Joint-Stock Bank

“ING Bank Ukraine”

Financial Statements
31 December 2007

These Financial Statements contain 53 pages

Contents

(in thousands of Ukrainian hryvnias)	*Note*	**2007**	2006
Assets			
Cash		**7,709**	3,299
Balances with the National Bank of Ukraine	*4*	**287,459**	332,569
Due from banks	*5*	**1,177,713**	519,814
Financial assets at fair value through profit or loss	*6*	**553,778**	139,377
Amounts receivable under reverse repurchase agreements	*7*	**349,836**	479,564
Loans and advances	*8*	**3,167,697**	1,981,067
Deferred tax asset	*22*	**12,006**	4,405
Property, equipment and intangible assets	*9*	**13,780**	8,715
Other assets	*10*	**13,969**	6,176
Total assets		**5,583,947**	3,474,986
Liabilities			
Due to banks	*11*	**1,849,935**	973,852
Current accounts	*12*	**1,674,310**	750,842
Deposits	*13*	**415,111**	546,727
Current income tax liability		**6,035**	6,171
Other liabilities	*14*	**990,528**	667,943
Subordinated liabilities	*15*	**27,377**	27,382
Total liabilities		**4,963,296**	2,972,917
Equity			
Share capital	*16*	**325,042**	325,042
Retained earnings		**295,609**	177,027
Total equity		**620,651**	502,069
Total liabilities and equity		**5,583,947**	3,474,986
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 53.

(in thousands of Ukrainian hryvnias)	*Note*	**2007**	2006
Interest income	*18*	**275,757**	201,834
Interest expense	*19*	**(70,018)**	(70,170)
Net interest income		**205,739**	131,664
Fee and commission income		**78,798**	55,488
Fee and commission expense		**(28,839)**	(23,538)
Net fee and commission income	*20*	**49,959**	31,950
Gains less losses from dealing in foreign currencies		**29,635**	21,228
Gains less losses from financial assets at fair value through profit or loss		**(24,125)**	(18,065)
Other income		**4,197**	428
Operating income		**265,405**	167,205
Salaries and employee benefits		**(58,762)**	(25,722)
General administrative expenses	*21*	**(44,956)**	(26,445)
Depreciation and amortisation	*9*	**(4,180)**	(3,218)
(Impairment) recovery of other assets	*10*	**(668)**	2,021
Recovery of impairment losses on loans and advances		**-**	2,124
Operating expenses		**(108,566)**	(51,240)
Profit before tax		**156,839**	115,965
Income tax expense	*22*	**(38,257)**	(28,607)
Net profit		**118,582**	87,358

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 53.

(in thousands of Ukrainian hryvnias)	**2007**	2006
Operating activities		
Interest received	**255,930**	185,830
Interest paid	**(64,853)**	(73,273)
Fees and commissions received	**77,149**	54,202
Fees and commissions paid	**(25,976)**	(22,865)
Net receipts from securities and foreign exchange	**29,635**	21,228
Operating expenses paid	**(103,718)**	(52,166)
Operating income received	**4,199**	427
Changes in operating assets and liabilities		
Due from banks	**(183,824)**	(35,864)
Financial assets at fair value through profit or loss	**(430,099)**	(89,747)
Amounts receivable under reverse repurchase agreements	**129,728**	(366,281)
Loans and advances	**(1,175,500)**	(653,236)
Due to banks	**870,079**	470,057
Current accounts	**923,894**	(382,671)
Deposits	**(131,208)**	168,245
Other assets and liabilities, net	**321,912**	345,444
Income taxes paid	**(45,994)**	(29,191)
Cash flows from (used in) operating activities	**451,354**	(459,861)
Investing activities		
Acquisition of property, equipment and intangible assets	**(18,357)**	(4,010)
Proceeds from sale of property, equipment and intangible assets	**108**	86
Cash flows used in investing activities	**(18,249)**	(3,924)

(continued)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 53.

(in thousands of Ukrainian hryvnias)	**2007**	2006
Financing activities		
Proceeds from issuance of shares	-	193,238
Cash flows from financing activities	-	193,238
Net increase (decrease) in cash and cash equivalents	**433,105**	(270,547)
Cash and cash equivalents as at 1 January	**795,202**	1,065,749
Cash and cash equivalents as at 31 December	**1,228,307**	795,202

Cash and cash equivalents as shown in the statement of cash flows are composed of the following items:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Cash	**7,709**	3,299
Balances with the National Bank of Ukraine	**287,459**	332,569
Due from banks, current accounts	**933,139**	459,334
Cash and cash equivalents as at 31 December	**1,228,307**	795,202

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 53.

(in thousands of Ukrainian hryvnias)	**Share capital**	**Retained earnings**	**Total**
Balances as at 31 December 2005	131,804	89,669	221,473
Issue of shares	193,238	-	193,238
Net profit	-	87,358	87,358
Balances as at 31 December 2006	325,042	177,027	502,069
Net profit	-	**118,582**	**118,582**
Balances as at 31 December 2007	**325,042**	**295,609**	**620,651**

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 53.

1 Background

(a) Organisation and operations

Joint-Stock Bank "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 (the NBU) on 15 December 1997. The Bank is a wholly owned subsidiary of ING Bank N.V.

The Bank specialises in providing banking services to leading Ukrainian and foreign companies and banks. These 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 and individuals. The Bank operates under a general banking license issued by the National Bank of Ukraine (the NBU). The Bank also has securities trading, depositary and custodian licenses issued by the State Commission on Securities and Stock Market and is a member of the state deposit insurance scheme in Ukraine.

Being a subsidiary of ING Bank N.V., the Bank performs a significant number of transactions with its parent company (note 25). The activities are conducted principally in Ukraine, although the Bank also conducts transactions on international markets.

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

(b) Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These financial statements reflect management's current assessment of the possible 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 may be significant.

2 Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The Bank adopted the new and revised versions of IFRS that are effective for accounting periods beginning on 1 January 2007. The changes to the accounting policies and their effect on the financial statements are described in note 3(a).

(b) Basis of accounting

The financial statements are prepared on the historical cost basis except for financial assets at fair value through profit or loss, which are stated at fair value.

(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 hryvnias, rounded to the nearest thousand.

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

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant estimate and assumptions relate to impairment of loans and advances to customers. Management estimates impairment by assessing 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. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Note 8 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

3 Significant accounting policies

(a) Changes in accounting policies

Certain new IFRSs became effective on 1 January 2007. Listed below are these new or amended standards that are or in the future could be relevant to operations. The changes in accounting policies are applied retrospectively unless otherwise stated.

- International Financial Reporting Standard 7 *Financial Instruments: Disclosures* is effective for annual periods beginning on or after 1 January 2007. IFRS 7 requires extended disclosure in respect of financial instruments and replaces International Financial Reporting Standard IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*.
- Amendment to International Financial Reporting Standard IAS 1 *Presentation of Financial Statements – Capital Disclosures* is effective for annual periods beginning on or after 1 January 2007. This amendment requires extended disclosure regarding capital and how it is measured.
- International Financial Reporting Interpretation Committee IFRIC 9 *Reassessment of Embedded Derivatives* is effective for annual periods beginning on or after 1 June 2006 and clarifies that an embedded derivative shall be assessed for separation from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a significant change in the terms of the contract, i.e. in the terms of either the host contract or the embedded derivative or both.
- International Financial Reporting Interpretation Committee IFRIC 10 *Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 applies to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Bank first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004).

There was no impact on opening retained earnings arising from the adoption of any of these 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 recognised 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	**2007**	2006
US dollar (USD)	**5.050**	5.050
Euro (EUR)	**7.419**	5.972
Russian rouble (RUR)	**0.206**	0.176

As at the date of this report, 20 June 2008, the exchange rate is UAH 4.853 to USD 1.00, UAH 7.512 to EUR 1.00, and UAH 0.206 to RUR 1.00.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or
- upon initial recognition, are designated by management as at fair value through profit or loss.

Management designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- management intends to sell immediately or in the near term
- management upon initial recognition designates as at fair value through profit or loss
- management upon initial recognition designates as available for-sale or
- the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments 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, other than those that:

- upon initial recognition, management designates as at fair value through profit or loss
- management designates as available-for-sale, or
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

(ii) Recognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, and in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments which are measured at amortised cost using the effective interest method and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to the income statement as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within the income statement using the effective interest method.

(iv) Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction for impairment.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts (excluding future credit losses) through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability, except that future credit losses are not considered when estimating those cash receipts. The effective interest rate is established on initial recognition of the financial asset and liability and is not subsequently revised.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

(v) 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.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement
- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in the income statement over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in the income statement over the term of the repo agreement using the effective interest method. The receivables due under reverse repurchase agreements are recorded net of provisions for impairment.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Derivative financial instruments

Derivative financial instruments include foreign exchange swaps, forward transactions and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the income statement

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the income statement. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

(x) 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and advances and other receivables (loans and receivables). Management reviews its loans and advances and receivables to assess impairment on a regular basis. A loan or receivable 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 or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable'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 impairment loss on a loan or receivable 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 is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

(iii) Available-for-sale assets

The recoverable amount of available-for-sale assets is their fair value.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the amortised acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. 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 recognised in the income statement, then the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell 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. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortisation and impairment losses. Depreciation and amortisation of property, equipment and intangible assets is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortisation 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:

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

Expenditures for leasehold improvements are recognised as assets and charged to the income statement on a straight-line basis over the period shorter of the applicable lease or estimated useful life.

(f) 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 on a straight-line basis.

(g) 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 that represent varying degrees of risk exposure. The contractual or notional amount of these instruments indicates the level of activity associated with a particular class of financial instruments and is not a reflection of the level of expected losses.

When the Bank enters into contracts to guarantee the indebtedness of its customers, management 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.

Guarantee fees are recognised on a straight line basis over the guarantee period.

(h) Income and expense recognition

(i) Interest income and expense

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the income statement using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

(ii) Commission income and expense

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

(iii) Gains less losses from financial instruments

Gains less losses from financial assets at fair value through profit or loss include all realised and unrealised changes in fair value of financial instruments designated at fair value through profit or loss, except for coupon interest and foreign exchange differences.

Gains and losses from derivative financial instruments are included in gains less losses from dealing in foreign currencies or gains less losses from financial assets at fair value through profit or loss depending on the nature of the contracts.

(iv) Offsetting

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in trading activity.

(i) Taxation

Income tax on the profit 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 recognised directly in equity, in which case it is recognised 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 realisation 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 recognised 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 utilised.

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

(j) 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 recognised in the income statement when contributions are due and is included in the caption Salaries and employee benefits.

(k) Statement of cash flows

Cash and cash equivalents include cash in hand, balances with the NBU and current accounts due from banks.

(l) Fiduciary assets

The Bank provides custody, trustee, asset management and other fiduciary services that result in holding or placing of assets on behalf of third parties. These assets and income arising thereon are excluded from these financial statements as they are not assets of the Bank.

Commissions received from such business are shown as fees and commissions in the income statement.

(m) Corresponding figures

Corresponding figures as at 31 December 2006 are reclassified to conform to the current period’s presentation.

During the year the Bank modified the classification of its assets and liabilities in the balance sheet. Accrued interest receivable, previously included in other assets, are reclassified to due from banks and loans and advances. Accrued interest payable, previously included in other liabilities, is reclassified to due to banks, current accounts, deposits, and subordinated liabilities. Current income tax liability, previously included in other liabilities, is presented as a separate line item in the balance sheet.

The effect of these reclassifications is as follows:

(in thousands of Ukrainian hryvnias)	31 December 2006
Increase in	
Due from banks	244
Loans and advances	14,730
Due to banks	1,829
Current accounts	970
Deposits	2,438
Current income tax liability	6,171
Subordinated liabilities	112
Decrease in	
Other assets	(14,974)
Other liabilities	(11,520)

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and are not applied in preparing these IFRS financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations:

- International Financial Reporting Standard IAS 23 *Borrowing Costs*, which is effective for annual periods beginning on or after 1 January 2009, eliminates the option of immediately expensing borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- International Financial Reporting Standard IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009, introduces the "management approach" to segment reporting.

Management plans to adopt the pronouncements when they become effective and is currently studying what effect they 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 one-month period. The average obligatory reserve amounts to UAH 73,139 thousand for the one-month period ended 31 December 2007 (one-month period ended 31 December 2006: UAH 54,875 thousand). The Bank meets the NBU reserve requirements as at 31 December 2007 and 2006.

5 Due from banks

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

(in thousands of Ukrainian hryvnias)	**2007**	2006
Current accounts:		
ING Group entities	**666,671**	59,559
OECD countries	**252,189**	395,130
Largest 30 domestic banks	**14,279**	4,645
	933,139	459,334
Loans and advances:		
Largest 30 domestic banks	**172,361**	59,244
Ukrainian subsidiaries of OECD banks	**72,213**	-
Non-OECD countries	**-**	1,236
	244,574	60,480
Total	**1,177,713**	519,814

The following table represents an analysis of the gross exposure of due from banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Current accounts:		
AA- to AA+	**918,394**	454,434
BBB- to BBB+	**2,374**	212
BB- to BB+	**-**	1,169
B- to B+	**12,371**	3,519
	933,139	459,334
Loans and advances:		
AA- to AA+	**16,678**	20,480
BBB- to BBB+	**-**	15,150
BB- to BB+	**141,032**	5,050
B- to B+	**86,864**	-
Unrated	**-**	19,800
	244,574	60,480
Total	**1,177,713**	519,814

A current account of UAH 616,132 thousand, representing 66.0% of total current accounts, is placed with one bank in the ING Group as at 31 December 2007 (2006: UAH 388,029 thousand, representing 84.5%).

As at 31 December 2007, loans and deposits due from domestic banks amounting to UAH 50,500 thousand are collateralised by similar deposits in different currencies due to the same banks (2006: nil).

6 Financial assets at fair value through profit or loss

As at 31 December, financial assets at fair value through profit or loss are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Corporate shares and debt securities of Ukrainian enterprises and banks	**347,934**	129,764
Deposit certificates issued by the NBU	**202,071**	-
Treasury bonds refinanced by the NBU	**3,773**	9,613
Total	**553,778**	139,377

All financial assets at fair value through profit or loss are originally designated by management as at fair value through profit or loss. The Bank has no financial instruments held for trading.

As at 31 December 2007 and 2006, treasury bonds refinanced by the NBU and deposit certificates issued by the NBU are rated BB by S&P. All other underlying securities are non-rated by international rating agencies.

7 Amounts receivable under reverse repurchase agreements

As at 31 December 2007 and 2006, amounts receivable under reverse repurchase agreements relate to interest bearing bonds issued by the Ukrainian government and Ukrainian enterprises acquired by the Bank and resold subsequent to 31 December 2007 and 2006, respectively.

The Bank has no right to sell or repledge these securities before the maturity of the receivable.

All underlying securities are non-rated by international rating agencies.

8 Loans and advances

Loans and advances as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Commercial	**2,774,549**	1,715,688
Overdrafts	**357,842**	244,563
Retail, including loans to employees	**35,306**	20,816
Total	**3,167,697**	1,981,067

(a) Concentration analysis

The Bank monitors the concentration of credit risk by industry/sector. An analysis of concentrations of credit risk as at 31 December is shown below:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Trade	**1,073,307**	352,743
Food and beverages	**683,840**	859,802
Tobacco	**377,610**	277,790
Wood processing	**194,484**	104,099
Mining	**190,022**	4,000
Consultancy services	**139,487**	22,966
Chemical goods production	**135,366**	220,421
Transportation and logistics	**114,544**	15,740
Polygraphy	**102,416**	16,225
Metallurgy	**35,642**	-
Retail	**35,306**	20,816
Leasing and real estate	**20,166**	-
Machinery	**14,961**	62,702
Technologies	**255**	19,953
Other	**50,291**	3,810
Total	**3,167,697**	1,981,067

Loans and advances granted to the ten largest borrowers amount to UAH 1,499,189 thousand, or 47.3% of gross loans and advances as at 31 December 2007 (2006: UAH 1,264,056 thousand, or 63.8%).

(b) Sensitivity analysis

Management has not identified any impaired loans as at 31 December 2007 and 2006 and, accordingly, no impairment provision is recognised.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2007 would be approximately UAH 31,677 thousand lower/higher (2006: UAH 19,811 thousand).

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 continued development of the Ukrainian economy.

(c) Collateral

The following table provides an analysis of the loan portfolio, gross of impairment, by types of collateral as at 31 December:

	2007				2006			
Type of collateral	**Commercial loans**	**Overdrafts**	**Retail loans**	**Total**	**Commercial loans**	**Overdrafts**	**Retail loans**	**Total**
(in thousands of Ukrainian hryvnias)								
Real estate	**55,600**	**4,561**	**18,707**	**78,868**	10,666	10,515	11,043	32,224
Other	**529,364**	**81,602**	**779**	**611,745**	101,555	188,134	460	290,149
Deposits with the Bank	**90,900**	**-**	**-**	**90,900**	17,439	-	-	17,439
Guarantees by ING group and other international banks	**1,996,485**	**251,764**	**43**	**2,248,292**	1,566,422	-	-	1,566,422
Unsecured	**102,200**	**19,915**	**15,777**	**137,892**	19,606	45,914	9,313	74,833
Total	**2,774,549**	**357,842**	**35,306**	**3,167,697**	1,715,688	244,563	20,816	1,981,067

Other collateral is composed of vehicles, goods in turnover, equipment and other.

This table summarises the amount of loans and advances secured by collateral, rather than the fair value of the collateral itself. Management estimates the fair value of collateral at the time a loan is granted, and when a loan becomes impaired.

During the year ended 31 December 2007 and 2006, the Bank did not foreclose on any collateral.

9 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2007 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 2007	**3,326**	**8,635**	**11,988**	**23,949**
Additions	**287**	**6,519**	**2,549**	**9,355**
Disposals	**-**	**(1,276)**	**(2)**	**(1,278)**
As at 31 December 2007	**3,613**	**13,878**	**14,535**	**32,026**
Accumulated depreciation and amortisation				
As at 1 January 2007	**1,607**	**6,252**	**7,375**	**15,234**
Depreciation and amortisation	**715**	**1,911**	**1,554**	**4,180**
Disposals	**-**	**(1,167)**	**(1)**	**(1,168)**
As at 31 December 2007	**2,322**	**6,996**	**8,928**	**18,246**
Net book value as at 31 December 2007	**1,291**	**6,882**	**5,607**	**13,780**

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2006 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 2006	3,014	7,733	10,100	20,847
Additions	312	1,296	2,402	4,010
Disposals	-	(394)	(514)	(908)
As at 31 December 2006	3,326	8,635	11,988	23,949
Accumulated depreciation and amortisation				
As at 1 January 2006	1,012	5,588	6,239	12,839
Depreciation and amortisation	595	1,004	1,619	3,218
Disposals	-	(340)	(483)	(823)
As at 31 December 2006	1,607	6,252	7,375	15,234
Net book value as at 31 December 2006	1,719	2,383	4,613	8,715

10 Other assets

Other assets as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Prepayments for property, equipment and intangible assets	**9,175**	173
Accrued fee and commission income	**4,903**	5,212
Other	**885**	1,155
	14,963	6,540
Provision for impairment	**(994)**	(364)
Total	**13,969**	6,176

Movements in the provision for impairment during the year ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Balance as at 1 January	**364**	2,385
Impairment (recovery) of other assets	**668**	(2,021)
Write-offs	**(38)**	-
Balance as at 31 December	**994**	364

11 Due to banks

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

(in thousands of Ukrainian hryvnias)	**2007**	2006
Current accounts:		
Largest 30 domestic banks	**5,597**	1,638
Deposits:		
ING Group entities	**1,493,418**	614,135
Largest 30 domestic banks	**300,687**	355,079
Ukrainian subsidiaries of OECD banks	**50,233**	-
National Bank of Ukraine	-	3,000
	1,844,338	972,214
Total due to banks	**1,849,935**	973,852

Deposits due to two banks in the ING Group amount to UAH 1,486,505 thousand, or 80.4% of due to banks as at 31 December 2007 (2006: UAH 614,135 thousand, or 63.1%).

As at 31 December 2006, deposits due to domestic banks amounting to UAH 25,113 thousand were pledged as collateral for guarantees issued by the Bank.

12 Current accounts

Current accounts as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Commercial	**1,629,711**	722,627
Retail	**44,599**	28,215
Total	**1,674,310**	750,842

As at 31 December 2007, the ten largest commercial current accounts amount to UAH 979,764 thousand, or 58.5% of commercial current accounts (2006: UAH 389,042 thousand, or 51.9%).

13 Deposits

Deposits as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Commercial	**412,442**	543,916
Retail	**2,669**	2,811
Total	**415,111**	546,727

As at 31 December 2007, commercial deposits of UAH 15,660 thousand are pledged as collateral for loans issued by the Bank (2006: UAH 20,033 thousand).

As at 31 December 2007, deposits amounting to UAH 367,626 thousand, or 88.6% of total deposits are placed with the Bank by its ten largest customers (2006: UAH 482,703 thousand, or 88.3%).

14 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Amounts received under trust operations	**914,095**	651,157
Accrued bonuses to employees	**14,678**	5,240
Accrued fee and commission expense	**5,705**	2,212
Provision for unused vacations	**2,528**	1,026
Other	**53,522**	8,308
Total	**990,528**	667,943

As at 31 December 2007, amounts received under trust operations amounting to UAH 914,095 thousand relate to funds transferred to the Bank by ING Group banks and banks located in OECD countries to be used for purchase of corporate bonds and bonds issued by the Ukrainian government on behalf of these banks (2006: UAH 651,157 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 LIBOR*1.021%. This subordinated loan matures in 2012. The average interest rate for the year ended 31 December 2007 approximated 5.6% (2006: 5.0%). The subordinated loan agreement does not contain any share conversion terms.

16 Share capital

The authorised share capital comprises 30,476,092,500 ordinary shares as at 31 December 2007 (2006: 30,476,092,500). All shares have a nominal value of UAH 0.01 as at 31 December 2007 and 2006.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. No dividends were declared in 2007 and 2006.

Dividends are restricted by the amount of retained earnings reported in accordance with Ukrainian National Accounting Standards. As at 31 December 2007, the maximum amount available for distribution is UAH 297,528 thousand (31 December 2006: UAH 193,462 thousand) (unaudited).

17 Off-balance sheet commitments and contingent liabilities

(a) Credit related commitments

Credit related commitments comprise letters of credit, guarantees and undrawn loan commitments. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless.

Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. The primary purpose of undrawn loan commitments is to ensure that funds are available to a customer as required. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards and many of these commitments may expire or terminate without being drawn.

Outstanding credit related commitments are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Letters of credit	**387,058**	94,136
Guarantees	**74,740**	102,910
Undrawn loan commitments	**5,050**	5,921
Total	**466,848**	202,967

A major part of guarantees and letter of credit issued is either covered by deposits placed with the Bank or counter-guarantees from Ukrainian banks and ING Group entities.

(b) 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)	**2007**	2006
Within one year	**13,786**	4,472
From one to five years	**19,084**	8,328
Total	**32,870**	12,800

During the year ended 31 December 2007, UAH 6,121 thousand is recognised as expense in the income statement in respect of operating leases and is included in general administrative expenses (2006: UAH 4,521 thousand)

(c) 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 characterised 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.

(d) 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)	**2007**	2006
Loans and advances	**186,186**	147,231
Financial assets at fair value through profit or loss and amounts receivable under reverse repurchase agreements	**75,242**	36,904
Due from banks	**14,329**	17,699
Total	**275,757**	201,834

19 Interest expense

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

(in thousands of Ukrainian hryvnias)	**2007**	2006
Due to banks	**39,497**	22,058
Deposits	**22,680**	24,804
Current accounts	**6,319**	21,887
Subordinated debt	**1,522**	1,421
Total	**70,018**	70,170

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)	**2007**	2006
Fee and commission income:		
Guarantees and commitments	**35,637**	23,085
Currency exchange	**20,260**	15,399
Operations with securities	**12,863**	8,349
Payments and withdrawals	**8,470**	6,982
Credit service to customers	**560**	720
Other	**1,008**	953
Total fee and commission income	**78,798**	55,488

(in thousands of Ukrainian hryvnias)	**2007**	2006
Fee and commission expense:		
Guarantees and commitments	**(23,796)**	(14,255)
Payments and withdrawals	**(2,648)**	(7,024)
Operations with securities	**(2,199)**	(2,166)
Other	**(196)**	(93)
Total fee and commission expense	**(28,839)**	(23,538)
Net fee and commission income	**49,959**	31,950

21 General administrative expenses

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

(in thousands of Ukrainian hryvnias)	**2007**	2006
Communication	**17,234**	11,375
Maintenance	**6,431**	4,206
Professional services	**6,375**	2,707
Rentals and utilities	**6,300**	4,562
Travel and entertainment	**4,562**	2,343
Marketing and advertising	**636**	195
Taxes, duties and charges	**502**	482
Other	**2,916**	575
Total general and administrative expenses	**44,956**	26,445

22 Income tax expense

The statutory income tax rate is 25% for 2007 (2006: 25%).

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

(in thousands of Ukrainian hryvnias)	**2007**	2006
Current tax expense	**45,858**	31,638
Deferred tax benefit	**(7,601)**	(3,031)
Total income tax expense	**38,257**	28,607

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)	**2007**	**%**	2006	%
Profit before tax	**156,839**	**100%**	115,965	100%
Computed expected income tax expense at statutory rate	**39,210**	**25%**	28,991	25%
Non-deductible items (non-taxable) items	**(953)**	**(1%)**	(384)	-
Effective income tax expense	**38,257**	**24%**	28,607	25%

Movements in deferred tax assets and liabilities by components during the year ended 31 December 2007 are as follows:

(in thousands of Ukrainian hryvnias)	**1 January 2007**	**Recognised in the income statement**	**31 December 2007**
Financial assets at fair value through profit or loss	**3,916**	**5,419**	**9,335**
Loans and advances	**-**	**(2,521)**	**(2,521)**
Property, equipment and intangible assets	**193**	**(836)**	**(643)**
Other assets	**(49)**	**58**	**9**
Other liabilities	**345**	**5,481**	**5,826**
	4,405	**7,601**	**12,006**

Movements in deferred tax assets and liabilities by components during the year ended 31 December 2006 are as follows:

(in thousands of Ukrainian hryvnias)	1 January 2006	Recognised in the income statement	31 December 2006
Financial assets at fair value through profit or loss	230	3,686	3,916
Loans and advances	531	(531)	-
Property, equipment and intangible assets	189	4	193
Other assets	498	(547)	(49)
Other liabilities	(74)	419	345
	1,374	3,031	4,405

23 Estimation of fair value

The estimated fair values of financial assets and liabilities is determined using market prices for actively traded financial assets and discounted cash flow and other appropriate valuation methodologies as at the balance-sheet date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's 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, and the discount rate is a market related rate for a similar instrument at the balance sheet date.

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 realisation of the unrealised gains and losses can have an effect on fair value estimates and have not been considered.

The fair values of all short-term financial assets and liabilities are assumed to equal their carrying values due to their short-term nature and/or market interest rates at period end. The fair value of loans and deposits with maturities greater than one year approximates its carrying value because for substantially all loans and deposits, the Bank has the right, and has historically exercised the right, to change the interest rate when market interest rates change.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

24 Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market and liquidity risks.

The risk management policies and systems are continuously modified and enhanced to reflect changes in markets and products.

This note presents information about the exposure to each of these risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

(a) Risk management framework

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures to manage the exposure to internal and external risk factors.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Risk management policies, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department (RMD) under the supervision of the Asset and Liability Management Committee (ALCO). ALCO is supervised by the Supervisory Council and the Management Board.

The Supervisory Council has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those that are outside of the scope of the authority of the Management Board and other governing bodies. The Supervisory Council is responsible, among other things, for appointing the external auditor and for establishing the procedure for auditing and monitoring the financial and economic activities. The Supervisory Council's Risk Management Committee determines the overall risk management strategy. The Management Board is directly responsible for its implementation.

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its powers with respect to the overall asset, liability and risk management to ALCO.

The ALCO is chaired by the Chairman of the Management Board. The ALCO sits at least once every month or more frequently if required. The ALCO is responsible for the control and management of the asset and liability structure. It also sets interest rates and maturity limits and compares key performance indicators with those of competitors. In addition, the ALCO is responsible for managing risks and monitoring compliance with the limits it has set, reviewing reports on liquidity, interest and foreign exchange risk, establishing the methodology for carrying out risk assessment and setting limits and standards with the aim of balancing the level of risks and profitability.

The Credit Committees are responsible for approving loans, implementing the lending strategy, coordinating the activities of the departments and sub-committees and forming a balanced and diversified loan portfolio. Approval from the relevant Credit Committee is required to grant loans, make provisions and recover debt (including signing loan agreements and bringing claims or legal proceedings).

The RMD assists the ALCO and the various Credit Committees in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing levels of risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on parameters of assets and liabilities (including interest rates, amounts and maturities) from the business divisions, information on exposure limits, procedures and methodologies from the ALCO. It then provides the ALCO with the results of its risk analysis and monitoring and recommendations on setting or changing limits, and informs the business divisions, back office, etc. of the normative risk levels.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Management Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits. The Bank uses risk assessment/management methods used by ING Group in general to the extent they are in line with regulations of the NBU.

The Internal Audit Department is responsible for monitoring compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Supervisory Council.

The principal categories of risks to which the Bank is exposed through its operations and the way the Bank manages these risks are described below.

(b) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country, and industry risk).

For risk management purposes, credit risk arising on trading securities is managed independently, and reported as a component of market risk exposure.

The Bank manages its credit risk by establishing internal policies aimed at maximising risk-adjusted profit by maintaining credit risk exposure within accepted parameters, by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by actively monitoring the performance of its customers. The Bank deals with counterparties of good credit standing and, when appropriate, obtains collateral. The credit policy is reviewed and approved by its Management Board and Supervisory Council.

The RMD determines levels of overall risk exposure by reference to customers and products. The Credit Risk Sub-Department regularly evaluates customers' creditworthiness and business performance.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

The Bank has developed an internal credit rating system whereby each borrower is assigned ratings based on (i) financial and operational ratios, (ii) financial position, (iii) market position and management effectiveness and (iv) the quality of the collateral. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the international rating, if any, and financial statements audited by recognised auditors, allocating various credit ratings to the borrowers. The Bank evaluates the borrower's financial statements, credit history, and cash flows in order to determine the expected risk of default for such borrower and also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector.

The borrower's financial standing is subject to continual monitoring and review on a quarterly basis or as the business may require.

The Bank structures the levels of credit risk it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly (at least once per month).

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower or other ING Group division, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project financing and requires cash flows from the financed project or counter-parties to be directed to the current accounts opened with the Bank. In the case of loans to retail customers, the Bank typically takes collateral or requires guarantees to secure such loans. As the lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional factors when determining the value of collateral.

Each year, the RMD determines and submits to the Board for approval an annual Credit Risk Policy, containing, inter alia, target credit risk exposures by particular industry sectors, products, currency and borrower risk classes. A similar system is employed to monitor credit risk relating to the retail business.

The Bank establishes an allowance for loan losses that represent its estimates of losses incurred in its loan portfolio.

The Bank writes off a loan balance (and any related provision for impairment losses) when the Credit Committee determines that the loan is uncollectible and when all necessary steps to collect the loan are completed. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(i) Maximum exposure to credit risk

The maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential exposure is not significant.

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued. Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same procedures and methodologies, as defined in the policy for approving credit related commitments (undrawn loan commitments, letter of credit and guarantees) as it does for on balance sheet credit obligations (loans). The maximum exposure to off balance sheet credit risk is reflected in note 17.

The Bank monitors concentrations of credit risk by industry/sector. For the analysis of concentration of credit risk in respect of loans and advances refer to note 8.

(c) Liquidity risk

Liquidity risk arises in the general funding of 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.

The process of managing liquidity risk is continuous. The RMD carries out day-to-day monitoring of short-term exposure to liquidity risk. Senior management receives weekly analysis and daily reports and the ALCO performs a monthly review of liquidity risk management.

The Bank assesses liquidity risk based on gap analysis, that is, an analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having the same maturity are used to calculate the cumulative gap, which is subject to certain limits. These limits are determined by ability to source funds on the money markets. Such limits may be reviewed, depending on changes in the Bank's capacity to source funds. The RMD is responsible for making recommendations with respect to changing limits, which are subject to approval by the ALCO. In addition, the Bank has procedures that apply in the event these limits are exceeded, as well as contingency plans for unforeseen situations.

The risks associated with the concentration of loans and deposits require continuous monitoring. Management acknowledges the risks associated with possible high concentrations of assets and liabilities and seeks to match maturities of high-value corporate loans and deposits, which management views as a means of managing liquidity and interest rate risk. The Bank has access to a diverse funding base, including deposits, subordinated liabilities and share capital, which enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank also holds a portfolio of liquid assets as part of its liquidity risk management. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels more effectively.

The Bank complies with mandatory liquidity ratios on a daily basis in accordance with the requirements of the NBU. These ratios include:

- instant liquidity ratio, which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- current liquidity ratio, which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days
- long-term liquidity ratio, which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year.

The contractual remaining maturities of assets and liabilities excluding interest payments as at 31 December 2007 are as follows:

Description	Maturity periods						**Total**
	Within one month	From one to three months	From three months to one year	From one year to five years	More than five years	No maturity	
(in thousands of Ukrainian hryvnias)							
Assets							
Cash	**7,709**	**-**	**-**	**-**	**-**	**-**	**7,709**
Balances with the NBU	**287,459**	**-**	**-**	**-**	**-**	**-**	**287,459**
Due from banks	**1,066,913**	**60,205**	**2,517**	**48,078**	**-**	**-**	**1,177,713**
Financial assets at fair value through profit or loss	**534,214**	**705**	**12,702**	**6,157**	**-**	**-**	**553,778**
Amounts receivable under reverse repurchase agreements	**349,836**	**-**	**-**	**-**	**-**	**-**	**349,836**
Loans and advances	**1,671,435**	**415,483**	**802,524**	**166,997**	**111,258**	**-**	**3,167,697**
Deferred tax asset	**-**	**-**	**-**	**12,006**	**-**	**-**	**12,006**
Property, equipment and intangible assets	**-**	**-**	**-**	**-**	**-**	**13,780**	**13,780**
Other assets	**13,969**	**-**	**-**	**-**	**-**	**-**	**13,969**
Total assets	**3,931,535**	**476,393**	**817,743**	**233,238**	**111,258**	**13,780**	**5,583,947**
Liabilities							
Due to banks	**1,328,136**	**154,448**	**367,351**	**-**	**-**	**-**	**1,849,935**
Current accounts	**1,674,310**	**-**	**-**	**-**	**-**	**-**	**1,674,310**
Deposits	**269,872**	**142,409**	**2,703**	**-**	**127**	**-**	**415,111**
Current income tax liability	**-**	**6,035**	**-**	**-**	**-**	**-**	**6,035**
Other liabilities	**990,528**	**-**	**-**	**-**	**-**	**-**	**990,528**
Subordinated liabilities	**107**	**-**	**-**	**27,270**	**-**	**-**	**27,377**
Total liabilities	**4,262,953**	**302,892**	**370,054**	**27,270**	**127**	**-**	**4,963,296**
Liquidity gap for the period	**(331,418)**	**173,501**	**447,689**	**205,968**	**111,131**	**13,780**	**620,651**
Cumulative liquidity gap	**(331,418)**	**(157,917)**	**289,772**	**495,740**	**606,871**	**620,651**	**-**

The contractual remaining maturities of the assets and liabilities excluding interest payments as at 31 December 2006 are as follows:

Description	**Maturity periods**						**Total**
	Within one month	From one to three months	From three months to one year	From one year to five years	More than five years	No maturity	
(in thousands of Ukrainian hryvnias)							
Assets							
Cash	3,299	-	-	-	-	-	3,299
Balances with the NBU	332,569	-	-	-	-	-	332,569
Due from banks	519,814	-	-	-	-	-	519,814
Financial assets at fair value through profit or loss	6,106	22,009	67,068	44,194	-	-	139,377
Amounts receivable under reverse repurchase agreements	479,564	-	-	-	-	-	479,564
Loans and advances	1,097,651	533,741	317,266	32,409	-	-	1,981,067
Deferred tax asset	-	-	-	4,405	-	-	4,405
Property, equipment and intangible assets	-	-	-	-	-	8,715	8,715
Other assets	952	2,614	2,522	88	-	-	6,176
Total assets	2,439,955	558,364	386,856	81,096	-	8,715	3,474,986
Liabilities							
Due to banks	768,995	53,857	151,000	-	-	-	973,852
Current accounts	750,842	-	-	-	-	-	750,842
Deposits	417,440	98,503	10,624	20,160	-	-	546,727
Current income tax liability	6,171	-	-	-	-	-	6,171
Other liabilities	665,020	827	2,096	-	-	-	667,943
Subordinated liabilities	112	-	-	-	27,270	-	27,382
Total liabilities	2,608,580	153,187	163,720	20,160	27,270	-	2,972,917
Liquidity gap for the period	(168,625)	405,177	223,136	60,936	(27,270)	8,715	502,069
Cumulative liquidity gap	(168,625)	236,552	459,688	520,624	493,354	502,069	-

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.

Under Ukrainian law individual depositors can withdraw their funds prior to the stated maturity date upon two-day notification. Management believes that a majority of individual deposits will not be withdrawn prior to the stated maturity date.

The contractual maturities of undiscounted cash flows of financial liabilities as at 31 December 2007 are as follows:

Description	**Maturity periods**					**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	
(in thousands of Ukrainian hryvnias)						
Due to banks	**1,333,252**	**158,284**	**374,483**	**-**	**-**	**1,866,019**
Current accounts	**1,674,310**	**-**	**-**	**-**	**-**	**1,674,310**
Deposits	**271,811**	**143,299**	**2,783**	**37**	**145**	**418,075**
Subordinated liabilities	**107**	**227**	**1,023**	**31,815**	**-**	**33,172**
Total	**3,279,480**	**301,810**	**378,289**	**31,852**	**145**	**3,991,576**

The contractual maturities of undiscounted cash flows of financial liabilities as at 31 December 2006 are as follows:

Description	**Maturity periods**					**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	
(in thousands of Ukrainian hryvnias)						
Due to banks	772,292	55,848	154,801	-	-	982,941
Current accounts	750,842	-	-	-	-	750,842
Deposits	419,294	99,382	11,887	22,990	-	553,553
Subordinated liabilities	112	227	1,023	4,545	28,634	34,541
Total	1,942,540	155,457	167,711	27,535	28,634	2,321,877

(d) Market risk

Market risk is the risk that changes in the market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios mainly are held by the investment banking unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. The RMD is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

(i) Foreign exchange rate risk

Exchange rate risk is the risk of losses resulting from adverse movements in foreign currency exchange rates. Exchange rate risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currencies as at the balance sheet date.

The Bank evaluates, monitors and sets limits for long and short foreign exchange positions. The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating exchange rate risk. The policy with regard to open foreign currency positions is restricted to certain thresholds under Ukrainian law and is strictly monitored by the NBU on a daily basis.

The ALCO sets limits on the level of exposure by currencies. Such limits are reviewed in the event of volatility in foreign exchange rates. The ALCO may amend limits based on recommendations by the RMD. The Bank monitors compliance with such limits daily. Reports on changes in currency positions are provided to management on a weekly and a monthly basis.

As at 31 December, foreign currency positions are as follows:

	2007			2006		
(in thousands of Ukrainian hryvnias)	**USD**	**EURO**	**Other**	USD	EURO	Other
Assets						
Cash	**2,166**	**1,410**	**110**	744	1,608	91
Due from banks	**387,540**	**660,631**	**24,991**	415,724	5,726	58,138
Loans and advances	**1,207,506**	**244,895**	**98,563**	525,123	104,951	104,099
Other assets	**3,584**	**482**	**3**	2,667	907	33
Total assets	**1,600,796**	**907,418**	**123,667**	944,258	113,192	162,361
Liabilities						
Due to banks	**657,587**	**742,896**	**98,532**	430,888	29,929	154,956
Current accounts	**846,830**	**120,056**	**19,004**	340,443	67,914	4,534
Deposits	**40,433**	**20,749**	**-**	144,175	9,305	-
Other liabilities	**58,882**	**41,041**	**170**	1,166	23	62
Subordinated liabilities	**27,377**	**-**	**-**	27,382	-	-
Total liabilities	**1,631,109**	**924,742**	**117,706**	944,054	107,171	159,552
Net (short) long on-balance position as at the balance sheet date	**(30,313)**	**(17,324)**	**5,961**	204	6,021	2,809
Long off-balance position as at the balance sheet date	**62,182**	**14,962**	**-**	-	-	-
Net long on- and off-balance position as at the balance sheet date	**31,869**	**(2,362)**	**5,961**	204	6,021	2,809

Other currencies are represented mainly by balances in Russian roubles and Swedish crowns.

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the possible appreciation of the currencies in which loans and advances are extended against UAH may adversely affect the borrower's repayment ability and, therefore, increase the likelihood of future loan losses.

A 10 percent strengthening of the Ukrainian hryvnia against the following currencies would have increased (decreased) net profit and equity by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of Ukrainian hryvnias)	**31 December 2007**	31 December 2006
USD	**(2,390)**	(15)
EUR	**177**	(452)
Other	**(447)**	(211)

A 10 percent weakening of the Ukrainian hryvnia against the above currencies would have had a equal but opposite effect on the profit to the amount shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of its portfolios of financial instruments. The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates.

The ALCO sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the RMD. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed as at the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALCO meetings. In addition to applying standard calculations, the Bank uses stress-tests. These involve determining the level of interest-rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management.

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

	2007			2006		
	UAH	**USD**	**EURO**	UAH	USD	EURO
Assets						
Financial assets at fair value through profit or loss	**12%**	**-**	**-**	13%	-	-
Amounts receivable under reverse repurchase agreements	**10%**	**-**	**-**	11%	-	-
Due from banks	**10%**	**9%**	**-**	12%	9%	-
Loans and advances	**12%**	**7%**	**6%**	13%	8%	6%
Liabilities						
Due to banks	**8%**	**5%**	**4%**	9%	5%	4%
Deposits	**8%**	**3%**	**2%**	8%	3%	2%
Subordinated liabilities	**-**	**5%**	**-**	-	5%	-

Substantially all monetary assets and liabilities are short-term or effectively have floating rates, since the Bank has the right and historically exercised its right to renegotiate interest rates on long-term loans and deposits.

Gap analysis

The Bank assesses the level of interest rate risk based on a gap analysis, that is, an analysis of the imbalance between the amounts of assets and liabilities which mature or re-price over the same period. The Bank can perform gap analysis for periods of up to one year, although it considers such analysis to be most reliable over a period of three months. Limits are set on the level of loss of net interest income that management believes acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest-bearing assets and liabilities, such as corporate and retail loans, due from banks, securities and corporate and retail deposits. Limits are subject to review depending on the volatility of interest rate movements. The RMD is responsible for making recommendations to review such limits, which are subject to approval by the ALCO.

Gaps are within the prescribed limits for all periods except for those up to one month. In the category up to one month, current accounts are generally not affected by movements in interest rates.

The gap analysis is supplemented by interest rate forecasts over horizons of up to one year for major types of assets and liabilities. This allows management to evaluate not only the level of interest rate risk but also the most likely changes in net interest income.

The Bank continually monitors interest rate spreads and net interest income and reports on these matters are provided to senior management each week. In addition, in order to minimise potential losses from unforeseen movements in interest rates, the Bank provides for interest rate reviews in light of current market rates when entering into agreements. The Bank also manages interest risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Bank sets interest rates for major types of assets and liabilities by maturity and currency.

An analysis of sensitivity of the projected net interest margin for the years ended 31 December 2007 and 2006 to changes in the market interest rate based on a simplified scenario of 100 basis points (bp) parallel fall or rise in all yield curves (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	Year ended 31 December	
	2007	2006
(in thousands of Ukrainian hryvnias)		
100 bp parallel increase	**337**	224
100 bp parallel decrease	**(337)**	(224)

This analysis was based on interest bearing assets and liabilities outstanding as at 31 December 2007 and 2006.

The effect of fixed rate instruments was determined based on the assumption that they would be replaced at their maturity date at the current market rate and an increase or decrease of 100 bp.

(e) Capital management

The Bank's policy is to build a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The lead regulator, the National Bank of Ukraine, sets and monitors capital requirements for the Bank as a whole. The Bank and individual operations are directly supervised by their local regulators.

Under the current capital requirements set by the NBU banks are required to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. While the Bank believes that it has sufficient capital to fund the planned expansion of its business, if it does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may risk non-compliance with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU and this could have a material adverse effect on results of operations and financial condition. As at 31 December 2007, this minimum level is 10.0% (2006: 10.0%).

The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2007 and 2006.

The Bank also calculates capital adequacy levels in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The following table shows the composition of the capital position as at 31 December calculated in accordance with the requirements of the Basle Accord, using the definition of capital as defined by the NBU:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Tier 1 capital		
Share capital	**325,042**	325,042
Retained earnings	**295,609**	177,027
Total Tier 1 capital	**620,651**	502,069
Tier 2 capital		
Qualifying subordinated liabilities	**21,902**	27,382
Total Tier 2 capital	**21,902**	27,382
Total regulatory capital	**642,553**	529,451
Total risk-weighted assets	**5,798,754**	2,941,394
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**11.1%**	18.0%
Total tier 1 capital expressed as a percentage of risk-weighted assets	**10.7%**	17.1%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of, and reflecting an estimate of credit, market and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

25 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, substantially all of which are with entities under common control, as at 31 December and for the year then ended are as follows:

(in thousands of Ukrainian hryvnias)	**2007**	2006
Balance sheet		
Due from banks	**666,671**	59,559
Due to banks	**1,493,418**	614,135
Other liabilities	**116,981**	411,084
Subordinated liabilities	**27,377**	27,382
Income statement		
Interest income	**1,226**	649
Interest expense	**30,648**	14,958
Fee and commission expense	**23,692**	13,941
Off-balance sheet		
Guarantees received	**4,291,284**	2,148,142

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2007 are as follows:

(in thousands of Ukrainian hryvnias)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**	**Other**	**Interest rate**
Balances with entities under common control								
Due from banks	**-**	**-**	**743**	**-**	**665,829**	**-**	**99**	**-**
Due to banks	**-**	**-**	**651,991**	**5%**	**742,896**	**4%**	**98,531**	**2%**
Other liabilities	**116,621**	**-**	**348**	**-**	**12**	**-**	**-**	**-**
Subordinated liabilities	**-**	**-**	**27,377**	**5%**	**-**	**-**	**-**	**-**

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2006 are as follows:

(in thousands of Ukrainian hryvnias)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**	**Other**	**Interest rate**
Balances with entities under common control								
Due from banks	-	-	1,000	-	5,425	-	53,134	-
Due to banks	-	-	429,250	5%	29,929	4%	154,956	2%
Other liabilities	390,232	-	20,784	-	6	-	62	-
Subordinated liabilities	-	-	27,382	5%	-	-	-	-

The contractual remaining maturities of balances with related parties as at 31 December 2007 are as follows:

(in thousands of Ukrainian hryvnias)	Within one month	From one to three months	From three months to one year	From one to five years	No maturity	**Total**
Balances with entities under common control						
Due from banks	**666,671**	-	-	-	-	**666,671**
Due to banks	-	**1,493,418**	-	-	-	**1,493,418**
Other liabilities	**116,981**	-	-	-	-	**116,981**
Subordinated liabilities	-	-	-	**27,377**	-	**27,377**

The contractual remaining maturities of balances with related parties as at 31 December 2006 are as follows:

(in thousands of Ukrainian hryvnias)	Within one month	From one to three months	From three months to one year	More than one year	No maturity	**Total**
Balances with entities under common control						
Due from banks	59,559	-	-	-	-	59,559
Due to banks	487,528	50,857	75,750	-	-	614,135
Other liabilities	410,679	34	371	-	-	411,084
Subordinated liabilities	112	-	-	27,270	-	27,382

Remuneration of key management personnel for the year ended 31 December 2007 is represented by short-term employee benefits, which includes salary and bonuses payable in cash amounting to UAH 12,480 thousand (2006: UAH 6,563 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 Board.

Chairman of the Board
Johannes Franciscus Grisel

Chief Financial Officer
Sergey Sokolov

20 June 2008

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Independent Auditors' Report

To the Board of Directors of
Joint-Stock Bank "ING Bank Ukraine"

Report on the Financial Statements

We have audited the accompanying financial statements of Joint-Stock Bank "ING Bank Ukraine" (the Bank), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CJSC KPMG Audit

CJSC KPMG Audit
20 June 2008