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## Financial markets

In March pessimistic behavior dominated on the financial markets in January-February was changed by encouraging corporate and macroeconomic news. Since the second week leading indexes have showed positive dynamics.

In the USA March began with announcement of a quite anxious news. AIG announced USD 99 billion losses taken in 2008 that is the largest figure among the American companies. Despite the intention of the American authorities to provide the AIG an additional support in amount of USD 30 billion, investors responding concerns about the existing state of the American economy began to sell securities of the financial and the industrial companies. Pessimism regarding securities of industrial companies was enhanced by information about the company U.S. Steel (the largest American steel producer) which declared a plan to suspend partially production in Canada and provide staff reduction by 1,500 employees. Early the largest steel producer in the world ArcelorMittal announced intention to decrease number of employees in US by 2,000 persons. Also conclusion of auditors about critical financial standing of GM that requires urgent cost reduction added pessimism to investors. Fall in prices on securities of banking sector increased after Moody's rating agency downgraded forecast of credit rating of J.P. Morgan Chase & Co. and declared intention to reconsider long term debt ratings of the bank Wells Fargo and the Bank of America. Securities of oil and mining industry also fell after the Chinese government disproved previously appeared information about intention to provide additional financing to machine-building producers. Pessimistic forecast of analysts from Goldman Sachs Group Inc. regarding further development of the world economy and macroeconomic figures for January disclosed at the beginning of the March (growing unemployment, decreasing volume of industrial orders and building costs etc) impacted on results of the stock-exchange trading.

The World Bank in March published pessimistic forecast anticipated that the volume of the world industrial production will fall by 15% and trade turnover will decrease to 80-year-old minimum in 2009. At that, losses of emerging markets may need up to USD 700 billion in external financing. It is expected that the countries of East Asia which are the world's largest exporters will suffer the most significant losses. Thereupon the president of the World Bank Robert Zoellick addressed investors to be more active "to avoid social and political unrest". Since the second week of March situation began to change. Positive news inspired investors with optimism resulted in subsequent growth of stock-exchange indexes. In particular, one of the US largest banks USA Citigroup Inc. disclosed profit able performance obtained by the bank in January-February 2009. Moreover, the management of Citigroup Inc. (which has already received federal financial support in amount of USD 45 billion) declared that the bank does not require any more the financing from stabilization fund.

Head of Bank of America Kenneth Lewis also informed that the bank was profitable in January and February and expressed confidence that this tendency will continue to the rest of the year. The management of General Motors, in contrast to conclusions of auditors, declared the assurance that the company wouldn't need next tranche of state loan in sum USD 2 billion as the program of re-structuring and cost reduction conducted by GM (including closing of five plant in the USA and staff reduction by 47 thousand employees worldwide) give positive results. In March AIG, responding the numerous requests of the public and congressmen, has decided to disclose the information on directions of spending stabilization money obtained by the company within federal help. In order to fulfill company's obligations during the period from September, 16th, till December, 31st, 2008 AIG has transferred over USD 90 billion to the partners, including the largest US and European banks: Societe Generale, Deutsche Bank, UBS, HSBC, Goldman Sachs, Merrill Lynch, Bank of America, Citigroup and other. FED in March didn't change the base interest rate and declared intention to support US credit market through the purchase of state debts. More than USD 1.2 billion is planned to be provide for that purpose. Also Bank of England is going to pour into the national economy GBP 75 billion (amount could be increased to GBP 150 billion) through the purchase of securities of UK companies. Some analysts have concerns that such police of increase of monetary base aiming to revive economy and stir up banking crediting will be ineffective if it provides non-actively.

The European stock markets in March have been demonstrating the same tendencies as the American. During the first week of the month securities of banking industry fell in prices after HSBC Holdings Plc. announced plans to accumulate auxiliary capital in amount of USD 12 billion by additional issue of stocks, supported by closings of the US divisions of consumer crediting and reduction more than 6 thousand employee. Pessimism of investors was strengthened by the news that the net profit of Credit Agricole S.A. for 2008 decreased by 58,9% mainly because of losses incurred by Calyon bank and negative influence of the world financial crisis. Additional pressure upon the markets was made by information about continuing reduction of industrial production in Europe and decline in customer demand on EU goods as well as the macroeconomic data regarding 1.5% fall of GDP of Eurozone (that is a record since 1995). Since the second week of March the European stock indexes markets have started to grow. Good news from financial industry inspired investors with optimism regarding securities of the large European banks: Barclays, Credit Suisse, HSBC, Standard Chartered, Santander, BNP Paribas. Announcement made by the Chinese Prime minister Wen Tszjabao about expected 8% economic growth in 2009 led to increase of quotations on securities of the mining industry.

The European Central Bank in March has decreased base interest rate to the next historical minimum 1,5%, that is still significantly higher than interest rates of US FED (0-0,25%) and Bank of England (0,5%). ECB has possibility to provide further decline of the base interest rate facilitating credit conditions for 16 countries of Eurozone. However experts of the bank has concerns regarding excessive usage of this instrument as it will not change the fundamental economic reasons caused the crisis but can reduce interest of banks to provide careful credit policy avoiding financing of the non-profitable enterprises.

The heads of EU governments accepted common stabilization program in amount of EUR 5 billion at the summit passed in March. This program is aimed to revive European economy through financing projects in sphere of power and the high-speed Internet. Also the decision to double volume of emergency fund (to EUR 50 billion) intended to support the most suffered EU countries was made.

Despite the growth on financial markets the IMF and the WTO as well as the WB have announced in March pessimistic forecasts concerning prospects of development of economic in 2009-2010. Preparing to April summit G20, the IMF has published the report which foresees reduction of volume of world gross national product by 0,5-1% in 2009. Economic recovery is expected to begin in 2010 only. It is expected that the countries of "the big 7" will suffer the most significant reduction of gross national product in view of considerable decrease in trade volume, sharp reduction of demand on foreign markets and collapse in the real estate industry. According to experts of IMF, the volume of gross national product in the current year can reduce by 2,6 %, Eurozone - by 3,2 %, Japan - by 5,8 %. The analysts from WTO expected reduction of the world trade volume by record 9% in 2009 (first since the Second World War). Sharp reduction of the world trade in second half of 2008 resulted in total 2% annual growth (compare to 6% growth in 2007). Experts of the WTO suppose that the total export of the developed countries can decrease in 2009 by 10%, emerging countries – by 2-3%.

In Ukraine March has begun with news that the international rating agency Fitch Ratings has placed long-term ratings of default of the national agency "Naftogaz" under supervision into the list Rating Watch "negative". Concerns was caused by the following factors: inadequate level of the state financing, the increasing indebtedness of housing and communal services, reduced deliveries to industrial enterprises, unavailability of foreign currency needed to pay external obligations and uncertainty concerning results of current negotiations between IMF and Ukraine. The situation was aggravated by attempt to take criminal proceeding against the agency (lately failed) which supposedly misappropriated gas purchased by the "Rosukrenergo". This incident has become public as country leaders provided active support to its participants (the President supported RUE, and the Prime minister - "Naftogaz"). Despite the consensus announced in January internal confrontation between the Ukrainian authorities on a gas issue doesn't eliminate as well as some tension in relations with Russia.

## Financial markets & investment strategy of OTP Capital

At the end of March Ukraine and EU have signed the mutual declaration concerning modernization of Ukrainian gas-transport system. This document provides background for integration of Ukrainian GTS into the European power market. The Russian delegation has left a forum after the announcement of ceremony of signing of the mutual declaration.

Disclosing results of work of the Government in January-February, the Prime Minister Yulia Tymoshenko has informed that inpayment in the state budget by results of first two months of 2009 have constituted 103%. According to NBU preliminary estimations at the end of February balance of payments deficit in Ukraine came to USD 4 billion and became main reason of NBU reserves' reduction by USD 5 billion. Profit of current transactions (export-import of the goods and services, money transfers) by results of January-February came to USD 562 million. Deficit from financial transactions and transactions with capital (direct and portfolio investment, loans) achieved USD 4.5 billion. NBU reserves during this period have decreased by USD 5 billion, including USD 3.3 billion result of currency sale. According to NBU estimations about 75% of the balance of payments deficit was generated by the population which withdrew USD 1.4 billion from banking deposits and purchased a foreign currency by USD 1,999 billion more than sold. According to the Acting Chairman of NBU Anatoly Shapovalov, to the end of year balance of payments deficit in Ukraine can achieve USD 12 billion.

Volume of industrial production in Ukraine has decreased in January-February by 32.8% according to the State Committee of Statistics. The most significant fall was suffered by machine-building, metallurgy and chemical industries, mining and light industries. Also production and distribution of power, gas and water as well as production of a foodstuff considerably reduced. The volume of the building work in January-February 2009 has declined to 42.7% from analogous figure for a relevant period of 2008. Aiming to revive credit programs for financing building of unfinished objects (which have more than 70% of readiness) the government plans to adjust with the banks list of such objects in the shortest time.

Within the struggle with increasing indebtedness under the salary the Government intends to speed up return of VAT to the companies having such indebtedness and provide money from stabilization fund for salary settlement for agroindustrial companies, which have the government work.

According to the Minister of labour and social policy of Ukraine as of the end of February the total volume of indebtedness under the salary in Ukraine came to UAH 1.2 billion. In March Pension Fund of Ukraine, responding numerous complaints of pensioners about impossibility to withdraw pension from banking accounts, has suspended cooperation with 7 banks: banks with temporary administration – "Kiev", "Nadra", "Transbank", "Ukrprombank"; bank with curator from NBU – "Bank of Regional Development"; banks "European Bank" and "Rodovid Bank". Pension payments previously transferred to these banks can now be received by pensioners through the post-offices.

Negotiations with the IMF regarding next tranche planned to be provided within "stand-by" agreement stay one of the most important questions for Ukraine. At the beginning of March Ukrainian Authorities addressed to IMF the "letter of intention" which declared their common position and readiness to provide mutually coordinated policy aimed to meet conditions of SBA. Lately the letter was returned for revision. Acting Minister of Finance Igor Umansky has declared that unlike previous stage of negotiations now the IMF has agreed on 3% deficit of the state budget as the key point is to define real sources of covering budget deficit rather than its size. As before issue connected with pension legislation and excise taxes is not adjusted with IMF. In March the Cabinet of Ministers of Ukraine has cancelled additional 13% duty on imported goods (except cars and refrigerating equipment). This duty has been provided by the law adopted by Verkhovna Rada on the 4th of February. After adoption of this law, the IMF as well as European Commission addressed Ukraine as WTO member country to conduct more open commercial policy avoiding police of protectionism.

### OTP Classic

NAV of investment fund OTP Classic has slightly decreased in March (by -0.4 %) and as of April, 1st has constituted UAH 1.2 million. The fund showed positive performance by results of last month. Monthly yield of the fund portfolio achieved +0.7%. The portfolio structure of OTP Classic has not been changed significantly. As before about half of assets are placed in fixed income instruments: corporate, government and municipal bonds. 18.8% of assets are invested in short-term deposits and another 18% remains on banking account for the purpose of maintenance portfolio's liquidity.

As OTP Classic is an open-ended investment fund its investors have possibility to apply for return of invested money at any working day. During the crisis investment into this fund is a convenient way to place free capital for those who wishes to keep possibility return investments promptly when personal financial situations requires it. The share of equities in fund's portfolio as of April, 1st has come to 13%. Branch structure of the fund suffered light changes caused by assets reassessment. As of April, securities of machine-building companies as well as retailers made each 8.2% of portfolio, securities of the chemical industry – 7.7%.

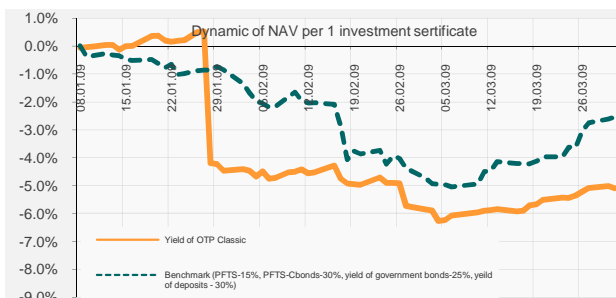
### OTP Balanced

Assets of interval investment fund OTP Balanced also have slightly declined because of reassessment of equities in fund's portfolio which had been made about 25% of portfolio during the March. As of the first day of April NAV of OTP Balanced has achieved UAH 2.38 million. As in the beginning of the March interest rates on the interbank currency market were high, portfolio managers placed considerable part of assets (about 26% as of the 1st of April) in middle-term deposits. The share of bonds in the portfolio of OTP Balanced remained at the same level as last month - 48% from NAV. Branch structure of fund at the end of March included: with weight 8.8% and 8.6% of securities of the chemical industry and retailers accordingly. Securities of metallurgical companies made 6.4% of the fund's portfolio.

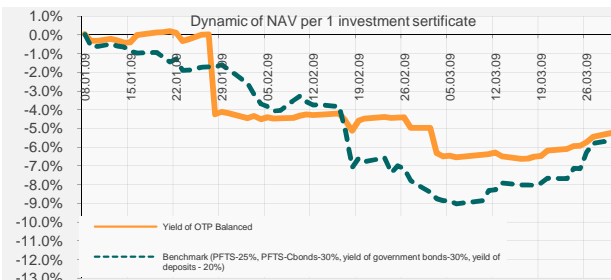
### OTP Dynamic

The close-end investment fund OTP Dynamic has increased net asset value in March by 1.6%. Growth of NAV was caused by reassessment of equities in fund's portfolio, among which the most significant growth was showed by securities of such issuers as: OJSC "Centrengo", OJSC "Ukrnafta" and OJSC "Stakhanovsky machine-building plant". As of April, 1st the share of fund's assets placed in fixed income instruments (mostly bonds) has achieved 42% from NAV. The rest of assets had been allocated in equities as investment strategy of OTP Dynamic provides investing money in the most profitable (so risky) long-term assets. According to this it is planned to increase weight of equities in portfolio's structure in future. In branch structure of OTP Dynamic securities of machine-building companies dominate.

### OTP Classic



### OTP Balanced



# Monthly Investment View

March 2009



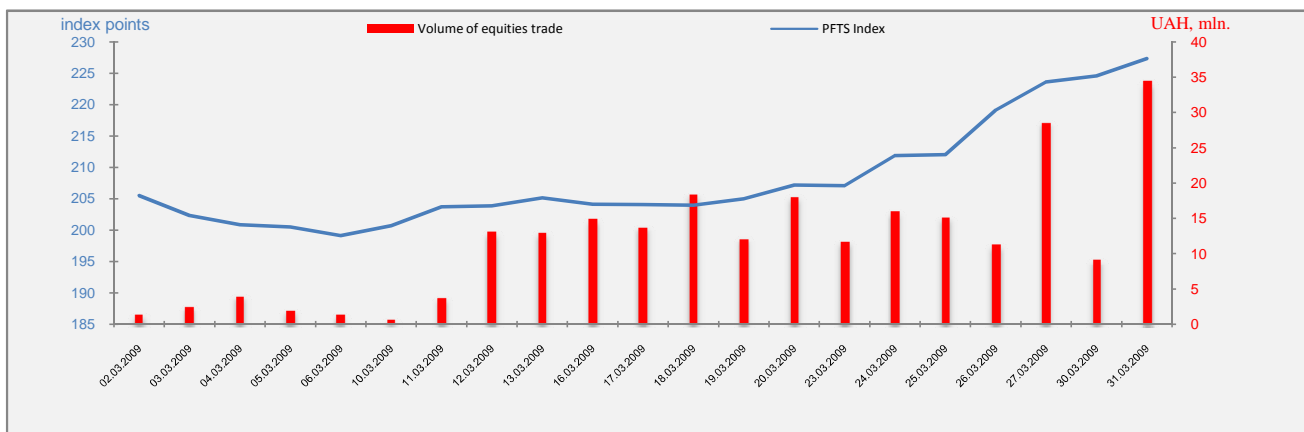
## Stocks

The first month of spring has encouraged Ukrainian Stock market. Short decrease of PFTS-index which had been taking place during the first week of the month under the pressure of negative foreign news after the 10th of March has been changed by steady growth according to the changes occurred on US and European financial markets. The total volume of the trading deals concluded at PFTS Stock Exchange increased and their number reduced. In March market participants concluded of 1086 deals in total amount about UAH 1.99 billion (compare to 1224 deals in total amount UAH 273 million concluded in February). Partially the sharp increase of total trading volume was caused by placement of government bonds provided by the Ministry of Finance in March in amount of UAH 1.5 billion. Nevertheless, equity market also demonstrated encouraging tendency.

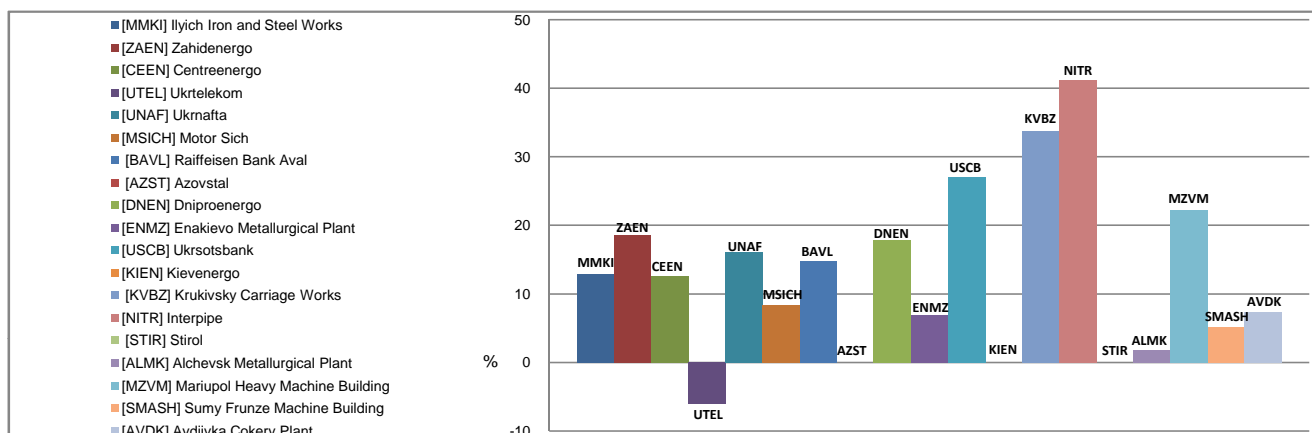
The total volume of deals concluded regarding equities in March increased more than twice in comparison with analogical figure in February. During last month 295 deals in total amount of UAH 242.6 million have been concluded regarding equities on PFTS Stock Exchange. In March PFTS-index has increased 7.5% to the mark 227.34 points. The greatest trade volume was showed by securities of OJSC "Dniproenergo" (34 deals in total amount UAH 37.4 million). The second place possessed securities of OJSC "Zahidenergo" (59 deals in total amount UAH 31.5 million). Also securities of OJSC «Slavutsky solodovy zavod» (which is unlike two abovementioned issuers is not included in PFTS listing) were in demand with 24 deals concluded in total amount of UAH 20.1 million. Securities of all representatives of an index basket except OJSC

"Ukrtelecom" have gone up in price in March. Securities of OJSC "Ukrtelecom" fall in price by 6% per month. At the same time quotation on equities of OJSC «Interpipe Nizhnedneprovsky truboprokatny zavod» have risen by 41% showing the best performance on the market, though this growth was speculative as only two deals in amount of UAH 164 thousand were concluded regarding these securities. In March new trading platform «The Ukrainian stock exchange» began to work. Despite the new stock exchange had been working just few last days of the month market players noticed essential revival of the trading after its start. We hope, that appearance of new market player (and competitor) will add liquidity to the domestic stock market and will speed up its further development.

Dynamic of PFTS Index\*



Monthly dynamic of quotations on the purchase (best Bid) of stocks of enterprises, included in index basket of PFTS last month.\*



\* - chart based on data from www.pfts.com

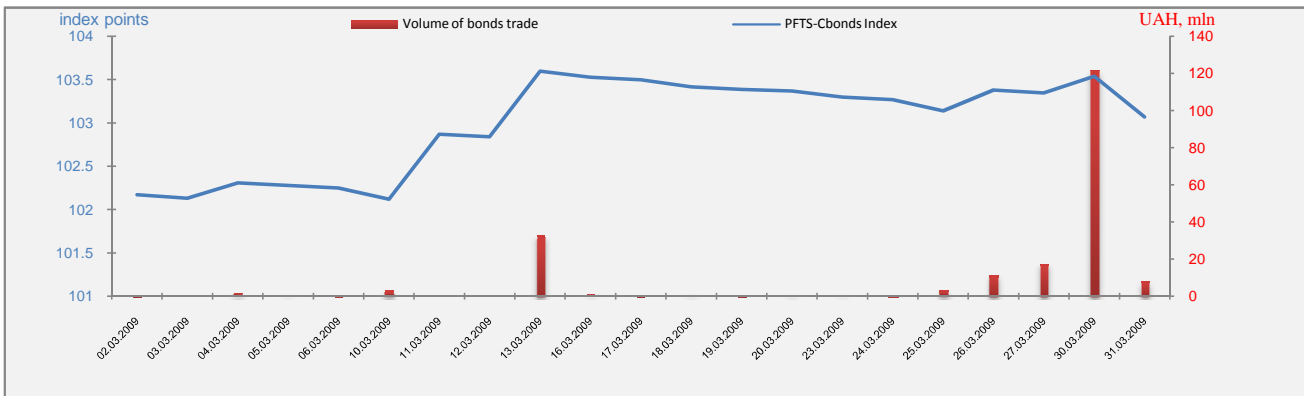
## Bonds and Deposits

Ukrainian money market in the first half of March had been continuing to demonstrate the strong deficit of liquidity leading to significant price rise for money resources. Interest rates on an interbank currency market reached 50-60%. The situation was being aggravated with a dramatically high volume of money withdrawn by the population from deposit accounts as a consequence of absence of trust to banking system. To the end of March level of interbank interest rates fell significantly thanks to an increase of banking corresponding accounts position. Changes were caused by the number of measures provided by NBU: interventions on sale of foreign currency, the redemption of the

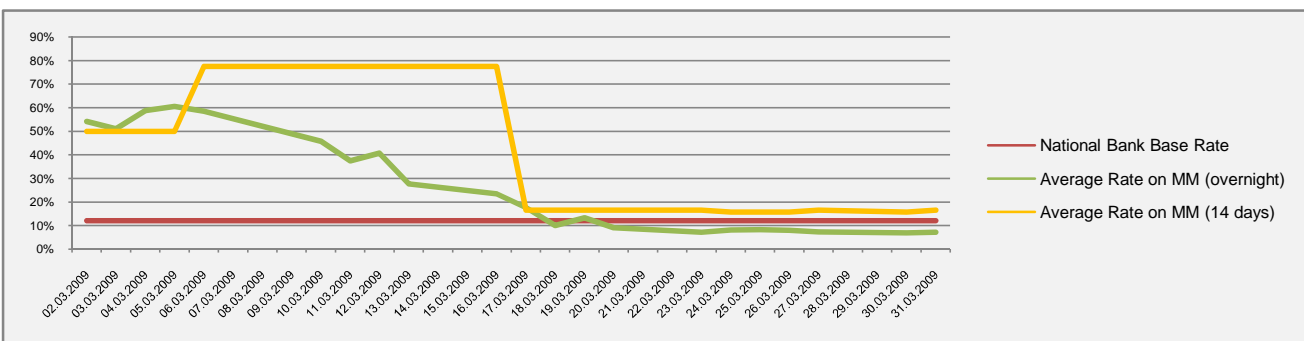
governmental bonds, refinancing of commercial banks etc. It was very unusual to see 2-5% annual interest rates on 7-days money resources and 13-16% annual interest rates - on 30-days money resources. Providing of abovementioned measures (which seems quite cardinal and are temporary in character) was necessary to stabilise banking system of the country. Talks regarding possibility of Ukrainian default had been staying one of the most popular themes for discussion during few last months. Against this background bond market didn't demonstrate positive tendency. Numerous applies of bonds' holders to pre-

term repayment creates additional difficulties for bond issuers which suffer from unavailability of banking loans and are forced to provide technical (and not only) defaults when restructuring of debt is impossible. As risk of defaults on number of corporate debts is still high corporate bonds practically are not traded now. Rare deals have technical character. They are concluded in order to meet mutual liabilities. The real champion against this background is the market of the internal government bonds. In March thanks to technical details between NBU and the Ministry of Finance total volume of bond market has grown to UAH 1.54 billion.

Dynamic of PFTS-Cbonds Index\*



Dynamic of Rates on Money Market\*\*



\* - chart based on data from [www.pfts.com](http://www.pfts.com)

\*\* - chart based on data from [www.finance.ua](http://www.finance.ua)