

Rating Agency Expert Rating Ltd
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The rating report

(on basis of the Agreement No. 20 of August 20, 2007)



National scale AMC stability rating:

uaAAA.amc

(very high stability level)

Interpretation of the rating:

There is very high probability of that the company with the given rating will discharge its fiduciary duties to the clients

Rating date:

September 29, 2009

Last rating report review date:

September 30, 2009



KINTO

Open Joint Stock Company KINTO

(Full name of the company)

2 Lysenko St., Kyiv, Ukraine 01034

(Company legal address)

2 Lysenko St., Kyiv, Ukraine 01034

(Company de facto address)

License data	Series AB No 416672. Issued 23.05.2008. Valid before 27.01.2011
Incorporation date	March 23, 1992
Date of start of operations	May 21, 1992
National enterprises register code	16461855
Account bank	OJSC PIRAEUS BANK ICB, Kyiv
Auditor	Transaudit (Odessa)
Actuary	Consulting Centre Ltd
Registrar	Notada Ltd
Depositories providing services to AMC	Ukrsotsbank, Agrocombank, Ukribank, KINTO Ltd, Affiliate Bank of the SBERBANK of Russia
Assets management license expire date	27.01.2011
President of the Company	Serhiy Oksanych, President
Contact person	Yaroslava Rakitina, +38 (044) 246-74-34
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Licenses issued to the company: License from Securities and Stock Market State Commission of Ukraine: Professional operations on stock market: Asset management; Assets management of institutes of collective investments; Management of Pension Funds assets; Series AB No 416672. Valid before 27.01.2011

*The present report is the rating research expressing opinion of Expert Rating RA analysts.
The report is a substantiation of the rating assigned, also being an opinion of Expert Rating RA analysts.
See the last page of the report for use limitations*

1. Company description.

Retrospective review. The Company KINTO was incorporated in the year 1992. Its present head — S. Oksanych, as well as A. Fedorenko, I. Yakovenko, Yu. Dubovik who subsequently became Company Vice-Presidents — initiated the creation of the Company.

The Company started asset management operations in 1994 by creating first privatization investment funds. Along with that the company KINTO founded the open-end fund KINTO-Budget — the first fund in Ukraine investing in domestic government loan bonds.

In 1995 KINTO, Wasserstein Perella Investment Bank (USA) and Investment Company EPIC (Austria) have created the first international fund for portfolio investments to Ukraine named New Ukraine Partners. The creation of the first international fund for investments into Ukraine in 1995 draw a wide international resonance.

In 1992–1996 the company KINTO initiated the creation and became one of the founders of principal professional associations: Association of Securities Traders (AST), Ukrainian Association of Investment Business (UAIB), First Securities Trading System (PFTS).

In 1998 KINTO became one of the first Ukrainian companies in securities trading area audited by Coopers & Lybrand on compliance of financial accounting with international standards. In the same year the Company has been recognized as leader on volume of completed transactions in security trading according to the Securities and Stock Market State Commission (SSMSC).

In 2003 a successful reorganization took place. The Company was transformed into the group, and its operations started to go through two companies: OJSC KINTO (asset management) and KINTO Ltd (Securities trading, depositary services). In the same year Synergy closed-end corporate non-diversified investment fund was established, the first public institute of mutual investment which shares have been listed at PFTS and started to be traded on the formal market.

Even before the expiration of the first year after obtaining assets management license the Company became the first, and for that period the only company in Ukraine operating assets of two investment funds of different type and kind: corporate fund ‘Synergy’ and privatization fund ‘Dostatok’.

In the year 2004 the company KINTO created the first in Ukraine open-end diversified unit investment fund ‘Classical’, which was accessible to a wide range of investors. In the same year the Company obtained the SSMSC license on pension funds asset management. In the year 2005 pension fund ‘Social standard’ was created by the Company.

Analysis of the key indicators of KINTO activities over the last 5 years shows the dependence of Company business level on the domestic equity market conditions. Thus, net assets under management of the Company has reached the historical maximum of 1.018 bln UAH at the end of 2007. In the year 2008 being harsh for equity market in Ukraine, the amount of net assets under the control of the Company dropped by nearly 60%. According to the Agency, such a significant decrease in volumes of net wealth under Company management happened namely due to sharp contraction in equity market business conditions. Thus, over 2008 the main stock market index of Ukraine — the PFTS-INDEX has decreased by 74.3%.

Despite decrease in AMC business volumes, KINTO increased the number of funds under management from 10 to 11 for the first half of the year 2009 (see **table 1**).

Table 1

Key performance indicators of OJSC KINTO in the years 2004–2008

Indicators	First half 2009	2008	2007	2006	2005	2004	Growth rate in the years 2004-2008
Net assets under AMC management, total, ths. UAH	404494.2	408731	1018747.1	271444.9	170713.1	63234.73	546.37%
Growth rate of net assets under AMC management, total, ths. UAH.	-1.04%	-59.88%	275.31%	59.01%	164.62%	-	-
Public funds net assets, ths. UAH.	337638.52	355691.9	900128.83	193210.47	109259.57	28114.63	1165.15%
Share of public funds in the net assets under AMC management	83.47%	87.02%	88.36%	71.18%	64.00%	44.46%	-
Net value of NPF under AMC management	11986.161	9732.933	9244.633	2024.314	348.046	-	-
Share of pension funds in the net assets under AMC management	2.96%	2.38%	0.91%	0.75%	0.20%	-	-
Number of funds under management (pcs)	11	10	10	8	7	3	233.33%
Shareholders equity, ths. UAH.	102953	107280	114809	42602	26307	26105	310.96%
Shareholders equity/net assets under AMC management ratio	25.45%	26.25%	11.27%	15.69%	15.41%	41.28%	-
Authorized capital, ths. UAH	66000	66000	33000	20000	20000	20000	230.00%
Proceeds, ths. UAH	8778	34490	27135	18484	10343	38649	-10.76%
Net profit (loss), ths. UAH	-4327	-7529	58207	16295	839	2194	243.16%
Return on sales (Net profit/Proceeds)	-49.29%	-21.83%	214.51%	88.16%	8.11%	5.68%	-
ROE, %	-4.20%	-7.02%	50.70%	38.25%	3.19%	8.40%	-

Source: Company data, calculations by Expert Rating RA

The agency also draws the attention of investors to significant rates of KINTO shareholders equity growth. Thus, over the last 5 years the company capital has grown by 4.1 times, and the authorized capital by 3.3 times. In the years 2006 and 2007 KINTO showed abnormally high profitability of shareholders equity. Both factors (authorized capital growth and the past profitableness of the Company) prove to the Company ability to increase shareholders equity.

The analysis of the main indicators of KINTO operations in the first half of the year 2009 indicates that the Company meets losses, however the depreciation process of net wealth under management has already stopped. As of July, 1st, 2009 under management of KINTO there were assets of 11 investment and 4 pension funds. The total amount of the net wealth under management of KINTO was evaluated in 404 m UAH. A strict specialization of KINTO on assets management of public institutes of collective investment (ICI) is traced. Thus for July, 1st, 2009, 83.5% of net wealth under management of KINTO corresponded to public ICI.

Thus, it is possible to assert that in the crisis time KINTO showed rather stable basic indicators of work (net profit, business growth rates, shareholders equity capital) with dynamics going along the negative market tendencies.

The company has safely overcome all the stages of equity market formation in Ukraine, it managed to occupy the vital niches in assets management sphere. Today more than 3500 physical persons are clients of KINTO, and the geography of corporate clients covers Russia, USA, Great Britain, Holland, France, Germany, Norway, Sweden, Austria, Greece, Argentina, South Africa, Ireland. Among corporate clients of KINTO there were also international companies AGA, Brunner Mond, CRH, Lafarge, Norsk Hydro, Samancor, Unilever and others.

The analysis of a long experience of KINTO operations permits the Agency to assert that the Company management succeeded in creating in Ukraine a successful sample of highly intelligent business, based on principles of professionalism, market ethics and a high level of responsibility towards clients and partners.

2. Market share and business activity of the company.

Market share. The policy of Expert-rating RA in the estimation of market share of the companies allows to evaluate the share of the client in a separately taken market. At the same time in Ukraine there is a certain specificity of the market of assets management service. Rapid development of the building industry in the years 2006–2008, particularities of tax laws, and also frequent cases when some AMC do serve interests of a single oligarch, resulted in considerable increase of venture funds net wealth volumes. As more than 80% of the net wealth under KINTO management are of public ICI, i.e. a clear specialization on public ICI management is seen, the Agency decided to evaluate market share of the Company based on its share in the market of public ICI. The Agency refers to the category ‘public ICI’ all the ICI which securities are accessible for purchase to investors without restrictions from AMC side.

The estimation of KINTO market share in the market of public ICI is given in the **table 2**. As the analysis showed over the last 5 years KINTO market share was not stable, but always remained substantial. According to Agency estimations, at the beginning of the year 2005 KINTO occupied nearly 70% of the market of public ICI, at the beginning of the second half of the year 2009 its share was slightly less than one third of the market.

Table 2

Dynamics of KINTO share in the market of public ICI for the years 2005–2009.

Indicator	1.07.2009	01.01.2009	01.01.2008	01.01.2007	01.01.2006	01.01.2005	Difference over 01.01.2005 – 01.07.2009
Net assets under KINTO management, total, m. UAH	404.49	408.731	1018.74	271.44	170.71	67.0	341.731
Share of public funds in the net assets under KINTO management	83.47%	87.02%	88.36%	71.18%	64.00%	47.64%	39.38%
KINTO market share, %	31.3%	30.8%	44.7%	42.3%	55.9%	56%	-25.2%

Source: Company data, assessments and calculations by Expert Rating RA

Such a significant change of KINTO market share over the last 5 years is caused by that the Company initially was a pioneer of public ICI market and actually was the first to response on the demand of population and corporate clients on public ICI. In 2006–2007 when new AMC started to appear in the market, the share of KINTO decreased. However in the first half of the year 2009 the drop in KINTO market share has ceased, and it even has grown on 0.5 %. Thus, **KINTO controls 31% of public ICI market in Ukraine**, and also is an AMC with largest public ICI net wealth value in Ukraine.

2.1. The product line of the company.

Public ICI. As of today KINTO operates assets of 11 investment funds, 10 of which are public and 4 are pension funds.

Under the management of the Company there is a line of funds including:

- open-end stock fund ‘KINTO Equity’;
- open-end balanced fund ‘Classical’;
- interval funds ‘Narodny’ and ‘Dostatok’;
- closed-end corporate stock funds ‘Sinergy-3’, ‘Sinergy-4’, ‘Sinergy-5’, ‘Sinergy-7’ and real estate fund ‘Synergy Real Estate’;
- bond fund ‘Synergy-bond’.

The Agency assesses as positive the efficiency of KINTO public ICI management, a detailed analysis of KINTO funds management efficiency is present in the section 5 of the rating report. In conditions when investors in the market are offered many new funds created in 2007–2008, for the consumer become of special importance the facts of successful closing of funds, and KINTO has such facts present. An example of success of ‘Synergy’ family funds is the closed corporate fund ‘Synergy’, created the first, with growth of each share value on 699.38% over three years of activity (March, 20, 2003 – March, 20, 2006). Average annual yield of ‘Synergy’ fund as of closing date made +99.8%.

In the period of financial crisis beginning should be also noted the successful closing of ‘Sinergy-2’ fund (operations from May, 30th, till February, 28th, 2008). The average annual yield of the Fund made +82.2%, net wealth growth per share: +420.95% (from 10 000 UAH up to 52 094,69 UAH). Study of public ICI market has shown that KINTO main competitors are Dragon Asset Management, Parex Asset Management, ART-CAPITAL Management, PIO Global Ukraine and Foyil. In the segment of bond funds UkrSibAssetManagement takes rather competitive positions.

Some of the mentioned companies had examples of successfully closed funds. Moreover there were precedents in the market when Ukrainian AMC blocked payments on open and interval funds. For the whole history of KINTO activities, even in the conditions of moratorium on preterm withdrawal of bank deposits, the Company had never used the 46th article of the Law of Ukraine ‘On collective investment institutes’ which allows AMC to suspend funds securities transactions when it is required by the interests of investors.

Namely the availability of the already successfully closed funds and no use of 46th article of the Law ‘On ICI’ provides a significant competitive advantage to KINTO in its struggle for the client, especially in retail segment.

The Agency carried out the analysis of the competitive environment which showed that practically each one of the above named AMC is theoretically capable to offer to investors various types of public ICI similar by their properties to those kinds of funds offered by KINTO. However it should not be forgotten that over the last 5 years and up to now KINTO remains the largest AMC by the amount of public ICI net wealth, that is the most evident proof of private investors trust to the Company. Besides that KINTO offers wider range of funds with different investment strategies giving investors the possibility of choice. For example, the analysis of availability of funds accessible to investors at five main competitors of KINTO has shown that no one of them has in management more than 8 funds (**table 3**). Therefore the range offered by KINTO can be considered as the widest one. Both these aspects do considerably strengthen the competitive position of the Company in the struggle for the client.

Table 3

Data on public funds available for investors: KINTO, Dragon Asset Management, Parex Asset Management, ART-CAPITAL Management, PIO Global Ukraine and Foyil

AMC name	Total number of funds	Name of funds available for investment
KINTO	10	‘KINTO-Equity’, ‘Classical’, ‘Narodny’, ‘Dostatok’, ‘Sinergy-3’, ‘Sinergy-4’, ‘Sinergy-5’, ‘Sinergy-7’, ‘Sinergy Real Estate’, ‘Sinergy-Bond’
Dragon Asset Management	2	‘Platinum’, ‘Aurum’
Parex Asset Management	2	‘Parex Ukrainian Balanced Fund’, ‘Parex Ukrainian Bond Fund’
ART CAPITAL Management	3	‘Parity’ Fund, ‘Antibank’ Dividend Bank, ‘First Real Estate Investment’ Fund
PIO Global Ukraine	7	‘Premium-Fund’, ‘Energy Premium-Fund’, ‘Index Premium-Fund’, ‘Metallurgy Machine Building Premium-Fund’, ‘Balanced Premium-Fund’, ‘Shares Premium-Fund’, ‘Pre-IPO Premium-Fund’
Foyil Asset Management Ukraine	5	‘Income and Growth Fund’, ‘Opportunities Fund’, ‘Bond Fund’, ‘Real Estate Fund’, ‘Foyil Ukraine 40 Index Fund’

Source: Expert Rating RA data

The current conditions of the Ukrainian equity market can be referred to possible risks factors able to determine business loss of the Company. Crush of main indexes, decrease in trade volume, Hrivna devaluation, which influences negatively the attractiveness of the Ukrainian equity market, result on occurrence in the market of moods hindering popularity of investment into ICI. Nevertheless, such moods in the market are connected with the instability period in the Ukrainian economy, and the investment into shares and funds being under management of reliable AMC remain the unique tool of protection against inflation in long-term prospect. Growth of monetary base not only in Ukraine, but also in Russia and EU countries, caused by anti-recessionary measures, laid up a future significant inflationary potential. Thereupon launch in the market by KINTO of a new opened-end shares fund ‘KINTO – Equity’ looks logical and does significantly expands the range of possibilities for investors.

Non-state pension funds (NPF). Special attention should be paid to Company products in the area of pension provision. Though today the net wealth of pension funds occupies only 3% from the total amount of assets under AMC management, management of non-state pension funds remains one of the most perspective market segments of assets management. This business has a very long life cycle and it will be possible to judge the first results of its course in 5–10 years. KINTO is involved in NPF management since 2005. The agency is positive about achievements of the Company in the segment of NPF management.

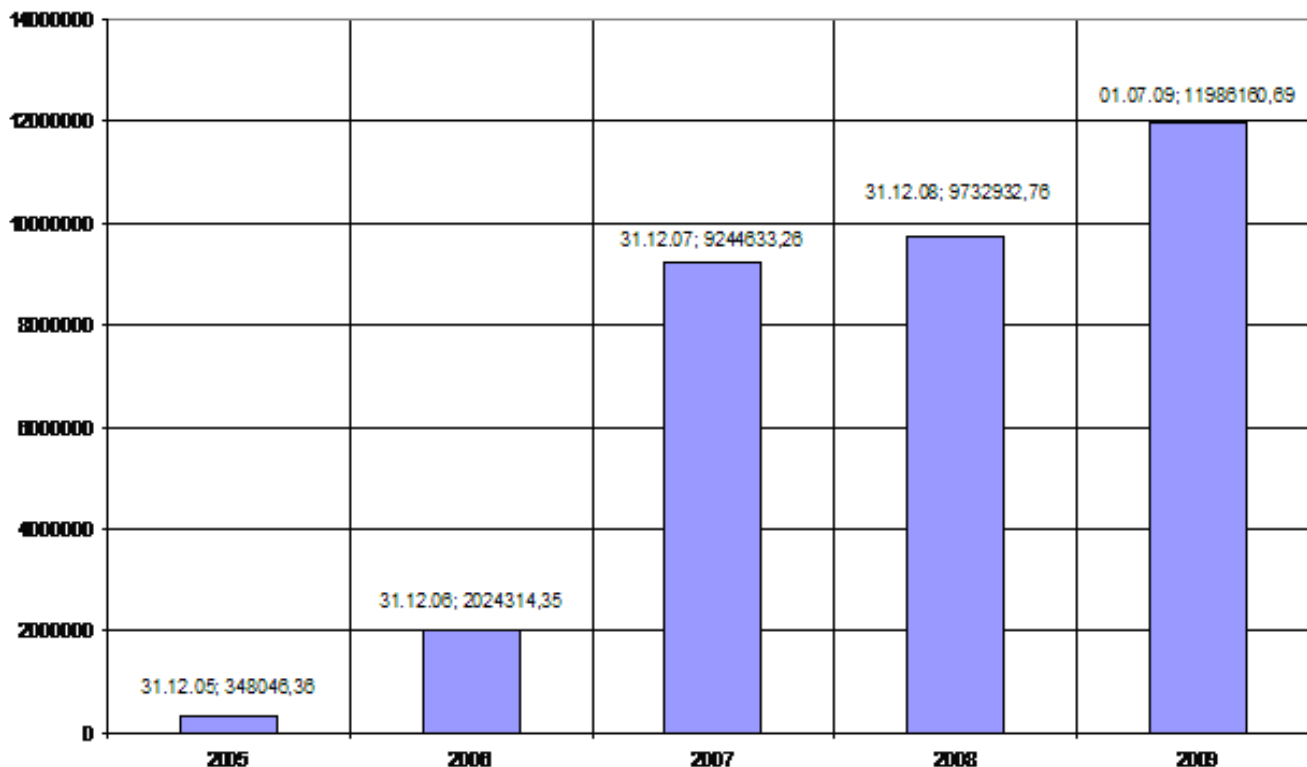
Thus, for the time of KINTO operation in this segment contracts have been concluded on assets management of the open-end non-state pension funds located in different cities of Ukraine: Kyiv, Ivano-Frankivsk, Lviv and Dnepropetrovsk. The cumulative net worth of NPF assets under KINTO management is over 10 million

UAH. (Fig. 1). Yield of the largest pension fund — NPF ‘Social standard’ for the first half of the year 2009 made 17.3%, an average annual yield as of 01.07.2009 made 10.3 %.

It should be recalled that by now under management of KINTO there are assets of 4 non-state pension funds:

- Open-end Pension Fund ‘Social Standard’.
- Open-end Pension Fund ‘Dynasty’.
- Open-end Pension Fund ‘Ivano-Frankivsk’.
- Open-end non-state pension fund ‘Garant-pension’.

Fig.1. Dynamics of NPF net assets amount under OJSC KINTO management, UAH



NPF administration is carried out by the ‘Center of individual accounting’ Ltd. This NPF manager was one of the first in Ukraine to enter the daily accounting of pension contributions and assets into its practice.

2.2. The analysis of marketing policy and sales process.

Sale channels. The main method of sales used by the Company, is the individual consulting on investment (through personal contact in AMC office, by phone, by means of e-mail) and learning and information workshops (2-3 times a week at AMC office and workshops in the regions). Main principles of consulting: from comprehensive explanation on investment products, assets management principles, risk-management system, accepted in the

Company to investment decision taking with consideration of investment horizon, risk component and expected return of the investor, and also of his requests to the liquidity of securities.

The broker service of the Company is made by the licensed stock trader (KINTO, Ltd.). Besides that, contracts are concluded on brokerage service with a number of regional companies having securities trader license. Regional sales are performed through them. Currently the Company is presented practically in all the regions of Ukraine, and the retail trade system is constantly expanding. Special attention is given to the training of dealers, software installation. The AMC back-office has been actually already created.

Traditionally the following sales channels are used by KINTO for investment funds securities sales:

- banks;
- independent traders in all regions of Ukraine;
- a network of fund shops.

As a drawback of sales process should be mentioned that the main sales pass through KINTO central office. About 70% of means are attracted through the central office, and only about 30% through regional networks. The Agency recommends the Company to expand trade channels, including at the expense of creation of system of electronic sales or by increasing level of regional agents motivation.

Process of sales. Investor can purchase investment funds securities under management of the Company both at the Kiev KINTO office, and from regional dealers in 32 cities of Ukraine. Purchase/sale procedure requires personal presence of the investor or of his authorized representative with necessary documents at KINTO office.

At KINTO office the investor signs the Questionnaire of the investment fund securities owner, the Application for acquisition (if the document is provided) and the Contract of purchase of funds securities.

At purchase in Kiev office the payment for investment funds securities is carried by:

- bank transfer within one bank day following the day of Contract signing;
- cash payment in the day of Contract of purchase signing (cash service is free of charge).

The minimum amount of investment for the closed funds equals to the price of one share of fund. For the funds the share pricing is made based on net assets amount of the fund (NAA) + agent commission. Besides that, the investors purchasing securities of KINTO funds, bear additional expenditures (**table 4**).

Table 4

**Additional expenditures of investors buying/selling funds securities
under management of KINTO company**

Name of fund	Purchase		Sale	
	Limitation on value or quantity	Agent commission	Limitation on value or quantity	Agent commission
'Classical'	5000 UAH and more	1%	5000 UAH and more	1%
	Up to 5000 UAH	2%	1000-5000 UAH	2%
	-	-	Up to 1000 UAH	4%
'Narodny'	5 pieces and more	1%	5 pieces and more	1%
	Up to 5 pcs.	2%	Up to 5 pcs.	2%
'KINTO Equity'	Any quantity	1%	Any quantity	1%
'Sinergy-3', 'Sinergy-4', 'Sinergy-5', 'Sinergy-7'	1 share	0.5%	1 share	0.5%
'Sinergy Real Estate', 'Sinergy Bond'	1 share	0.25%	1 share	0.25%

Note: In case of cash payment to Participant from the cash desk of the Agent, the commission of the Agent increases by the size of the bank commission for cash withdrawal.

Source: Company data.

KINTO supports independently the liquidity of funds securities. However investors should understand that according to the Law of Ukraine 'On collective investment institutes' neither the fund, nor the assets management company are not committed to repay securities of the closed-end investment fund before the expire of its activity term. At the same time, shares of such funds can circulate freely on the secondary market. There are firm quotations from market-maker security trader KINTO Ltd for shares of KINTO closed-end funds 'Sinergy-3', 'Sinergy-4', 'Sinergy-5', 'Sinergy-7', 'Synergy Bond' and 'Synergy Real Estate'. This fact does considerably improve the liquidity of funds securities and underlines the readiness of KINTO and the dealer connected with him to redeem the securities released to the market. Quotations on purchase/sale of securities in the secondary market are presented by the market-maker based on supply and demand for these securities.

The investors purchasing funds securities of KINTO should also know about the taxation of such transactions. According to the Law of Ukraine 'On taxes of physical persons incomes' the tax rate of 15% is applied to investment profit, defined as a positive difference between the income received by the tax bearer at sale of a separate investment asset, and its value calculated based on the total expenses incurred in connection with acquisition of such asset. The dividends under ICI securities are taxed at the rate of 5% (at the source of payment) — for physical persons. Dividends under ICI securities, charged and paid to legal entities, are not included for taxation purpose in the structure of taxpayer gross income. At securities purchase of majority of investment funds in Kiev the account of property rights is made by the Registrar. Thus the investor does not bear expenses on opening and service of personal account. At purchase of securities of investment funds through stock jobbers in regions investor must have an account in securities at the Depository. Tariffs on account service depend exclusively upon the Depository chosen by the investor.

Estimation of sales expansion plans. The agency took notice of the plans on Company marketing policy improvement for 2010 and does positively evaluates the complex of measures provided by the given plan. To safeguard the interests of the Client, Expert-rating RA will not disclose the details of the marketing plan in the given report.

Conclusions. Summing up the analysis of product-line of the Company and of its competitive environment, the Agency points out the following main competitive advantages of KINTO:

1. Position of the absolute leader in the market of public institutes of collective investment. According to the Agency, KINTO remains the main player in the market of public ICI, and also is one of the basic markets-makers of the Ukrainian equity market.
2. A seventeen years operational experience of the Company on equity market and on the assets management market.
3. Availability of successfully closed funds and absence of precedents on default of obligations to investors even during very difficult periods for the Ukrainian financial market.

4. Logistics of sales processes, accompanied by educational work with the population and businessmen. Speed and quickness of clients servicing.
5. High level of transparency in the Company, availability and accessibility of clear information on KINTO funds. KINTO is one of the few AMC completely disclosing the structure of public funds portfolios. After simple procedure of registration on the Company website, the client has possibility to watch independently the dynamics of assets of the fund wherein he is participating. Transparency makes part of sales policy of the Company and proves to the high corporate governance level in KINTO.

The actual information on KINTO Funds: <http://www.kinto.com/funds/report.html>

Evaluation of OJSC KINTO ‘market share’

	Indicator	aa	A	bbb	bb	b
		1 point	3 points	6 points	9 points	12 points
1	Market share	>8%	5-8%	2-5%	1-2%	<1%

3. Fiduciary risks for the clients.

One of the major characteristics of AMC reliability degree is the readiness of its establishment and managers to eliminate fiduciary risks. Any AMC, accepting money from investors, by default undertakes the obligation to manage those means in the best way. However there are situations in which some AMC may depart from their commitments and act for the sake of own profit increase or even for the sake of third parties. Expert Rating RA has developed a technique which allows to reveal the degree of investors protection from fiduciary risk and integrated the mentioned technique into the rating estimation of AMC reliability.

Study of possible fiduciary risks in KINTO has shown a number of specific features of the Company protecting its funds’ investors from the presentation of fiduciary risks or improper conduct from the side of the Company. The analysis of business processes in KINTO has shown:

1. The same as the overwhelming majority of world big AMC the KINTO works together with an affiliated stock trader, in this case it is KINTO Ltd. It would be very difficult to refuse the given scheme of interaction, as the availability of the affiliated stock trader results in a significant economy for clients. In particular, this essentially reduces expenses for transactions of the AMC itself, and also of its clients. KINTO followed the American solution of the given problem: the Company does not hide the fact of such dealer availability from the very beginning. Also the Company limited the interaction between the dealer and AMC internal documents.

2. The company is guided by existing standard documents in questions of fiduciary risks reduction, namely: principles of corporate governance of Ukraine, rules of activities on security trading, UAIB ethical code, GIPS standards. Actually KINTO is in the process of adaptation of statute documents and activity to the Law of Ukraine ‘On joint-stock companies’. The ethical code of the Company is developed. Namely the development and the public acceptance of the Ethical Code of the Company must become the factor limiting fiduciary risks.

Within the last five years no participant of investment or pension funds which assets are managed by the Company, never raised a claim to the Company nor produced any public accusation of the Company in infringement of ethical standards or fiduciary risks.

According to Agency, currently in KINTO there are no serious artificial mechanisms of controlling fiduciary risks, created by the management. However the level of resistibility to presentation of fiduciary risks in KINTO remains one of the highest in Ukraine due to natural reasons. KINTO business model is based on AMC high role in business processes, i.e. AMC business ensures trader business, not vice versa. Interests of the trader are naturally limited and certainly a situation could be imagined when KINTO funds purchase bonds or shares of issuers only because the affiliated trader has undertaken their floatation. However such situation is little probable, because in case such information would be disclosed in the market, AMC will start to lose business, and for KINTO Group of Companies the business has strategic character. That is why the Agency evaluates the probability of fiduciary risks presentation as insignificant one. In spite of the fact that OJSC KINTO basically serves interests of AMC KINTO, the Agency recommends KINTO Group of Companies to enhance information disclosure.

Assessment of ‘fiduciary risks’ component for KINTO OJSC

	Indicator name	aa	a	bbb	bb	b
		1	3	6	9	12
1	Situational determination of fiduciary risk	There are no representatives of conflict party in the management bodies, AMC is absolutely independent	In the management or founders bodies there are persons, earlier connected with the conflict party, AMC is formally associated with the conflict party	There are acting coworkers of the conflict party in the management bodies, however they control AMC management processes only in part	There are acting coworkers of the conflict party in the management bodies, they do completely control AMC management processes, but the founders remain independent. There is a system of checks and balances developed in the AMC, what is warranting a partial independence	There are acting coworkers of the conflict party in the management bodies, they do completely control AMC management processes, the founders are also controlled by the conflict party

4. Financial soundness

According to Agency, over the last 3 years the following factors influenced negatively KINTO financial soundness:

1. Landslide stock price depreciation (PFTS index) in equity market.
2. Withdrawal of foreign investment capital because of devaluation trends in the economy.
3. Withdrawal of capital from investment funds being under the management of the Company.
4. Reduction of company own assets market value.
5. Growth of expenses due to the need for a policy aimed on preservation of staff and basic level of salaries.

The agency also predicts that following the results of the year 2009, KINTO operations most likely will turn out unprofitable.

According to the technique of AMC reliability estimation by Expert-rating RA, three indicators are used for the estimation:

- *AMC shareholders equity/expenditures ratio*. In this case under AMC expenditures are meant management expenses. The ratio indicates how much the management expenses, being the main kind of expenses, can be compensated by shareholders equity. This indicator provides an indirect understanding of AMC safety factor.
- *assets accepted in AMC management/ AMC shareholders equity*. This indicator is often used by regulators in the international practice to delimit volumes of assets accepted in management by AMC. The factor indicates AMC ability to compensate losses to clients at the expense of shareholders equity.
- *ROE*, indicates the possibility of increasing shareholders equity at the expense of company earnings capitalization.

Table 5

Dynamics of main parameters used for evaluation of KINTO financial soundness

Indicator name	01.07.2009	2008	2007	2006	2005	2004	Difference over 2004–2008
AMC shareholders equity / administrative expenses	968.70%	244.70%	548.67%	281.55%	403.23%	614.09%	-369.39%
Assets under management / shareholders equity	392.89%	380.99%	887.34%	637.16%	648.93%	242.23%	138.76%
ROE	-4.20%	-7.02%	50.70%	38.25%	3.19%	8.40%	-1.38%

Source: Company data, Expert Rating RA calculations

The first two factors do substantially exceed boundary ranges defined by the mentioned estimation technique. By Agency estimations KINTO can increase the amount of the assets accepted in management up to 2 bln UAH without changing shareholders equity size.

The ROE was taken not for crisis period only, but as an average profitability over the last 5 years. Its estimated value has made 18.7%, that also corresponds to the best estimation — 1 point.

An additional analysis of assets structure, conducted by Agency, has revealed that on the beginning of 2009 assets of OJSC KINTO made about 111 m UAH, and AMC shareholders equity made 107 m. UAH. The company had no bad debt load, and its probable losses from the crisis phenomena in the economy of Ukraine could be covered at the expense of shareholders equity. At the same time, the assets quality analysis has shown that from 111 m. UAH of assets 85.6 m. UAH has been invested in instruments accounted according to equity method (line 040 of assets side of balance sheet). Usually this line of balance sheet is a problematic issue for the majority of the companies as it contains incorrectly evaluated ‘garbage’ shares. The Agency requested information on the structure of portfolio of securities being on OJSC KINTO balance sheet and ascertained that the portfolio consists mainly of liquid securities with listing.

Estimating the level of OJSC KINTO outside support, the Agency underlines that currently the Company is overcapitalized. According to the Agency even if the Company will incur losses in the second half of the year 2009, they will be easily covered by own means. Therefore no absence or presence of outside support was considered in the current rating estimation, but the possibility itself of outside support has been analyzed.

The analysis of outside support possibility began with the analysis of shareholders structure. The largest shareholder of OJSC KINTO was the management of the company, which by Agency estimations, controls more than 50% of company shares. The largest shareholder of OJSC KINTO is its President and founder S. Oksanych. There are also non-residents in the structure of Company shareholders: the citizen of Austria Daniel Goldsheider and the company Atlas Global Venturers, Inc (**fig. 2**).

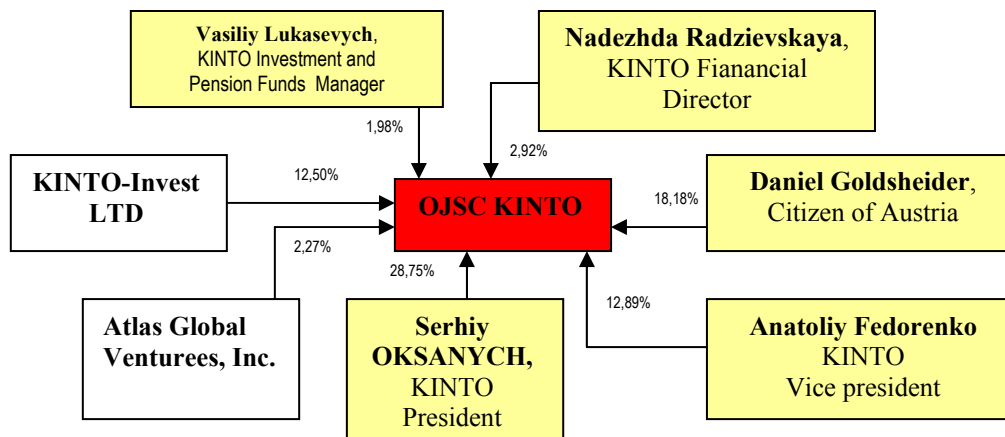


Fig. 2. KINTO shareholders structure as of 01.07.2009 (on the diagram there are shown Company shareholders with the equity share of 2% and more)

As analysis of shareholders Company has shown, among its co-owners there are no large foreign financial holdings or FIGs. On the one hand, that ensures management motivation to produce good operational results and guarantees the independence of the Company, on the other hand it makes uncertain the level of outside support.

Evaluation of OJSC KINTO 'financial soundness' component

	Indicator name	aa	a	bbb	bb	b
		1	3	6	9	12
1	shareholders equity / AMC expenses	over 50%	25-50%	25-15%	10-15%	under 10%
2	Assets in management / shareholders equity	30-40X	35-40X	40-45X	45-50X	over 50X
3	ROE	over 20%	10-20%	5-10%	0-5%	under 0%

5. Control system

Information policy. The key features of KINTO information policy are honesty, openness and availability for investors of the information on company operations and assets management. This features have been practically implemented by the Company which established unprecedented for the Ukrainian market standards of openness of information on the Company and funds assets management.

Exclusively on own initiative KINTO provides to all willing funds participants an access to their portfolios, publishes on the corporate web site publicly available quarterly comments of managing directors. The shareholders of closed-end funds of shares also receive additional statistics.

Currently the Company is developing 'Guideline on information policy' which will both rule internal interdepartmental information exchange and secure regular releases of publicly available information.

The Agency evaluates positively KINTO aspiration to transparency, and notes high quality of Company information disclosure in the national system of information disclosure. The policy of transparency obliges the Company to have a good internal system of quality control for services and such system does actually work.

Decision-making system. Key investment decisions in the Company are taken on the Investment Committee consisting of 9 experts, including: President of the Company, Asset Managers, Securities Trader representative, Risk Managers, Financial Analysts and representatives of Corporate Finance Department.

The Investment Committee acting on the basis of 'Regulation on Investment Committee of the Company', is in charge of managing risks arising in the process of clients assets management. Preparation of documents for the Investment Committee and discussion on the Committee of investment ideas and strategy and related risks allow to take balanced decisions. Scheduled meetings of Investment Committee take place every week. Along with that a flexible system is practiced in the company allowing to avoid excessive bureaucracy: when required by market conditions the Investment Committee can gather more often (it is made by request of two Committee Members or of the Chairman).

Notwithstanding availability of Investment Committee, the managing directors preserve freedom of action. Technically the procedure of investment decisions taking looks as follows: managers propose a strategy of actions, and the Committee approves or rejects it. The proposal of the managers is revised in case when one Investment Committee member has substantial and strong arguments against the decision. Such management style is more flexible and allows to quickly adapt to constantly varying market situation.

Presently there are three asset managers working in the AMC who have long term experience of work on the financial market of Ukraine. Two of them have international CEFA (Certified European Financial Analyst) certificates. There is certain specialized division in the activity of managers:

- shares;

- debt instruments;
- real estate objects and direct investments.

The following features of Company work do guarantee the independence of managers activities combined with controllability:

1. Asset managers in the Company are involved not in Company assets and structures but only in public funds assets management.
2. The reward of managers depends directly on the successes of funds activities.
3. Decisions are taken jointly in the Investment Committee.
4. Data on transactions are given to investors with detailed explanation of purchases-sales in quarterly comments of managers and with history preservation for all transactions. Thus more detailed information is given to investors, and more shortened one is quarterly published in the public part of the web site.

Analytic support. The Company managers at working out investment decisions rely on analytical materials both of the own analytical department and the outsource companies among which there are Renaissance Capital, Dragon Capital, Troika Dialog, etc. The analytical coverage of large number of companies of the first, second and third echelon and also of separate over-the-counter companies and projects is a strong side of the analytical department.

The analytical division of the Company consists of 7 analysts, including the Head and his Deputy. Each analyst covers one or several sectors of economics, including: power, telecommunications, coal industry, ore dressing, by-product-coking industry, metallurgy (including pipe and ferroalloy sub-industries), financial sector, machine building, chemical industry, consumer industries (including food-processing industry, paper and cardboard production), separate enterprises of other branches.

The analytical division conducts estimation of shares value of the Ukrainian enterprises (the Company is majorly focused on investment in shares). Traditional methods of fundamental analysis are used: discounted cash flow method and comparison method. The analysis is based on the use of official materials. For best accuracy in some cases the analysis of the foreign peer companies by discounted cash flow method is carried out. Also the results obtained by the fundamental analysis of some foreign peer companies with historical share quotations at various condition of equity market (drop or growth) are compared. Such estimations are correlated with conclusions of KINTO Ltd experts who work actively in PFTS trading system. Such combination of approaches allows to reach the best results. Ultimately, the information is passed to managers and to Investment Committee for taking maximally substantiated decisions. The agency underlines that the final decision entailing practical activities in KINTO, is made by joint body — Investment Committee, what excludes uncontrolled decision-making by Fund Managers.

The analytical division also develops its strategy vision of work on the market. The following issues are considered while doing so:

- general condition of equity markets and the underlying factors;
- prospects of development of separate sectors of Ukrainian economy in view of growth or decrease in shares of concrete sector and risks of investment in the shares of the enterprises of this sector.

Within the limits of branches the leaders and outsiders of the market are selected among the companies. The developed strategy vision is passed for consideration to the Investment Committee. The managers use the strategy presented to develop the vision of investment strategy for funds of different types.

The software. The Company developed and is successfully using its own specialized software (ARMA-Analytika) allowing to perform automatically analysis, estimation and monitoring of shares of more than 150 enterprises listed at PFTS. ARMA-Analytika allows to systematize the work both of managers and analysts, to considerably raise the efficiency of their interaction, and also to focus their attention on decision-making process.

Also the introduction of specialized software product COMARH PORTFOLIO is underway now. This is an application software developed and approved in other markets (more than 40 installations) for front- and back-offices of managing company. The system provides access to the portfolios current row, update of investment data by the current market data, portfolios estimation, analysis of various kinds of investment risk and assets management efficiency indicators. Further it will also allow to calculate and control in real time major risks connected with investment process, to conduct modeling of possible losses volume based on back-testing and stress-testing. The Company plans to implement this software by the end of 2009.

Risk management. The Investment Committee is the body in charge of managing risks arising in the process of clients assets management. The Investment Committee evaluates and controls the following risks:

- A)** Credit risk (assessed on the basis of financial analysis and business activity of the issuer or the bank, using the relevant system of coefficients).
- B)** Liquidity risk (assessed on basis of the analysis of results of trades in issuer securities in stock and over-the-counter markets).
- C)** Markets risk (assessed by portfolio of instruments within the frameworks of each investment strategy).
- D)** Concentration risk (assessed on conformity of portfolio structure to the limitations established by the legislation, by investment statements of funds, and also by decisions of Investment Committee).
- F)** Operational risk (limited by the choice of the counterparts corresponding to certain demands).

Calculation of risk limits and the running control of risks are conducted by risk managers and AMC managers.

The Agency Expert-rating RA assesses as the highest possible the control system acting in KINTO Company. Managerial decisions on funds are taken jointly based on the information prepared by the executive manager. The Auditing Body of the Company is independent of the team of managers and executive officers, the external auditor is also independent from AMC. The AMC discloses completely the information on level of reward of the external auditor.

Assessment of 'control system' component for OJSC KINTO

	Indicator name	aa	a	bbb	bb	b
		1	3	6	9	12
1	Internal control level	Managerial decisions on funds are taken jointly based on the information prepared by the executive manager. The audit body of the Company is absolutely independent from the team of managing and executive officers, the external auditor is also absolutely independent from AMC. The AMC does not completely disclose level of reward of the external auditors and members of AMC internal auditing body.	Managerial decisions on funds are taken jointly based on the information prepared by the executive manager. The audit body of the Company is formally independent from the team of managing and executive officers, the external auditor is also formally independent from AMC. The AMC does not completely disclose level of reward of the external auditors and members of AMC internal auditing body.	Managerial decisions on funds are formally taken jointly. The audit body of the Company represents the interests of the team of the managing or executive officers, there are no clear criteria of external auditor choice	Managerial decisions on funds are taken alone by one of the top managers. The audit body of the Company represents the interests of the conflict party, there are no clear criteria of external auditor choice	No internal control system at all in the company. The top management believes that internal control belongs to risk management procedures mandatory for execution by managing officers.

6. Diversification of client base

The agency established that the top ten of KINTO clients is made up by physical persons-residents of Ukraine. An average 'portrait' of clients: age of 30–55 years, higher education, orientation on investment horizon from 3 to more years. They are optimistic, rational, not subject to panic moods connected with crisis. Are prone to a moderate risk, have an internal aspiration to everything new. Have a high level of information activeness.

Table 6

Share of the 5 largest customers of OJSC KINTO in the net assets under the management of the Company

Indicators	1.07.2009	2008	2007	2006	2005	2004	2003
Share of the 5 largest clients	10.7%	11.5%	18.37%	22.65%	24.71%	34.81%	27.69%

Source: Company data

Nearly 7–10% of funds assets under KINTO management correspond to the five largest clients. Therefore the possibility is excluded of creation under the pretext of public fund of a fund actually intended for 1 or 2 persons. This fact influences positively the corporate governance level in the Company, there is excluded a situation when the decision on funds might be taken in favor of few investors, disregarding the opinion of the others.

Assessment of OJSC KINTO 'client base diversification' component

	Indicator name	aa	a	bbb	bb	b
		1	3	6	9	12
1	The share of the 5 largest customers	Up to 20%	Up to 30%	Up to 40%	Up to 50%	Over 50%

7. Diversification of sales channels

As up to 70% of sales is carried out through KINTO central office, the question of sales diversification is not actual for the Company. The company has no dependence on some single intermediary. The agency has carried out the analysis of the existing relations of KINTO with intermediaries and has come to the following conclusions:

1. In connection with financial crisis and the consequent reduction of takings the efficiency of intermediaries has decreased essentially.

2. From all intermediaries with whom KINTO works, only the 'Network of Fund Shops' LTD is affiliated with the Company. The given project is known as a joint creation of several AMCs which in this way wanted to revive the demand for investment products in the regions of Ukraine.

3. By estimations of Agency, takings from the largest sales channel did not exceed 10% (tab. 7).

Table 7

Takings from investors to KINTO funds from the largest sale channel

Indicator	1.07.2009	2008	2007	2006	2005	2004
From 1 largest sales channel, ths. UAH	4273.67	143768.13	325231.66	69921.22	16878.02	2889.363

Source: Company data

Along with that the Agency recommends KINTO to increase sales share through intermediaries in regions and to bring it from 30% up to 50%. And although the coverage of the regional market remains questionable in the period of decreased population incomes, the Company can quite concentrate the efforts on work with VIP-clients.

Expert Rating RA gives the highest estimation to sales channels diversification.

Estimation of OJSC KINTO ‘sales channels diversification’

	Indicator	aa	a	bbb	bb	b
		1	3	6	9	12
1	Takings over the recent 12 months	3(max) 10%	2 (max) 15%	1 (max) 20%	1 (max) 25%	AMC only

8. The control factors taken into consideration at the estimation

In the given section the information on Company work is presented to which the Agency pays attention when rating and which may or might become the cause for decrease of rating of the Company in case when certain risks should come true.

In process of rating assignment the Agency obtained the following information:

1. Members of Board and Members of the Supervisory Board of the Company have no previous convictions.

2. The agency is not aware of any claims raised against the Company, being under consideration in courts of Ukraine and abroad, which would be connected with its assets management activity.

3. The last tax inspection was conducted by the State Tax Inspection office of Pechersky district of Kiev the 19.12.2007.

The inspection established following infringements:

A) Subp. 5.2.1 p. 5.2 art. 5 of the Law of Ukraine ‘On taxation of corporate profits’ of 22.05.1997 no. 283/97-VR with changes and amendments thereto, resulting in underestimation of the tax for the total amount of 11 254,0 UAH., including by periods:

- for the year 2006 for the amount 2 883,0 UAH;
- for Q1 of 2007 for the amount 752,0 UAH;
- for Q2 of 2007 for the amount 3676,0 UAH.

B) Subp. 5.3.9 p. 5.3 art. 5 of the Law of Ukraine ‘On taxation of corporate profits’ of 22.05.1997 no. 283/97-VR with changes and amendments thereto, resulting in underestimation of the tax for the total amount of 3 943,00 UAH, including by periods:

- for Q1 of 2007 for the amount 2310,0 UAH;
- for Q2 of 2007 for the amount 1633,0 UAH.

C) Subp. 1.3. p. 1.3 art.1; subp. 4.2.9 p. 4.2 art. 4; p. 7.1 art. 7 of the Law of Ukraine ‘On taxation of physical persons incomes’ no. 889 IV of 22.05.2003 resulting in establishment of tax legislation requests infringements in part of correctness of contents and timeliness of transfer to the budget of tax amounts from incomes of physical persons for the amount of 1768,00 UAH, including in the periods: 2006 - 818,00 UAH; 2007 - 950,00 UAH.

D) p. 2.11 of the Decree of NBU Board ‘On approval of Regulation on cash operations in national currency’ no. 637 from 15.12.2004 in the amount of 939,93 UAH.

The above described infringements could in no way affect the financial conditions of the Company or on the performance by it of the obligations before clients.

4. Off-schedule inspection by SSMSC took place from 12.02.08 till 26.02.08 in KINTO concerning fulfillment of license conditions of professional work on securities market. Result: no infringements revealed.

In addition Expert Rating RA has conducted research of KINTO personnel structure dynamics. The agency has revealed no anomalies connected with personnel turnover. Since 2007 at the Company there was a stable number of employees — over 100 persons. The Agency draws attention of investors to the low change rate of AMC personnel structure. In the structure of the company there are seven persons with the degree of Sc. candidate or Doctor, 6 experts certified by SSMSC. 2 employees are the certified analysts (**tab. 8**).

Table 8

Information on KINTO personnel changes

Indicator	1.07.2009	2008	2007	2006	2005	Growth rate, 2005-2008
Personnel no. at the end of the period	105	102	102	85	67	52.24%
Number of persons licensed for the period	7	23	14	9	13	76.92%
Number of persons hired for the period	9	24	31	27	19	26.32%
Number of non-staff workers	13	12	10	7	7	71.43%
Number of staff workers with higher economic education	47	41	41	33	26	57.69%
Number of staff workers with Sc.Cand. or Ph.D. degree	7	7	6	6	5	40.00%
Number of workers with SSCMS certificates	6	6	6	5	5	20.00%
Number of workers with CFA certificate	2	2	2	2	2	0.00%
Number of employees with working experience on the stock market exceeding 5 years	36	38	39	33	31	22.58%

Source: Company data, calculations by Expert Rating RA

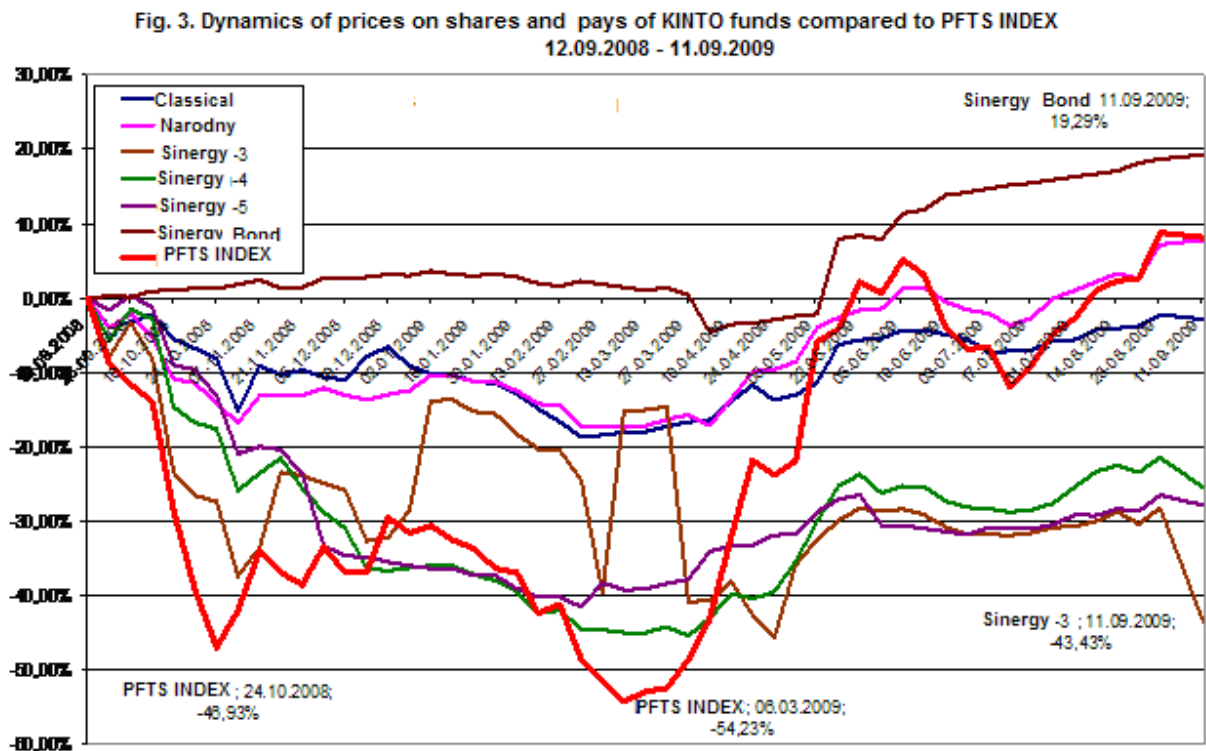
The analysis of ‘other factors’ has shown that Rating Expert RA has no reasons for updating the total rating towards decrease or increase. At the moment of rating review publication the fiscal and regulating state authorities did not have essential claims to KINTO which could affect important business processes in the Company.

9. Assessment of asset management quality

The assessment of quality of managing assets, accepted in management by AMC, is a questionable issue. In the world there is no an uniform approach to quality evaluation of fund management. There are at least several concepts of management efficiency determination: somebody looks at the excess of receipts over benchmarks, others try to compare funds yield to the fixed rates of return, somebody else use diverse combined methods and statistic parameters which also are focused on comparison of funds yields to certain market indicators. There are also concepts denying the term ‘funds management efficiency’ as such. Such concepts assume long-term investment strategies with the logic linked to economic cycles.

Whereas in Ukraine there is no effective system of market indicators (stock indexes, indicative interest rates, real estate price indexes) and also because there is no common opinion among domestic AMC concerning how to evaluate efficiency of funds, Expert Rating RA has conducted an expert assessment of KINTO public funds management efficiency using different evaluation models which, according to Agency, can be used in the Ukrainian practice.

Before coming to comparative evaluations of funds performance, attention should be paid to the domestic market conditions. Diagram of PFTS index dynamics compared to KINTO funds does accurately show the dependence between types of funds and their yield in varying economic conditions (**fig. 3**).



Time period of the data shown in the fig. 3, approximately corresponds to 12 months or 52 weeks from the moment of the downturn beginning. It is even visually visible that funds are divided on three conditional groups in relation to PFTS INDEX:

1. ‘Synergy Bond’ — bond fund which completed 52 weeks with +19.29% yield.
2. Funds ‘Nardony’ and ‘Classical’ which were not as much volatile as PFTS-INDEX, but in a final result became comparable to it. Both funds belong to the category of mixed funds, i.e. their portfolios include shares, bonds and deposits.
3. Funds ‘Synergy-3,4,5’ are classical shares funds, which completed the last 52 weeks worse than PFTS INDEX, but it is not possible to judge about their efficiency using PFTS index as a benchmark. When analyzing a wider prospect the given shares funds of KINTO beat PFTS index and showed the best results.

Namely the three strictly focused groups of KINTO funds and dependence between the position of groups in relation to PFTS-INDEX on kinds of funds shows that each of this groups of funds needs its own benchmark (indicator) for estimation of the level of overall performance of AMC managing officers.

The reliability level of estimation whether fund manager is working effectively or not depends upon correctly chosen benchmark. And due to that in Ukraine there is a very limited number of indexes, indicative rates and other indicators, the possibilities of adequate performance evaluation are considerably reduced. Therefore we are compelled to kind of testing the funds by several benchmarks either directly comparing their yield, or through Sharpe ratio.

Searches of benchmark for bond fund Synergy Bond at once brings us to several variants of benchmark: PFTS-index-cbonds, Euro-index -Cbonds Corporate Ukraine, indicative rates under bank deposits etc. However when the Agency has traced dynamics of portfolio structure change by the managing director, the analysts of Rating Expert RA have come to the conclusion that benchmark character should answer specifically to that financial area in which the managing director of bond fund Synergy Bond worked. That is, for example, it would be stupid to evaluate work of this funds' manager only under indicative rates, for example, under NBU refinance rate or Kiev-Prime, because the managing director has been deprived of the possibility to completely go out to the deposits, and has actually been compelled to work in the market of state, municipal and corporate bonds. These markets were characterized by an abrupt growth of yields and fall in prices of bonds over the last 12–17 months. According to the Agency, if we take as a benchmark the PFTS-cbonds 'market index', in this case actions of the managing director should be compared to the market, however market basket of PFTS-cbonds is not approved by ICI managing directors and it in no way can characterize their behavior or serve as a reference point for efficiency determination. Moreover PFTS ceased to publish PFTS index since June, 2009, thus de facto having deprived the Agency of the possibility to choose this indicator. Furthermore it is not clear how much the work of the managing director could be connected with the indicator, which basket is constructed partially on administrative base.

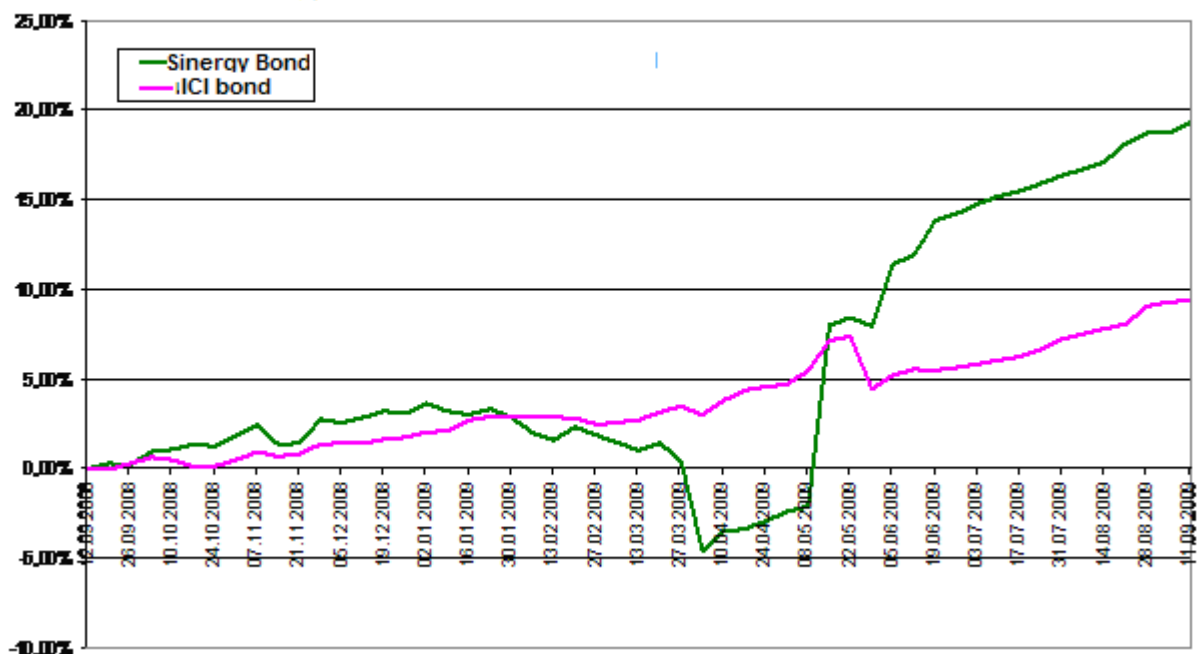
As a result the Agency, having the task in essence to assess the performance of managing directors, has come to the conclusion that the index constructed based on the relevant ICI types will be the optimal variant for the assessment. In theory the logic of such step looks as follows: for example, the manager of bond fund has to solve two segmented tasks:

- A) To choose a market for floatation.
- B) To choose issuers in which bonds he will be floating.

And as the law is one for everybody, all the bond fund managers are in approximately equal conditions. Hence, the assessment of work of the managing director based on its 'branch index' will be the optimal one. The same 'branch' approach considers both market conditions or trend change and moves of the managing director anticipating such changes. For example, if the managing director before a number of defaults in the segment of corporate bonds has transferred large part of funds assets into deposits, wherefrom into depreciated internal domestic bonds, than he will look better than the managing director who has missed such defaults.

That is why the Agency has decided to depart from practice of Sharpe ratio calculation or even visual comparison of diagrams based on detached benchmarks. To evaluate the fund Synergy Bond we have constructed own index ICI-BOND where we have included 7 bond funds (or funds close to bond funds by its contents, for example, money market funds). The diagram (fig. 4) shows clearly that the actions of Synergy Bond fund manager were as a whole effective with insignificant deviation from such practice in spring of 2009 during the period of fund strategy reorientation.

Fig 4. Yield dynamics of Sinergy Bond and ICI Index bond over the last 52 weeks



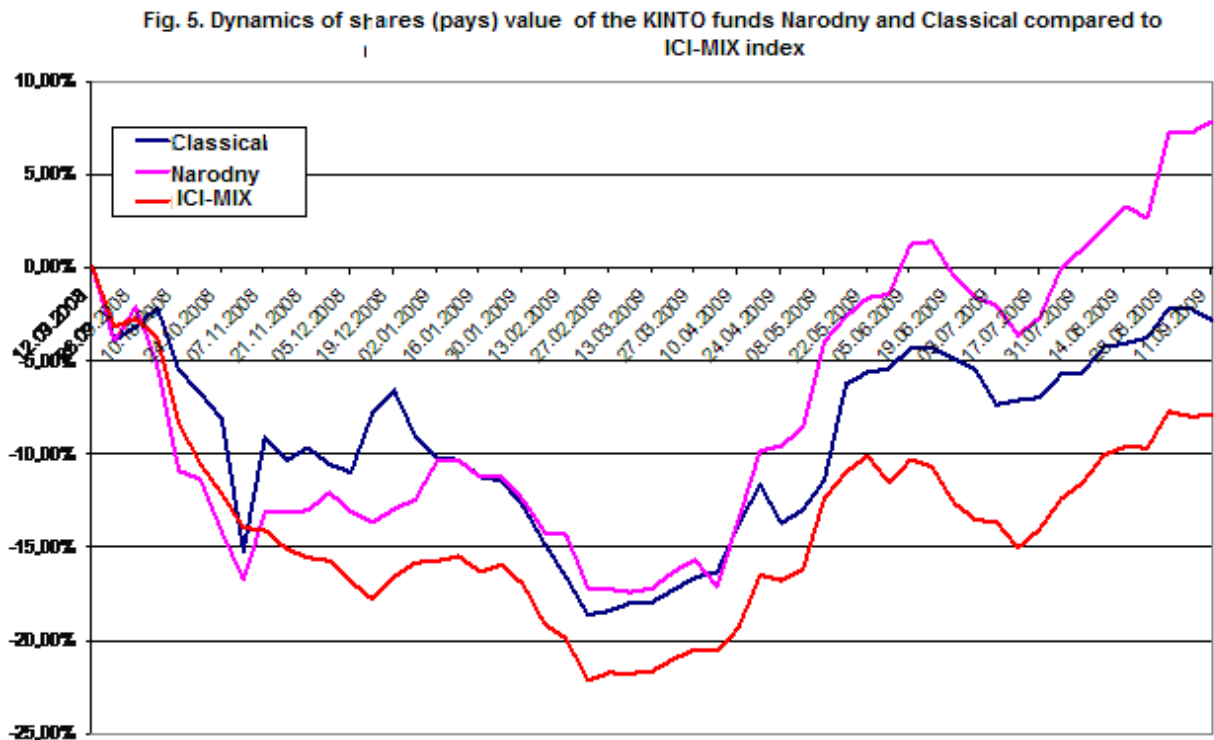
To pass from simple visualization of the estimation to more exact indicator Agency has tested a number of estimate indicators directed on indication of dependences between benchmark (in this case ICI bonds estimate index) and each of bonded funds belonging to the given basket. Sharpe ratio had been recognized as the best estimate factor. In spite of the fact that some theoretical sources do not recommend to rely on Sharpe ratio for estimation of bond fund, 2 factors should be considered:

1. High volatility of bond market in 2009.
2. Not a market index was a benchmark for funds, but the index constructed of same type funds.

Following the calculations of Sharpe ratio it has appeared that from 7 funds of the index basket the highest Sharpe ratio was at the fund Synergy Bond: for this fund the Sharpe ratio made 0,11832, time period for calculation: 12.09.2008 – 11.09.2009, the interval — weekly yield. To avoid infringing IOSCO code, the Agency cannot provide in the report on the client the comparison of efficiency of different AMC's funds. At the same time the fund Synergy Bond showed good level of efficiency in 12.09.2008 – 11.09.2009 in comparison with other bond funds. It is evidenced both by visual estimation and by Sharpe ratio.

The estimation on the mixed funds and funds of shares occurred on the same algorithm: visualization, creation of an estimate index from the similar funds from Expert Rating RA data base, Sharpe ratio calculation where as a benchmark the market index is used. Results of such estimation are given below.

Mixed funds 'Classical' and 'Narodny' have also shown efficiency in management throughout the last 52 weeks, the funds almost all the time showed better result, than the estimate index ICI-MIX made of papers of 12 mixed funds (fig. 5).



Sharpe ratio for the fund 'Classical' — 0.06

Sharpe ratio for the fund 'Narodny' — 0.27

The comparative analysis of Sharpe ratio on 12 funds entering the estimate index ICI-MIX, has shown that the fund 'Classical' was behind 'Narodny' by efficiency, but on the other hand the fund 'Narodny' was one of the most effective funds for the last 52 weeks among 12 mixed funds. From the 12 funds 8 had negative Sharpe ratio, i.e. showed a poor management. To avoid infringing IOSCO code, the Agency cannot provide in the report on the client the comparison of funds efficiency of different AMC. In summary the Agency recognizes efficient the management of funds 'Narodny' and 'Classical'.

The similar analysis has been conducted on funds of shares. The index made on 12 funds of shares of other AMC was used as benchmark. To the number of funds were selected the funds of companies from RA Expert Rating data base which had the largest growth indicators for the last 52 weeks.

As a result we have received the picture where the fund 'Sinergy-7' looked abnormally effective (according to the Company it was due to absence of an accounting method for repo transactions), other funds were comparable by efficiency and their yield was somewhere within the estimate index ICI-share.

Sharpe ratio values calculated on 52 weeks period, using estimate index ICI-share:

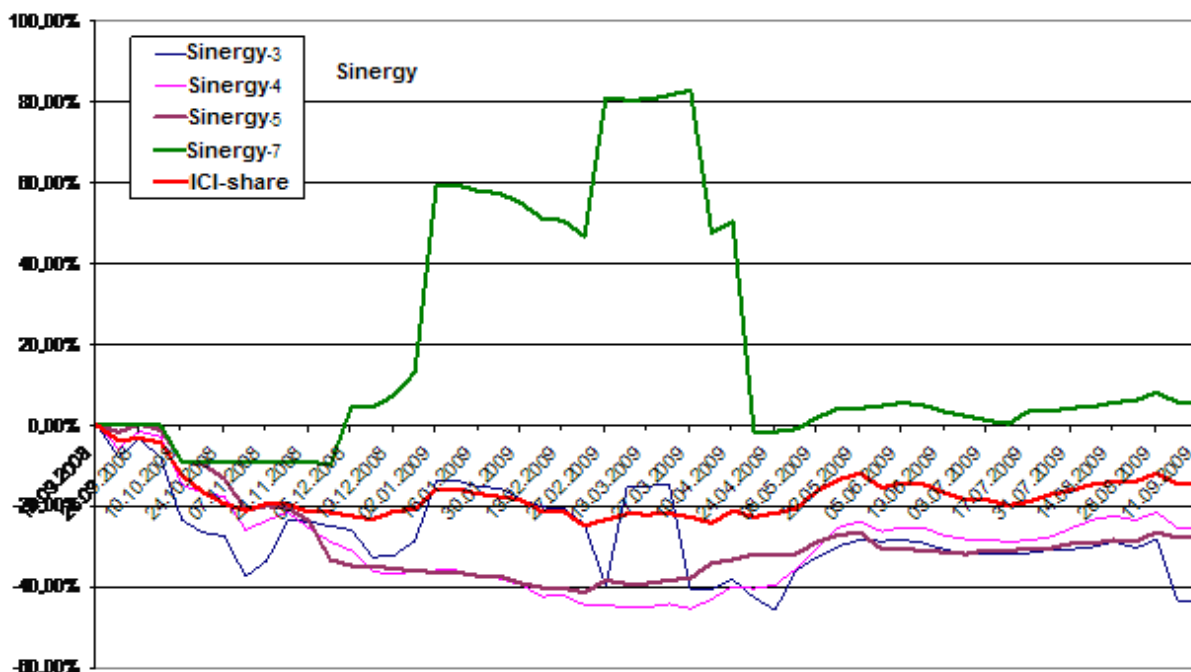
- 'Sinergy-3' — (-0.033);
- 'Sinergy-4' — (-0.084);
- 'Sinergy-5' — (-0.104);
- **'Sinergy-7' — (+0.095).**

Sharpe ratio values calculated on 52 weeks period, using PFTS index:

- 'Sinergy-3' — (-0.083);
- 'Sinergy-4' — (-0.126);
- 'Sinergy-5' — (-0.133);
- **'Sinergy-7' — (+0.005).**

Due to that both estimate index and funds 'Sinergy-3,4,5' have shifted to the negative range of values throughout the analyzed period, Sharpe ratios calculated on ICI-share and on PFTS index have been also included into negative range, therefore it is impossible to interpret them. The index of 'Sinergy-7' calculated on ICI-share, proves to the efficient fund management (fig. 6).

Fig. 6 Growth rates of shares of KINTO funds Sinergy - 3,4,5,7 and the estimate index ICI share



Thereby, the Agency analyzed 7 KINTO public funds and conducted management efficiency comparison more than with 30 funds of other AMCs. On the basis of such comparative analysis Expert-rating RA draws an expert conclusion about high level of KINTO funds management efficiency. Obviously, there are deviations and errors in the work of managers of funds, however as a whole the level of funds management efficiency in KINTO remains above the average on the market.

Investment managing directors succeeded in safely conducting the funds through an obstacle course and to avoid significant losses of investors means, which could eventually happen on such a volatile market as Ukrainian one.

For the funds management efficiency the Company is awarded 3 points, the best mark is 1 point. According to the Agency, despite high performance of managing directors, in KINTO there are still some reserves for perfection of funds management.

CONCLUSIONS

By results of rating research Expert Rating RA draws the following conclusions:

1. KINTO is the company with: the operational experience of seventeen years, an established personnel structure proved in crisis conditions, and permanent customers. The company builds its business based on best practice of corporate governance and relations with investors.

2. KINTO is the absolute leader in the market of public funds. The company takes about one third of public ICI market in Ukraine, has the developed technological base and the widest product line for private investors in Ukraine. The funds of KINTO are managed efficiently.

3. Fiduciary risks have been minimized at KINTO. As the AMC is not dependent on business of the trader or underwriter, its activity does not entail for investors an internal dangerous conflict of interests. Currently the Company works on perfection of models of control over division of powers between AMC and the associated trader.

4. The Company KINTO is much more transparent compared to competitors and this reduces in addition the fiduciary risks. KINTO is one of the few AMCs in Ukraine publishing detailed data of funds work results, including the reporting to the regulator. Investors have the possibility to get quickly informed on the results of managing directors work and also to promptly react on them.

5. Despite the recessionary state of affairs, the financial soundness of KINTO does not cause fear. The company, being the oldest AMC in the country, has a sufficient robustness to preserve personnel potential during the unstable time.

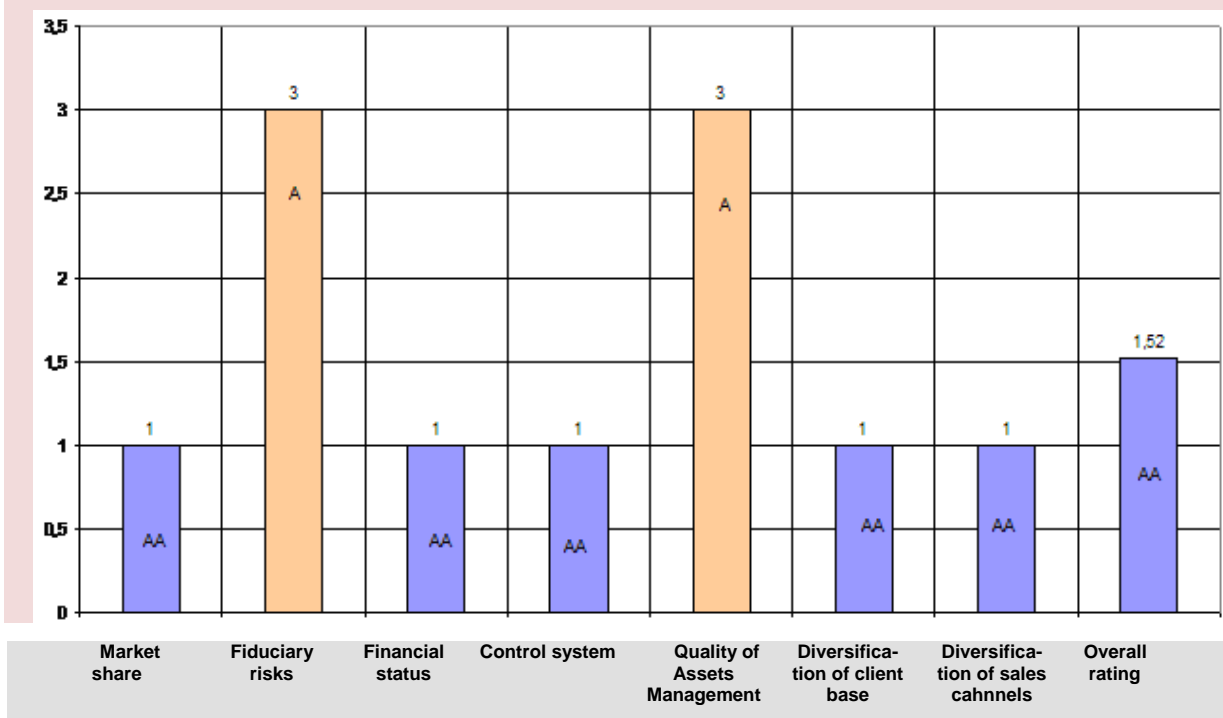
6. KINTO has a developed and client-oriented system of control over the work of investment managers. The system provides both collective nature of decision taking, and the possibility for dissenting opinions of managing directors.

7. The diversification of KINTO clients remains on sufficiently high level and proves to that KINTO remains a market company, including the product line accessible for the population. The level of channels of sales diversification does not cause concerns.

Following the results of rating research Expert Rating RA awards OJSC KINTO the rating at the level **uaAA.amc** (high level of stability, with a positive forecast) according to Expert Rating RA scale.

By results of rating research Expert Rating RA awards Open Society KINTO the rating **uaAA.amc**. There is very high probability of that the company with the given rating will discharge its fiduciary duties to the clients, having material and technical base, personnel and resource potential relevant to this purpose.

Fig. 7. Visualization of OJSC KINOT rating



Appendix A

Use limitations of the rating report

The present report is an intellectual property of Expert Rating RA Ltd. All intellectual property rights owned by Expert Rating RA Ltd are protected in conformity with the legislation of Ukraine. No part of this report may be sold, reproduced or distributed by third parties without previous written approval of Expert Rating RA Ltd. All information contained in the present report, had been obtained by Expert Rating RA Ltd from sources which Expert Rating RA Ltd considers as reliable. Due to the possibility of human or technical error, and other factors, Expert Rating RA Ltd does not guarantee the absolute reliability of the provided information. The rating of AMC, and any part of the information contained in the report, should be regarded exclusively as an opinion on the possibility of AMC to meet its fiduciary commitments to the client and not as recommendation about purchase or sale of securities or recommendation about use of AMC services. Expert Rating RA Ltd does not bear responsibility for any consequences of credit, investment or economic decisions of the third parties taken solely based on information on ratings, assigned by Expert Rating RA Ltd.

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.