Joint-Stock Bank

“ING Bank Ukraine”

Financial statements
31 December 2005

These financial statements contain 38 pages

Contents

(in thousands of Ukrainian hryvnias)	*Note*	**2005**	2004
Assets			
Cash		**3,857**	6,463
Balances with the National Bank of Ukraine	*4*	**1,046,717**	445,055
Due from banks	*5*	**39,547**	71,244
Financial assets at fair value through profit or loss	*6*	**170,767**	65,271
Securities available-for-sale	*7*	**-**	69,213
Loans and advances to customers	*8*	**1,310,977**	923,510
Deferred tax asset	*23*	**1,374**	1,050
Property, equipment and intangible assets	*9*	**8,008**	5,817
Other assets	*10*	**10,945**	8,858
Total assets		**2,592,192**	1,596,481
Liabilities			
Due to banks	*11*	**501,966**	626,644
Customers' current accounts	*12*	**1,132,543**	184,402
Deposits from customers	*13*	**376,044**	312,023
Other liabilities	*14*	**332,896**	279,034
Subordinated liabilities	*15*	**27,270**	28,649
Total liabilities		**2,370,719**	1,430,752
Equity			
Share capital	*16*	**131,804**	131,804
Revaluation reserve		**-**	66
Retained earnings		**89,669**	33,859
Total equity		**221,473**	165,729
Total liabilities and equity		**2,592,192**	1,596,481
Off balance sheet commitments and contingent liabilities	*17*		

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 38.

(in thousands of Ukrainian hryvnias)	*Note*	**2005**	2004
Interest income	*18*	**90,028**	51,784
Interest expense	*19*	**(37,556)**	(20,557)
Net interest income		**52,472**	31,227
Fee and commission income		**49,794**	25,927
Fee and commission expense		**(13,031)**	(5,434)
Net fee and commission income	*20*	**36,763**	20,493
Gains less losses from dealing in foreign currencies		**15,608**	4,245
Gains less losses from securities available-for-sale and financial assets at fair value through profit or loss		**4,231**	2,381
Other income		**660**	389
Operating income		**109,734**	58,735
Salaries and employee benefits		**(16,887)**	(13,095)
General administrative expenses	*21*	**(16,655)**	(12,733)
Depreciation and amortization	*9*	**(2,551)**	(1,450)
Recovery of impairment losses	*22*	**319**	2,207
Operating expenses		**(35,774)**	(25,071)
Profit before tax		**73,960**	33,664
Income tax expense	*23*	**(18,150)**	(8,887)
Net profit		**55,810**	24,777

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 38.

(in thousands of Ukrainian hryvnias)		**2005**	2004
Operating activities			
Interest received		**87,842**	48,879
Interest paid		**(33,205)**	(18,066)
Fees and commissions received		**47,477**	25,577
Fees and commissions paid		**(12,289)**	(5,434)
Net receipts from securities and foreign exchange		**15,525**	6,875
Operating expenses paid		**(32,460)**	(25,181)
Operating income received		**413**	389
		73,303	33,039
Changes in operating assets and liabilities			
Due from banks		**(1,414)**	32,685
Loans and advances to customers		**(386,414)**	(70,427)
Due to banks		**(124,678)**	(64,344)
Customers' current accounts		**948,141**	47,915
Deposits from customers		**64,021**	145,796
Other assets and liabilities, net		**47,058**	191,426
Net cash from operating activities before tax		**620,017**	316,090
Income taxes paid		**(15,568)**	(9,465)
Cash flows from operating activities		**604,449**	306,625
Investing activities			
Acquisition of securities available-for-sale and at fair value through profit or loss, net		**(33,910)**	(69,658)
Acquisition of property, equipment and intangible assets	*9*	**(4,776)**	(4,526)
Proceeds from sale of property, equipment and intangible assets		**182**	32
Cash flows used in investing activities		**(38,504)**	(74,152)

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 38.

(in thousands of Ukrainian hryvnias)	**2005**	2004
Financing activities		
Proceeds from issuance of shares	**-**	63,773
Cash flows from financing activities	-	63,773
Net increase in cash and cash equivalents	**565,945**	296,246
Cash and cash equivalents as at 1 January	**499,805**	203,559
Cash and cash equivalents as at 31 December	**1,065,749**	499,805
Cash and cash equivalents		
Cash	**3,857**	6,463
Balances with the National Bank of Ukraine	**1,046,717**	445,055
Due from banks, current accounts	**15,175**	48,287
	1,065,749	499,805

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 38.

(in thousands of Ukrainian hryvnias)	**Share capital**	**Revaluation reserve**	**Retained earnings**	**Total**
Balances as at 31 December 2003	68,031	-	9,082	77,113
Issue of shares	63,773	-	-	63,773
Gain on securities available-for-sale	-	66	-	66
Net profit	-	-	24,777	24,777
Balances as at 31 December 2004	131,804	66	33,859	165,729
Realized gain on sale of securities available-for-sale	-	(66)	-	(66)
Net profit	-	-	55,810	55,810
Balances as at 31 December 2005	**131,804**	**-**	**89,669**	**221,473**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 38.

1 Background

(a) Organization and operations

"ING Bank Ukraine" (the Bank) was created as a closed joint-stock company according to the Ukrainian legislation and was registered by the National Bank of Ukraine (NBU) on 15 December 1997. The Bank is a wholly owned subsidiary of ING Bank N.V.

The Bank specializes in providing banking services to leading Ukrainian and foreign companies and banks. The Bank's services include lending, trade finance, payments and cash, custody and other services. The Bank also opens accounts and offers fixed-term liability products to legal entities.

Being a subsidiary of ING Bank N.V., the Bank performs a significant number of transactions with its parent company (see also note 27).

The head office of the Bank is located at 30-A Spasskaya str., Kiev, Ukraine. It has no branches.

(b) Ukrainian business environment

Ukraine has experienced political and economic change that has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These financial statements reflect management's assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Bank may be significant.

2 Basis of preparation

(a) Statement of compliance

The Bank maintains its accounting records in accordance with the legislative requirements of Ukraine and ING Group accounting regulations. These financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (IFRS), as promulgated by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The Bank adopted the revised version of IFRSs that were effective for accounting periods beginning at 1 January 2005.

(b) Basis of measurement

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss and securities available-for-sale, except those for which a reliable measure of fair value is not available. Other financial assets are stated in amortized cost.

Property, equipment and intangible assets and share capital have been measured at cost adjusted to reflect the effect of the hyperinflationary conditions which existed in Ukraine from 1 January 1991 to 1 January 2001 in accordance with International Financial Reporting Standard IAS 29, *Financial Reporting in Hyperinflationary Economies.*

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (“UAH”). Consequently, the functional and presentation currency for the purposes of these financial statements is the Ukrainian hryvnia.

(d) Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates. The most significant estimates and assumptions are as follows:

- Loans and advances to customers. Management estimates the likelihood of repayment of loans and advances to customers based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics, primarily loans to individuals. Factors taken into consideration when assessing individual loans include collection history with the customer, assessment of the financial performance, timeliness of payments and collateral, if any. Factors taken into consideration when assessing the likelihood of collection for loans to individuals include historical loss experience, portfolio delinquency rates and overall economic conditions. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

- Fair value of financial assets at fair value through profit or loss and securities available-for-sale. The fair value of financial assets at fair value through profit or loss and securities available-for-sale represents the price at which a transaction would occur at the balance sheet date in that instrument in the most advantageous active market to which the Bank has immediate access. In estimating the fair value for financial assets, management uses quoted bid prices from an active market.

3 Significant accounting policies

(a) Changes in accounting policies

Certain new IFRSs became effective on 1 January 2005. Listed below are those new or amended standards that are or in the future could be relevant to operations. The changes in accounting policies are applied retroactively unless otherwise stated.

IAS 1 *Presentation of Financial Statements* (revised 2003) requires expanded disclosures, including disclosure of critical accounting estimates and judgments in applying accounting policies.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (revised 2003) provides further guidance on selection and application of accounting policies in absence of applicable standard or interpretation and defines the methods of accounting and disclosures of changes in accounting policies.

IAS 16 *Property, Plant and Equipment* (revised 2003) defines periodical revision of useful lives and residual values and provides further guidance on property, plant and equipment acquired as a result of non-monetary exchange. The standard also requires additional disclosures.

IAS 17 *Leases* (revised 2003) provides additional guidance on classification of leases.

IAS 24 *Related Party Disclosures* (revised 2003) extends the definition of related parties and requires expanded disclosures of related party transactions.

IAS 32 *Financial Instruments: Disclosure and Presentation* (revised 2004) requires increased disclosures of financial instruments.

IAS 36 *Impairment of Assets* (revised 2004) requires impairment tests of intangible assets not yet available for use and intangible assets with indefinite useful life to be performed at least annually. The revised IAS 36 is applied in accordance with transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

IAS 38 *Intangible Assets* (revised 2004) applies to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. The Bank's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows. Such intangibles are not amortized but tested for impairment at least annually.

IAS 39 *Financial Instruments: Recognition and Measurement* (revised 2003) changes the definition of "originated loans and receivables" to "loans and receivables". This category now comprises originated or purchased loans and receivables that are not quoted in an active market. The Bank amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognized in the income statement. Subsequent reclassifications into or out of the “fair value through profit or loss” category are prohibited. The Bank no longer recognizes gains and losses on available-for-sale financial assets in profit or loss but in equity.

The Bank now applies the guidance added to IAS 39 on how to evaluate impairment in a group of loans, receivables or held-to-maturity investments that cannot yet be identified with any individual asset in the group. The Bank redesignated certain financial instruments into “at fair value through profit or loss” from “available-for-sale” category at the date of initial application of revised IAS 39.

There was no impact on opening retained earnings arising from the adoption of any of the above-mentioned standards or amendments.

(b) Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement.

The principal UAH exchange rates used in the preparation of the financial statements as at 31 December are as follows:

Currency	**2005**	2004
US dollar (“USD”)	**5.05**	5.31
Russian rouble	**0.18**	0.19
EURO	**5.97**	7.21

As at the date of this report, 10 March 2006, the exchange rate is UAH 5.05 to USD 1.00.

(c) Financial instruments

(i) Classification

Financial assets at fair value through profit or loss are financial assets held for trading and those designed at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, a derivative or if so designated by management.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include due from other banks, including central banks, loans and advances to customers, and other receivables.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity.

Available-for-sale assets are non-derivative financial assets that are not classified as loans and receivables, held to maturity assets and financial assets at fair value through profit or loss. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavorable.

(ii) Recognition

The Bank recognizes financial assets in its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

Loans and receivables are recognized when cash is advanced to the borrower.

(iii) Measurement

Financial instruments are measured initially at their fair value including transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all financial assets at fair value through profit or loss are included in the determination of net profit.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity. When available-for-sale assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is included in determination of net profit. When a decline in fair value of available-for-sale assets has been recognized in equity and there is objective evidence that the assets are impaired, the loss recognized in equity is removed from equity and included in determination of net profit, even though the assets have not been derecognized.

(vi) Derecognition

A financial asset is derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

(d) Impairment

Assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(e) Calculation of recoverable amount

Loans and advances

Management reviews its loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) and can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances to customers that are individually significant, and individually or collectively for loans and advances to customers that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has occurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss.

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Other assets

The recoverable amount of financial assets at fair value through profit or loss and available-for-sale assets is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(f) Reversal of impairment

An impairment loss in respect of a held-to-maturity asset, a loan or a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Interest bearing borrowings

Interest-bearing borrowings are recognized initially at cost, net of any transaction costs incurred. Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being included in the determination of net profit.

When borrowings are repurchased or settled before maturity, any difference in determination of net profit between the amount repaid and the carrying amount is included immediately in net profit.

(h) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization of property, equipment and intangible assets is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortization commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

The estimated useful lives are as follows:

Computers and related equipment	4 years
Furniture, fixtures and other equipment	4 years

Expenditures for leasehold improvements are recognized as assets and charged to the income statement on a straight-line basis over the period of the applicable lease.

(i) Leases

Payments for operating leases where the Bank does not assume substantially all the risks and rewards of ownership are classified as expenses when incurred.

(j) Off balance sheet commitments and contingent liabilities

The Bank enters into commitments and assumes contingent liabilities in the normal course of business to meet the financing needs of its customers. These commitments and contingencies include credit instruments representing varying degrees of risk exposure.

The Bank has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts that will apply for periods commencing on or after 1 January 2006. When the Bank enters into financial guarantee contracts to guarantee the indebtedness of its customers, the Bank believes these to be insurance arrangements, and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make a payment under the guarantee. The Bank does not expect the amendments to have any impact on the financial statements for the period commencing on 1 January 2006.

(k) Income and expense recognition

Interest income and expense are included in the determination of net profit on an accrual basis, taking into account the effective yield of the asset/liability or an applicable floating rate. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense are recognized on an accrual basis.

Fees received in connection with loan originations are netted against the direct costs incurred to grant the loan, and are amortized over the life of the loan as an adjustment to interest income.

(l) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is included in determination of net profit, except to the extent that it relates to items recognized directly in equity, in which case it is recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost of these contributions is recognized in the income statement when contributions are due and is included in Salaries and employee benefits.

(n) Cash flows statement

Cash and cash equivalents include cash in hand, balances with the National Bank of Ukraine (NBU) and current accounts due from banks.

(o) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(p) New standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these IFRS financial statements. The changes in accounting policies are applied retroactively unless otherwise stated. Of these pronouncements, the following will potentially have an impact on the financial statements of the Bank:

- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* is effective for annual periods beginning on or after 1 January 2007. This amendment will require increased disclosure regarding capital and how it is measured.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option* is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as “at fair value through profit or loss”.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts* is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank’s financial instruments.

- International Financial Reporting Interpretation Committee 4 *Determining whether an Arrangement contains a Lease* is effective for annual periods beginning on or after 1 January 2006. The interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.

Management is currently studying what effect these new standards and amendments may have on the financial position and results of operations.

4 Balances with the National Bank of Ukraine

The Bank is required by the NBU to maintain an obligatory reserve balance calculated as an average of certain attracted funds over a period of a thirty days. The average obligatory reserve amounts to UAH 88,635 thousand for the thirty day period ended 31 December 2005 (2004: UAH 45,624 thousand). The Bank meets the NBU reserve requirements as at 31 December 2005 and 2004.

Balances with the National Bank of Ukraine as at 31 December 2004 included a short-term deposit amounting to UAH 119,372 (2005: nil).

5 Due from banks

Balances due from banks as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Current accounts		
ING Group	**5,222**	7,316
Domestic	**1,695**	623
OECD countries	**8,258**	40,348
	15,175	48,287
Loans and advances		
Domestic	**23,615**	22,957
OECD countries	**757**	-
	24,372	22,957
Total	**39,547**	71,244

A current account of UAH 4,969 thousand, representing 60% of current accounts due from banks in OECD countries, is placed with one bank located in an OECD country as at 31 December 2005 (2004: UAH 36,321 thousand, representing 90%).

6 Financial assets at fair value through profit or loss

As at 31 December 2005, financial assets at fair value through profit or loss consist of interest bearing bonds issued by the Ukrainian government and Ukrainian industrial companies in the amount of UAH 170,767 thousand (2004: UAH 65,271 thousand). These bonds trade on the local stock market.

As at 31 December 2005, the Bank entered into forward contracts with ING Bank N.V., Amsterdam for sale of bonds issued by the Ukrainian government amounting to UAH 113,283 thousand. Subsequent to 31 December 2005, the Bank sold bonds under these forward sale contracts for UAH 113,283 thousand. The fair value of the forward sale contracts approximates zero as at 31 December 2005.

As at 31 December 2004, the Bank entered into forward contracts with ING Bank N.V., Amsterdam for sale of bonds issued by the Ukrainian government amounting to UAH 61,178 thousand. Subsequent to 31 December 2004, the Bank sold bonds under these forward sale contracts for UAH 61,179 thousand. The fair value of the forward sale contracts approximates zero as at 31 December 2004.

7 Securities available-for-sale

As at 31 December 2004, securities available-for-sale represent short-term bonds issued by the Ukrainian government. These securities were reclassified to financial assets at fair value through profit or loss as at 1 January 2005, and were settled during the year ended 31 December 2005.

8 Loans and advances to customers

Loans and advances to customers as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Commercial	**967,426**	820,044
Overdrafts	**335,719**	101,426
Retail, including loans to employees	**9,956**	5,217
	1,313,101	926,687
Provision for impairment (note 22)	**(2,124)**	(3,177)
Total	**1,310,977**	923,510

Loans amounting to UAH 1,073,824 thousand are secured by guarantees issued by ING Group entities, which represent 82% of the gross loan portfolio as at 31 December 2005 (2004: UAH 811,205 thousand, representing 88%).

Loans and advances granted to the four largest borrowers amounting to UAH 370,565 thousand represent 28% of the gross loans to customers as at 31 December 2005 (2004: UAH 494,594 thousand, representing 53%).

Loans and advances to customers by economic sector as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Trade	**410,671**	120,431
Food and beverages	**379,350**	358,608
Chemical goods production	**172,310**	61,045
Tobacco	**139,391**	268,715
Machinery	**86,724**	30,925
Wood processing	**72,976**	60,843
Leasing	**26,931**	-
Mining	**8,000**	6,425
Finance	**5,025**	-
Metallurgy	**-**	11,727
Other	**11,723**	7,968
Total	**1,313,101**	926,687

The Bank’s lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

9 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2005 is as follows:

(in thousands of Ukrainian hryvnias)	**Leasehold improvements**	**Computers and related equipment**	**Furniture, fixtures and other equipment**	**Total**
Cost				
As at 1 January 2005	3,038	6,347	10,456	19,841
Additions	1,777	1,386	1,613	4,776
Disposals	(1,801)	-	(1,969)	(3,770)
As at 31 December 2005	3,014	7,733	10,100	20,847
Accumulated depreciation and amortization				
As at 1 January 2005	2,322	4,676	7,026	14,024
Depreciation and amortization	460	912	1,179	2,551
Disposals	(1,770)	-	(1,966)	(3,736)
As at 31 December 2005	1,012	5,588	6,239	12,839
Net book value as at 31 December 2005	**2,002**	**2,145**	**3,861**	**8,008**

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2004 is as follows:

(in thousands of Ukrainian hryvnias)	**Leasehold improvements**	**Computers and related equipment**	**Furniture, fixtures and other equipment**	**Total**
Cost				
As at 1 January 2004	2,443	5,366	7,669	15,478
Additions	595	1,050	2,881	4,526
Disposals	-	(69)	(94)	(163)
As at 31 December 2004	3,038	6,347	10,456	19,841
Accumulated depreciation and amortization				
As at 1 January 2004	2,214	4,018	6,473	12,705
Depreciation and amortization	108	727	615	1,450
Disposals	-	(69)	(62)	(131)
As at 31 December 2004	2,322	4,676	7,026	14,024
Net book value as at 31 December 2003	229	1,348	1,196	2,773
Net book value as at 31 December 2004	**716**	**1,671**	**3,430**	**5,817**

10 Other assets

Other assets as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Accrued interest receivable	**9,181**	6,499
Fees receivable	**3,926**	1,609
Other	**223**	1,559
	13,330	9,667
Provision for impairment (note 22)	**(2,385)**	(809)
Total	**10,945**	8,858

11 Due to banks

Balances due to banks as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Deposits:		
ING Group	**437,798**	614,600
Domestic	**64,168**	12,044
Total	**501,966**	626,644

Deposits due to domestic banks amounting to UAH 25,113 thousand were pledged as collateral for guarantees issued by the Bank as at 31 December 2005 (2004: UAH 9,353 thousand).

12 Customers' current accounts

Customers' current accounts as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Commercial	**1,107,227**	163,527
Retail	**25,316**	20,875
Total	**1,132,543**	184,402

As at 31 December 2005, the three largest current accounts of companies amount to UAH 746,700 thousand and represent 67 % of the gross balance of commercial current accounts (2004: UAH 34,077 thousand, representing 21 %).

13 Deposits from customers

Deposits from customers as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Commercial	**371,684**	301,572
Retail	**4,360**	10,451
Total	**376,044**	312,023

Commercial deposits include UAH 133,696 thousand of cash collateral for loans issued by the Bank as at 31 December 2005 (2004: UAH 24,596 thousand).

Deposits amounting to UAH 275,596 thousand, or 74% of total commercial deposits were placed with the Bank by its four largest customers as at 31 December 2005 (2004: UAH 223,380 thousand, representing 74 %).

14 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Accounts payable for securities and related settlements	**311,740**	266,920
Accrued interest payable	**8,452**	4,101
Bonus accrued	**3,300**	2,800
Taxes payable	**3,809**	866
Provision for off-balance sheet commitments (note 22)	**-**	842
Other	**5,595**	3,505
Total	**332,896**	279,034

As at 31 December 2005, accounts payable for securities and related settlements amounting to UAH 311,740 thousand relate to funds transferred to the Bank by ING Group banks and banks located in OECD countries to be used for the purchase of corporate bonds and bonds issued by the Ukrainian government on behalf of these customers (2004: UAH 266,920 thousand).

15 Subordinated liabilities

In 2002, the Bank received a long-term subordinated loan of USD 5,400 thousand bearing a variable interest rate of three month’s LIBOR*1.021%. This subordinated loan matures in the year 2012. The effective interest rate for the year ended 31 December 2005 is 3% (2004: 2%). As at 31 December 2005, the subordinated loan amounting to UAH 27,270 thousand qualifies for Tier II capital for the purpose of calculation of capital adequacy ratio in accordance with Basel Accord (2004: UAH 28,649 thousand). The subordinated loan agreement does not contain any share conversion terms.

16 Share capital

The Bank's share capital as at 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Nominal value	**111,523**	111,523
Inflationary adjustment	**20,281**	20,281
Total	**131,804**	131,804

The inflationary adjustment reflects the effect of hyperinflation, which existed in Ukraine from the date of share capital contribution until 1 January 2001.

The authorized share capital comprises 11,152,267,500 ordinary shares as at 31 December 2005 (2004: 11,152,267,500). All shares have a nominal value of UAH 0.01 as at 31 December 2005 and 2004.

On 20 April 2004 the Bank's former shareholders, being wholly owned subsidiaries of ING Bank N.V., concluded an agreement with ING Bank N.V. for the sale of their shares, according to which the latter became the sole shareholder of the Bank.

All shares are ordinary and have equal voting, dividend and capital repayment rights. No dividends were declared in 2005 and 2004.

17 Off-balance sheet commitments and contingent liabilities

(a) Guarantees

The Bank issued guarantees to its clients amounting to UAH 146,498 thousand as at 31 December 2005 (2004: UAH 45,359 thousand). A major part of guarantees issued is either covered by deposits placed with the Bank or counter-guarantees from Ukrainian banks and ING Group entities.

(b) Commitments to extend credit

The amount of irrevocable commitments to extend credit is UAH 13,635 thousand as at 31 December 2005 (2004: UAH 26,527 thousand). The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

(c) Operating lease commitments

The Bank leases operational space in its normal course of business. Future minimum lease payments under non-cancelable operating leases as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Within one year	**4,606**	5,320
From one to five years	**18,249**	22,752
Total	**22,855**	28,072

(d) Tax contingency

The Bank performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which in certain cases may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines and penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these financial statements.

(e) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank has coverage for its equipment and third party liability resulting from operational activities.

18 Interest income

Interest income for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Loans and advances to customers	**66,246**	37,075
Financial assets at fair value through profit or loss and securities available-for-sale	**15,711**	12,211
Due from banks	**8,071**	2,482
Other	**-**	16
Total	**90,028**	51,784

19 Interest expense

Interest expense for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Due to banks	**18,353**	10,650
Deposits from customers	**11,637**	7,627
Customers' current accounts	**6,632**	1,841
Other	**934**	439
Total	**37,556**	20,557

20 Net fee and commission income

Net fee and commission income for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Fee and commission income:		
Off-balance sheet transactions	**20,894**	9,201
Operations in foreign exchange and bank metal market for customers	**11,286**	9,057
Operations with securities	**8,934**	1,719
Settlements and cash services	**5,726**	4,532
Credit service to customers	**2,535**	1,183
Other fee and commission income	**419**	235
Total fee and commission income	**49,794**	25,927
Fee and commission expense:		
Off-balance sheet transactions	**(10,088)**	(3,755)
Operations with securities	**(1,478)**	(628)
Settlements and cash services	**(1,312)**	(980)
Other commission expense	**(153)**	(71)
Total fee and commission expense	**(13,031)**	(5,434)
Net fee and commission income	**36,763**	20,493

21 General administrative expenses

General administrative expenses for the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Rental charges	**5,320**	3,651
Communication	**3,689**	3,342
Maintenance	**3,355**	2,041
Professional services	**972**	954
Taxes, duties and charges	**295**	557
Travel expenses	**563**	422
Marketing and advertising	**161**	37
Other	**2,300**	1,729
Total	**16,655**	12,733

22 Recovery of impairment losses

The following is a schedule of movements in the provisions for impairment for the year ended 31 December:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Balance as at 1 January	**4,828**	7,035
Recovery of provision for impairment losses	**(319)**	(2,207)
Balance as at 31 December	**4,509**	4,828

Provisions for impairment as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Loans and advances to customers (note 8)	**2,124**	3,177
Other assets (note 10)	**2,385**	809
Off-balance sheet commitments (note 14)	**-**	842
Total	**4,509**	4,828

23 Income tax expense

The Bank's statutory income tax rate is 25% for 2005 (2004: 25%).

The components of income tax expense for the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Current tax expense	**18,474**	8,696
Deferred tax expense (benefit)	**(324)**	191
Total	**18,150**	8,887

The difference between the total expected income tax expense computed by applying the statutory income tax rate to profit before tax and the reported income tax expense for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2005**	**%**	2004	%
Profit before tax	**73,960**	**100%**	33,664	100%
Computed expected income tax expense at statutory rate	**18,490**	**25%**	8,416	25%
Non-deductible items	**686**	**1%**	375	1%
Change in provision for deferred tax asset	**(1,026)**	**(1%)**	96	1%
Effective income tax expense	**18,150**	**25%**	8,887	27%

Deferred tax assets and liabilities as at 31 December are attributable to the items detailed as follows:

	2005		2004	
(in thousands of Ukrainian hryvnias)	**Asset**	**Liability**	Asset	Liability
Provisions for impairment	**1,137**	**-**	1,396	-
Property, equipment and intangible assets	**189**	**-**	549	-
Financial assets at fair value through profit or loss	**230**	**-**	-	(91)
Other assets	**-**	**(108)**	-	(88)
Other liabilities	**-**	**(74)**	310	-
Total	**1,556**	**(182)**	2,255	(179)
Net deferred asset	**1,374**	**-**	2,076	-
Valuation provision	**-**		(1,026)	
Net deferred tax asset	**1,374**		1,050	

Movements in temporary differences during the year ended 31 December 2005 are as follows:

(in thousands of Ukrainian hryvnias)	1 January 2005	Recognized in the income statement	**31 December 2005**
Provisions for impairment	1,396	(259)	**1,137**
Property, equipment and intangible assets	549	(360)	**189**
Financial assets at fair value through profit or loss	(91)	321	**230**
Other assets	(88)	(20)	**(108)**
Other liabilities	310	(384)	**(74)**
	2,076	(702)	**1,374**
Release of valuation provision		1,026	
Deferred tax benefit		324	

Movements in temporary differences during the year ended 31 December 2004 are as follows:

(in thousands of Ukrainian hryvnias)	1 January 2004	Recognized in the income statement	31 December 2004
Provisions for impairment	930	466	1,396
Property, equipment and intangible assets	484	65	549
Securities available-for-sale	(190)	99	(91)
Other assets	(93)	5	(88)
Other liabilities	1,040	(730)	310
	2,171	(95)	2,076
Release of valuation provision		(96)	
Deferred tax expense		(191)	

24 Foreign currency positions

Foreign currency positions as at 31 December are as follows:

	2005			2004		
(in thousands of Ukrainian hryvnias)	**USD**	**EURO**	**SEK***	USD	EURO	SEK*
Assets						
Cash	**2,243**	**886**	**-**	4,242	319	-
Balances with the National Bank of Ukraine	**-**	**-**	**-**	119,372	-	-
Due from banks	**19,620**	**4,222**	**1,956**	45,741	5,268	3,395
Loans and advances to customers	**537,975**	**78,626**	**72,976**	547,206	199,077	60,843
Other assets	**5,459**	**251**	**126**	3,997	430	62
Total assets	**565,297**	**83,985**	**75,058**	720,558	205,094	64,300
Liabilities						
Due to banks	**348,480**	**42,399**	**61,554**	472,364	95,893	60,843
Customers' current accounts	**139,787**	**33,448**	**13,277**	43,850	10,744	2,818
Deposits from customers	**32,501**	**4,115**	**-**	15,876	2,373	-
Other liabilities	**24,878**	**21,969**	**114**	3,226	180	211
Subordinated liabilities	**27,270**	**-**	**-**	28,649	-	-
Total liabilities	**572,916**	**101,931**	**74,945**	563,965	109,190	63,872
Net long (short) position as at 31 December	**(7,619)**	**(17,946)**	**113**	156,593	95,904	428

* Swedish crowns

25 Interest rate analysis

(a) Average interest rates

The average effective interest rates of major interest bearing assets and liabilities as at 31 December are as follows:

	2005			2004		
	UAH	**USD**	**EURO**	UAH	USD	EURO
Assets						
Term deposit with the NBU	**-**	**-**	**-**	-	1%	-
Financial assets at fair value through profit or loss	**13%**	**-**	**-**	13%	-	-
Securities available-for-sale	**-**	**-**	**-**	12%	-	-
Due from banks	**9%**	**6%**	**-**	6%	3%	2%
Loans and advances to customers	**10%**	**6%**	**5%**	10%	3%	3%
Liabilities						
Due to banks	**7%**	**4%**	**2%**	-	2%	2%
Deposits from customers	**6%**	**3%**	**2%**	6%	2%	2%
Subordinated liabilities	**-**	**3%**	**-**	-	2%	-

(b) Gap analysis

The Bank’s operations are subject to the risk of interest risk fluctuation to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in different amounts.

Substantially all monetary assets and liabilities are short term or have floating interest rates.

26 Maturity analysis

The contractual remaining maturities of assets and liabilities as at 31 December 2005 are as follows:

Description			**Maturity periods**			**Total**
	Within one month	From one to three months	From three months to one year	More than one year	No maturity	
(in thousands of Ukrainian hryvnias)						
Assets						
Cash	3,857	-	-	-	-	**3,857**
Balances with the NBU	1,046,717	-	-	-	-	**1,046,717**
Due from banks	39,547	-	-	-	-	**39,547**
Financial assets at fair value through profit or loss	111,481	-	35,650	23,636	-	**170,767**
Loans and advances to customers	799,278	237,643	264,344	9,712	-	**1,310,977**
Deferred tax asset	-	-	-	1,374	-	**1,374**
Property, equipment and intangible assets	-	-	-	-	8,008	**8,008**
Other assets	5,228	1,601	4,116	-	-	**10,945**
Total assets	**2,006,108**	**239,244**	**304,110**	**34,722**	**8,008**	**2,592,192**
Liabilities						
Due to banks	135,736	334,254	11,943	20,033	-	**501,966**
Customers’ current accounts	1,132,543	-	-	-	-	**1,132,543**
Deposits from customers	172,338	127,641	65,151	10,914	-	**376,044**
Other liabilities	328,130	4,652	22	92	-	**332,896**
Subordinated liabilities	-	-	-	27,270	-	**27,270**
Total liabilities	**1,768,747**	**466,547**	**77,116**	**58,309**	**-**	**2,370,719**
Liquidity gap for the period	237,361	(227,303)	226,994	(23,587)	8,008	**221,473**
Cumulative liquidity gap	**237,361**	**10,058**	**237,052**	**213,465**	**221,473**	**-**

The contractual remaining maturities of the assets and liabilities as at 31 December 2004 are as follows:

Description	**Maturity periods**					**Total**
	Within one month	From one to three months	From three months to one year	More than one year	No maturity	
(in thousands of Ukrainian hryvnias)						
Assets						
Cash	6,463	-	-	-	-	**6,463**
Balances with the NBU	445,055	-	-	-	-	**445,055**
Due from banks	71,244	-	-	-	-	**71,244**
Financial assets at fair value through profit or loss	-	-	-	65,271	-	**65,271**
Securities available-for-sale	-	30,916	38,297	-	-	**69,213**
Loans and advances to customers	634,331	232,384	46,133	10,662	-	**923,510**
Deferred tax asset	-	-	-	1,050	-	**1,050**
Property, equipment and intangible assets	-	-	-	-	5,817	**5,817**
Other assets	4,978	2,910	927	43	-	**8,858**
Total assets	**1,162,071**	**266,210**	**85,357**	**77,026**	**5,817**	**1,596,481**
Liabilities						
Due to banks	442,726	128,051	55,867	-	-	**626,644**
Customers' current accounts	184,402	-	-	-	-	**184,402**
Deposits from customers	149,873	26,919	135,097	134	-	**312,023**
Other liabilities	275,422	403	2,415	794	-	**279,034**
Subordinated liabilities	-	-	-	28,649	-	**28,649**
Total liabilities	**1,052,423**	**155,373**	**193,379**	**29,577**	**-**	**1,430,752**
Liquidity gap for the period	109,648	110,837	(108,022)	47,449	5,817	**165,729**
Cumulative liquidity gap	**109,648**	**220,485**	**112,463**	**159,912**	**165,729**	**-**

Customers' current accounts are due on demand and have been reflected as such in both schedules above. However, management believes that demand on the majority of the accounts will occur much later.

27 Balances and transactions with related parties

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Terms on transactions with related parties are established at the time of transaction. Related parties comprise entities under common control, members of the Supervisory Board, Management Board and their immediate family.

Banking transactions are entered into in the normal course of business with related parties, by virtue of common ownership, which are mainly branches and subsidiaries of ING Bank N.V. These transactions include settlements, loans, deposits, trade finance, securities and foreign currency transactions.

The interest rates on transactions with related parties may not reflect the interest rates that would result from similar transactions with non-related parties on the Ukrainian market.

Balances and transactions with related parties as at 31 December and for the year then ended are as follows:

(in thousands of Ukrainian hryvnias)	**2005**	2004
Balance sheet		
Due from banks	**5,222**	7,316
Due to banks	**437,798**	514,100
Other liabilities	**5,169**	101,668
Subordinated liabilities	**27,270**	28,649
Income statement		
Interest expense	**16,545**	9,066
Off-balance sheet		
Guarantees received	**1,880,744**	1,314,345

Remuneration of key management personnel for the year ended 31 December 2005 is represented by short-term employee benefits, which includes salary and bonuses payable in cash amounting to UAH 6,010 thousand (2004: UAH 3,616 thousand).

The key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly and include members of the Management Board.

28 Estimation of fair value

The estimated fair values of financial assets and liabilities have been determined using market prices for actively traded financial assets and discounted cash flow and other appropriate valuation methodologies and may not be indicative of the fair value of these instruments at the dates these financial statements are distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realization of the unrealized gains and losses can have an effect on fair value estimates and have not been considered.

For all financial assets and liabilities, their carrying values approximate their fair values due to their short term nature, variable rates, or fixed rates that approximate market rates at year end.

29 Risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

(a) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank.

The Bank has policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The Bank also complies with various NBU regulations that limit exposure to companies, groups of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and, when appropriate, obtains collateral.

The credit policy is reviewed and approved by the Management Board.

The maximum credit risk exposure is generally reflected in the carrying amounts of instruments in the balance sheet.

(b) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities. Interest rate risk management is performed by the Assets and Liability Committee and Tariff Commitee.

(c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall strategy.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(d) Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and continuously monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology.

30 Capital adequacy

Capital adequacy has been calculated under the methodology set out by the Bank for International Settlement (BIS), using the definition of capital adopted by the NBU. Tier I capital is represented by share capital, share premium and retained earnings. Tier II capital includes revaluation surplus and subordinated loan. The Bank's capital adequacy ratio calculated in accordance with the Basle Accord was 14% as at 31 December 2005 (2004: 15%).

Chairman of the Board	Deputy Chief Accountant
Alexander Pisaruk	Oksana Chizhevskaya

10 March 2006

KPMG Audit
11 Mykhaylivska St
01001 Kyiv
Ukraine

Telephone +380 (44) 490 5507
Telefax +380 (44) 490 5508
Internet www.kpmg.ua

Independent auditors' report

To the shareholders and the Management Board of
Joint-Stock Bank "ING Bank Ukraine"

We have audited the accompanying balance sheet of Joint-Stock Bank "ING Bank Ukraine" (the Bank) as at 31 December 2005 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CJSC KPMG Audit

CJSC KPMG Audit
10 March 2006