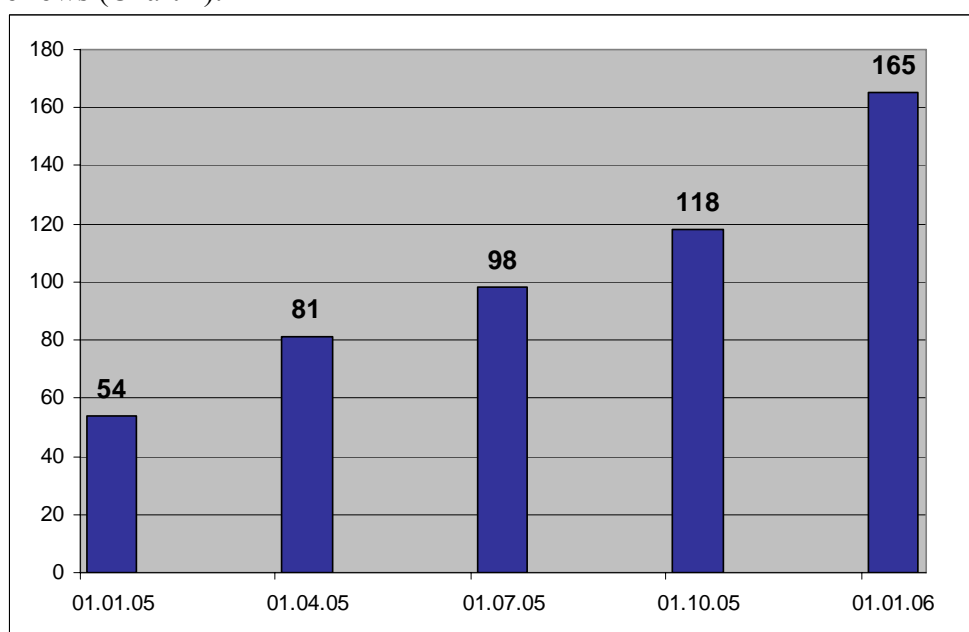


Chart 1. Dynamics of the number of funds that complied with the standards in 2005

On the whole, the funds that complied with the standards registered issuances in the amount of UAH 15,1 bln. (whilst the total registered issuance amount of all funds listed in the Uniform State Registry of Collective Investment Institutions (284 funds) comprised UAH 26,3 bln.), though the placement of issued securities was performed in the amount of UAH 2,1 bln. only (13,7% of the issuance announced), in particular:

- Open-end CII – UAH 26,7 M. (9,36% of the issuance announced);
- Interval CII – UAH 25,6 M. (63,4% of the issuance announced);
- Close-end diversified CII – UAH 0,96 M (11,9% of the issuance announced);
- Close-end non-diversified CII – UAH 214 M. (18,61% of the issuance announced); and
- Venture CII – UAH 1 796 M. (13,21% of the issuance announced).

However, taking into account the specific nature of CII activities, in particular, the possibility of periodical placement of additional securities, this indicator does not really characterize CII performance efficiency, but more likely reflects CII development potential and dynamics. Particularly in view of the fact that an average duration of close-end funds is about fourteen years, in other words, the total announced issuance takes into account funds' growth prospects for such period.

Along with such indicators as announced and placed issuance, one more important indicator for CII development analysis is the total net asset value.

As of 31.12.05, Ukrainian investment funds' net asset value comprised almost UAH 5 bln. and its growth over last year comprised UAH 3,4 bln. (NAV grew 3,22 times). In its turn, CII asset value amounted to over UAH 6 bln. (see Chart 2). The positive tendency consists in a gradual decrease of the share of liabilities within the CII asset structure – as of 01.01.06 liabilities comprised 19,7% of the asset value (as of 01.01.05 – 21,5%).

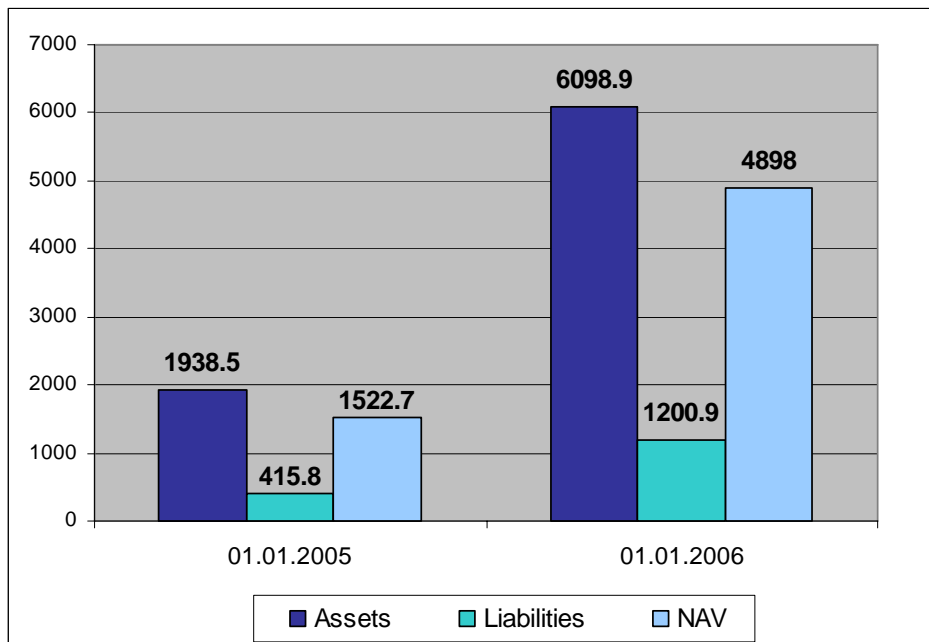


Chart 2. CII net asset value over 2005

Clearly, for the financial system of Ukraine such CII asset value is rather low – within the total financial system asset structure the CIIs' share comprises 2,5% (see Chart 3), and within GDP structure – 1,46%, which, by international standards, is an extremely small share (CII assets in market economies amount to above 50% of such countries' GDP, and in the US – even exceed the GDP amount).

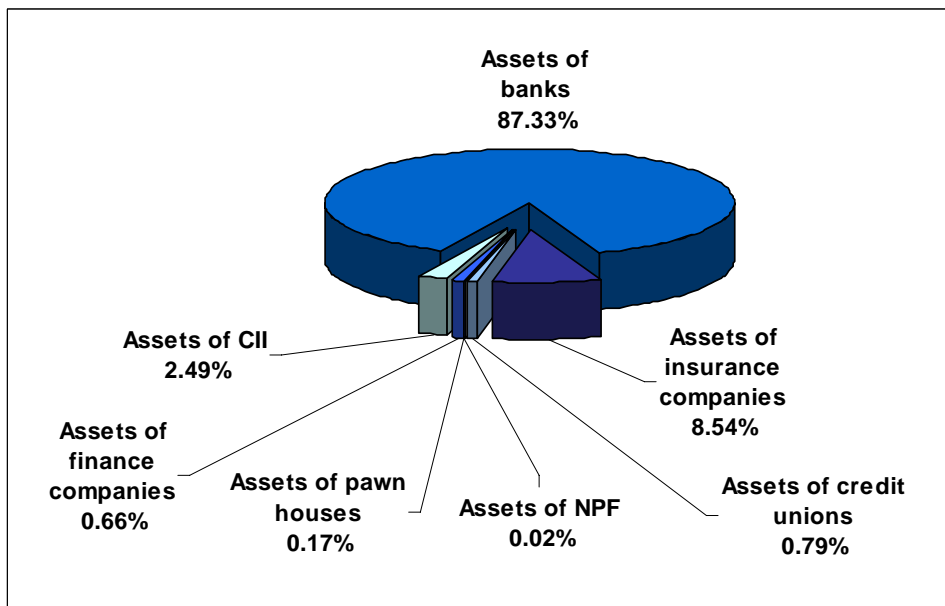


Chart 3. Ukrainian financial market asset distribution as of 01.01.2006

However, CII market growth rate gives grounds to believe that in the nearest time the collective investment sector will considerably strengthen its standing in the financial market of Ukraine: for instance, in 2005, the CII market enjoyed the most active development – CII assets grew by 215%, whilst bank assets – by 58%, and non-banking financial institutions' assets (with exception of CII) – by 13%. It should be taken into account that such growth rate of CII assets to a considerable extent is due to this market's formation, however, an external economic position (growth of citizens' savings,

gradual decrease of % rates on bank deposits, Ukrainian stock market development, entry of foreign investors to the market etc.) demonstrates that the CII market does have a considerable potential.

Furthermore, comparing the performance of Russian and Ukrainian CII, we can say that the volumes of the CII market in Russia, which had emerged much earlier, significantly exceed those of the Ukrainian CII market: as of 01.01.2006, Russian CII net asset value comprised RUR 232,3 bln. (equivalent of UAH 41,8 bln.), which 8,5 times exceeds the Ukrainian market's volumes. However, if we compare the share of NAV within GDP of each of the said countries, the NAV share of the Ukrainian CII is greater than the one of our Russian neighbors (see Table 1).

Table 1. Share of the net asset value of national and Russian CII within the GDP of each state as of 01.01.2006

Country	UAH M		CII NAV share within GDP structure, %
	GDP	CII NAV	
Ukraine	418 529,0	4 898,0	1,17%
Russia	3 887 640,0	41 814,0	1,08%

In their turn, venture CII enjoy the greatest share within CII – 91,83% (UAH 4,5 M) (see Chart 4). However, open-end CII have the greatest NAV growth rate – over 2005 net asset value grew more than **eight times** (from UAH 3,4 M. at the start of 2005 to UAH 28 M. at the end of 2005), which demonstrates high activity participation level of the population in collective investment institutions, as the key investors of open-end CII are natural persons (46% of placed investment certificates of open-end funds are held by the population).

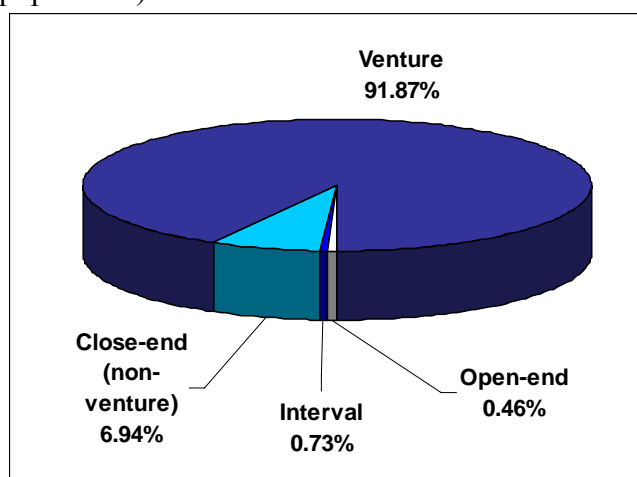


Chart 4. NAV structure as of 01.01.06

On the whole, natural persons' share within all funds' aggregate NAV comprises 0,99%, including:

- 46% - in open-end CII;
- 86% - in interval CII;
- 2,5% - in close-end CII; and
- 0% - in venture CII.

As to the sources of NAV growth, the main of them are as follows:

- Proceeds from new CII participants – UAH 1,4 bln.; and
- Profit generated in 2005 – UAH 1,9 bln. (see Table 2).

Table 2. CII profitability in 2005

Type of fund	Profit, UAH	Average weighted NAV, UAH	Profit / Average weighted NAV, %
Open-end	5 787 669,22	15 014 021,41	38,55%
Interval	4 691 806,02	24 256 823,59	19,34%
Close-end (non-venture)	113 058 004,71	318 098 260,61	35,54%
Venture	1 785 245 547,42	2 874 105 412,28	62,11%
Total	1 908 783 027,37	3 231 474 517,90	59,07%

As it can be seen, the main source of NAV growth is profit (over 50% of NAV value growth), which is an evidence of high profitability of the CII market. In fact, an average market return on equity (return to equity ratio at year end) for CII amounts to 39,59% per annum, which, compared to the similar indicator of the banking sector - 8,53% - looks quite convincing. On the whole, if we take the profit generated by the Ukrainian economy of the whole in 2005, the share of CII profits within the total profit amount will comprise 3,37% (see Table3), which is a fairly high rate for the national economy, particularly in view of insignificant CII asset volume. However, it should be pointed out that such comparison is not absolutely objective, as far as the nature of CII activities does not require that CII use tax optimization schemes, unlike the majority of Ukrainian companies in operation.

Table 3. Breakdown of Ukrainian companies and organizations' pre-tax profit from ordinary activities in 2005

Indicator	Pre-tax profit from ordinary activities, UAH M	Share within the total profit of Ukrainian companies and organizations for 2005, %	Owners' equity share within the Ukrainian GDP in 2005, %
Economy on the whole	57 619,30	100,00%	X
Banks	2 170,00	3,77%	6,08%
CII	1 939,00	3,37%	1,17%

In order to ensure a more objective comparison of CII profitability with other investment directions, we will resort to comparison with the alternative investments direction, the rate of return of which can be precisely determined, in particular – with bank deposits.

In view of the fact that the CII market is only emerging, a great share of funds that must file reports for 2005 have not been in operation for a full year, therefore, our analysis will be based on the funds that have been in operation for over a year (as of 01.01.2006), in particular on 73 investment funds out of 165 obliged to file reports for year 2005.

As of 01.01.2006, an average % rate on one year UAH deposits reached 15% per annum. In its turn, an average CII rate of return in 2005 amounted to 496,1% per annum, including:

- Open-end CII – 79,29% per annum;
- Interval CII – 25,2% per annum;
- Close-end CII – 41,2% per annum; and
- Venture CII – 737% per annum.

It should also be pointed out that such a high average rate of return for all venture funds (737% per annum) is due the fact that two venture funds managed to reach the rate of return above 5000% per annum. Those two funds excluded, an average rate of return for venture funds comprises **167% per annum**. Funds' breakdown by the rate of return is presented below in Table 4.

Table 4. CII breakdown by the rate of return in 2005

Rate of return, %	Number of funds
below (-20)	3
(-20) - 0	13
0 - 20	17
20 - 40	8
40 - 60	8
60 - 80	6
80 - 100	2
100 - 120	1
120 - 140	0
140 -160	0
160 - 180	0
180 - 200	2
over 200	13
Total	73

Therefore, as it can be seen from the calculations performed, CII rate of return is really higher compared to other investment directions.

Another question arising in the process of CII performance analysis – what factors allowed investment funds to demonstrate such results?

CII investment portfolio analysis shows that the key assets of the CII are securities, which comprise 53,81% of the said portfolio volume (see Table 5).

Table 5. CII asset structure as of 01.01.2006

(UAH)

Securities	Other assets	Real estate	Moneys	Total
3 316 002 577,86	2 374 122 446,19	22 015 543,28	450 510 015,43	6 162 650 585,76
53,81%	38,52%	0,36%	7,31%	100,00%

Table 6. CII asset structure by the types of funds as of 01.01.2006

	Moneys		Securities		Other assets		Real estate	
	UAH thsd.	Share	UAH thsd.	Share	UAH thsd.	Share	UAH thsd.	Share
Open-end	7 086,65	1,57%	20 832,19	0,63%	191,76	0,01%	0,00	0,00%
Interval	8 479,71	1,88%	19 864,18	0,60%	3 502,53	0,15%	0,00	0,00%
Close-end (non-venture)	179 328,64	39,81%	164 762,95	4,97%	46 524,18	1,96%	0,00	0,00%
venture	255 615,03	56,74%	3 110 543,26	93,80%	2 323 903,98	97,88%	22 015,54	100,00%
Total	450 510,02	100,00%	3 316 002,58	100,00%	2 374 122,45	100,00%	22 015,54	100,00%

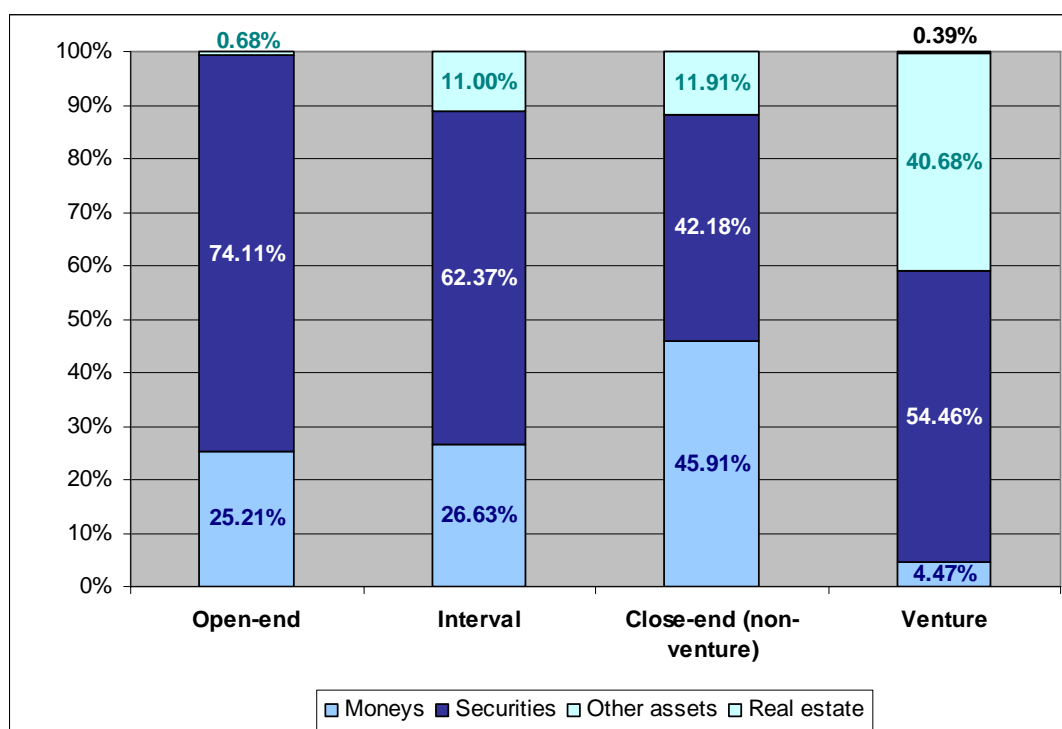


Chart 5. CII asset structure by the objects of investment per each type of funds as of 01.01.2006

The breakdown of the securities held by the different types of funds is as follows (see Tables 7, 8).

Table 7. CII securities' structure by the types of funds as of 01.01.2006

(UAH)

	Shares	Savings certificates	Investment certificates	Promissory notes	Government bonds, internal	Corporate bonds	Municipal bonds	Total
Open-end	10,60	0,90		0,90	1,10	5,50	1,80	20,80
Interval	15,90			0,10	0,30	2,90	0,60	19,80
Close-end (non-venture)	134,60	6,40		0,10		23,70	0,10	164,90
Venture	1 544,80		30,3	250,30		1 285,10		3 110,50
Total	1 705,90	7,30	30,3	251,40	1,40	1 317,20	2,50	3 316,00

Table 8. CII securities' structure by the objects of investment per each type of funds as of 01.01.2006

	Shares	Savings certificates	Promissory notes	Government bonds, internal	Corporate bonds	Municipal bonds	Total
Open-end	50,96%	4,33%	4,33%	5,29%	26,44%	8,65%	100,00%
Interval	80,30%	0,00%	0,51%	1,52%	14,65%	3,03%	100,00%
Close-end (non-venture)	81,63%	3,88%	0,06%	0,00%	14,37%	0,06%	100,00%
Venture	49,66%	0,00%	8,05%	0,00%	41,31%	0,00%	100,00%
Total	51,44%	0,22%	7,58%	0,04%	39,72%	0,08%	100,00%

Table 9. Securities into which CII invested most, as of 01.01.06

Security type	Issuer	Value of securities included into CII assets, UAH
Shares	OJSC <i>Spetskhimmash</i>	223 334 780,00
Corporate bonds	LLC <i>TMO LIKO-HOLDING</i>	138 388 912,50
Corporate bonds	LLC <i>IC Comfort-Invest</i>	132 004 000,00
Shares	CJSC <i>Ukrenergoatom</i>	131 609 771,40
Corporate bonds	LLC <i>Vyrobnychy Viector</i>	101 043 157,50
Shares	CJSC <i>OBK OFAL</i>	85 563 000,00
Corporate bonds	CJSC <i>Yenakievskiy KHP</i>	77 802 564,00
Corporate bonds	LLC <i>Rosprominvest</i>	75 588 260,00
Corporate bonds	OJSC <i>UIFK</i>	75 410 987,86
Corporate bonds	LLC <i>Carbon</i>	71 000 000,00
Shares	CJSC <i>Ukrغازprom</i>	69 467 048,80

As to the other assets, their key element are corporate rights (approximately UAH 1,5 bln.), including the corporate rights of limited liabilities companies in amount of UAH 395 M. Also, receivables account for 28% within the asset structure (UAH 667 M).

Most of moneys are placed on UAH deposits (90% of the total amount of moneys in CII portfolios).

An average % rate on foreign currency deposits – 6,3% per annum, and on UAH deposits – 5,9% per annum. Fluctuations range:

- Foreign currency deposits – between 0 and 10,5% per annum; and
- UAH deposits – between 0 and 22% per annum.

Banks, into which CII placed most of moneys:

- OJSC *Rodovid Bank* – UAH 62 799 850,75;
- JSCB *UkrSibbank* – UAH 45 074 499,93;

- CJSC *Financial Union Bank* – UAH 42 403 219,69;
- Joint Stock Commercial Social Development Bank (*Ukrsotsbank*) – UAH 30 483 640,8; and
- OJSC CB *Khreschatyk* – UAH 27 646 625,55.

The Costs

On the subject of costs, we should say that the total amount of costs incurred by CII amounted to UAH 24,5M, or 0,77% of the average annual net asset value of CII. The greatest share within the cost structure belongs to the costs paid to AMC as fees - 68,2% (UAH 16,7 M). The next cost item is the securities traders' fees – 19,91% (UAH 4,9 M). The rest of the costs comprise less than 5% within the total cost structure.

The breakdown by CII types looks as follows:

- Open-end CII – total costs comprise 3,73% of the NAV (including the AMC's fee – 2,97%);
- Interval CII – total costs comprise 2,57% of the NAV (including the AMC's fee – 1,76%);
- Close-end CII – total costs comprise 4,16% of the NAV (including the AMC's fee – 2,0%);
- Close-end non-diversified CII – total costs comprise 2,09% of the NAV (including the AMC's fee – 1,36%);
- Venture CII – total costs comprise 0,6% of the NAV (including the AMC's fee – 0,41%).