

ING Bank (Eurasia) ZAO

Financial Statements
for the year ended 31 December 2003

ING Bank (Eurasia) ZAO
Shareholders, Officers and Auditors

Shareholders on 31 December 2003

	% Ownership	% Votes
ING Bank N.V.	99.001	99.001
Van Zwamen Holding B.V.	0.999	0.999
	<u>100.000</u>	<u>100.000</u>

Board of Directors on 31 December 2003

P. van Zanten
E. Leenaars
A. van Meteren
C. Teppema
H. ten Bosch

Board of Management on 31 December 2003

H. ten Bosch
B. Geels
G. Hulina
S. Walker
S. Matveev
K. Sapozhnikova
M. Travkina
A. Popov
D. Kushaev
M. Safonov
M. Chaikin
A. Zhuravkov

Auditors

KPMG Limited, Moscow

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF ING BANK (EURASIA) ZAO

We have audited the accompanying balance sheet of ING Bank (Eurasia) ZAO ("the Bank") as of 31 December 2003 and the related statements of income, cash flow and changes in shareholders' equity for the year then ended. The financial statements, as set out on pages 1 to 29, are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2003 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
1 June 2004



ING Bank (Eurasia) ZAO
Income Statement for the year ended 31 December 2003

	Notes	2003 RUR'000	2002 RUR'000
Interest income	4	768 361	789 893
Interest expense	4	<u>(337 887)</u>	<u>(603 563)</u>
Net interest income		430 474	186 330
Fee and commission income	5	491 111	325 135
Fee and commission expense	6	<u>(75 075)</u>	<u>(113 948)</u>
Net fee and commission income		416 036	211 187
Net securities trading income		99 959	64 450
Net foreign exchange income	7	298 160	274 604
Other income		<u>66 525</u>	<u>33 235</u>
Operating income		1 311 154	769 806
Provisions	8	(19 410)	(51 159)
General administrative expenses	9	<u>(705 366)</u>	<u>(695 022)</u>
Operating expenses		(724 776)	(746 181)
Income before taxes		586 378	23 625
Income tax expense	10	<u>(35 476)</u>	<u>(35 485)</u>
Net income/(loss)		<u>550 902</u>	<u>(11 860)</u>

The financial statements as set out on pages 1 to 29 were approved by the Board of Management of the Bank on 1 June 2004.



General Director
Hendrik ten Bosch



Chief Financial Officer
Katerina Sapozhnikova

	Notes	<u>2003</u> <u>RUR'000</u>	<u>2002</u> <u>RUR'000</u>
ASSETS			
Cash		154 326	171 826
Due from the Central Bank of the Russian Federation	11	2 306 032	1 005 309
Placements with banks and other financial institutions	12	3 169 019	3 212 704
Financial instruments held for trading	13	1 662 401	1 192 868
Loans to customers	14	8 961 948	10 187 092
Investments	15	74 188	162 799
Other assets	16	70 532	104 254
Property and equipment	17	83 496	83 784
Goodwill	18	158 472	191 819
Deferred tax asset	22	68 625	-
Total Assets		<u>16 709 039</u>	<u>16 312 455</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments held for trading	13	157 736	4 672
Deposits and balances from banks and other financial institutions	19	8 937 247	7 256 316
Subordinated loan		774 042	-
Amounts payable under repurchase agreements		-	279 703
Current accounts and deposits from customers	20	4 183 916	6 930 906
Certificates of deposit and promissory notes		324 642	20 406
Other liabilities	21	198 930	238 828
Total Liabilities		<u>14 576 513</u>	<u>14 730 831</u>
Shareholders' Equity	23		
Share capital		209 745	209 745
Share premium		2 698 527	2 698 527
Accumulated losses		(775 746)	(1 326 648)
Total Shareholders' Equity		<u>2 132 526</u>	<u>1 581 624</u>
Total Liabilities and Shareholders' Equity		<u>16 709 039</u>	<u>16 312 455</u>
Commitments and Contingencies	25, 26 & 27		

	Note	2003 RUR'000	2002 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission receipts		1 212 102	1 100 605
Interest and fee and commission payments		(411 724)	(626 288)
Net receipts from financial assets held for trading and foreign exchange		573 424	349 103
Other income		42 353	33 337
General and administrative expenses		(624 452)	(757 095)
		791 703	99 662
(Increase)/decrease in operating assets			
Obligatory reserve with the Central Bank of the Russian Federation		18 204	(238 382)
Placements with banks and other financial institutions		991 551	1 891 101
Financial instruments held for trading		(486 382)	(273 213)
Loans to customers		1 271 776	(2 593 884)
Other assets		51 824	(29 015)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		1 684 915	726 300
Amounts payable under repurchase agreements		(279 481)	279 442
Current accounts and deposits from customers		(2 742 144)	(212 068)
Certificates of deposit and promissory notes		303 970	(421 752)
Other liabilities		(100 466)	(985)
Net cash from operating activities before taxes paid		1 505 470	(772 794)
Taxes paid		(70 378)	(19 291)
Cash flows from operations		1 435 092	(792 085)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net sales/(purchases) of investments		162 160	(10 901)
Net purchases of property and equipment		(39 913)	(58 316)
Purchase of CSFB custody business		-	(200 055)
Cash flows from investing activities		122 247	(269 272)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of subordinated loan		764 017	-
Cash flows from financing activities		764 017	-
Net increase/(decrease) in cash and cash equivalents		2 321 356	(1 061 357)
Effect of changes in exchange rates on cash and cash equivalents		(74 375)	32 100
Cash and cash equivalents at the beginning of the year		1 400 960	2 430 217
Cash and cash equivalents at the end of the year	30	3 647 941	1 400 960

ING Bank (Eurasia) ZAO
Statement of Changes in Shareholders' Equity for the year ended 31 December 2003

	Share Capital	Share premium	Accumulated losses	Total
	RUR'000	RUR'000	RUR'000	RUR'000
Balance at 1 January 2002	209 745	2 698 527	(1 314 788)	1 593 484
Net loss	-	-	(11 860)	(11 860)
Balance at 31 December 2002	209 745	2 698 527	(1 326 648)	1 581 624
Net income	-	-	550 902	550 902
Balance at 31 December 2003	209 745	2 698 527	(775 746)	2 132 526

1 Background

a) Principal activities

ING Bank (Eurasia) ZAO (the “Bank”) was established in the Russian Federation as a joint-stock company with limited liability in September 1993 and was granted its general banking license in March 1995. The activities of the Bank are regulated by the Central Bank of the Russian Federation (“the CBR”). The average number of persons employed by the Bank during the year was 213 (2002: 218).

The principal activities of the Bank are commercial lending, operations with securities and foreign exchange, custodian and cash management services, and deposit taking.

The Bank is part of the ING Group, an international financial group headquartered in Amsterdam and operating in over 60 countries. Details of related party transactions with the ING Group are provided in note 29 to the financial statements.

b) Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

c) Economic dependence

The Bank is substantially owned by ING Bank N.V. and the majority of the Bank’s funding is from ING Bank N.V. and other ING Group companies (“the Group”) and as such the Bank is economically dependent on the Group. The activities of the Bank are closely linked with the requirements of the Group and determination of the pricing of the Bank’s services to the Group is undertaken in conjunction with other Group companies.

2 Basis of preparation

a) Statement of compliance

The Bank maintains its accounting records in accordance with Dutch GAAP. The accompanying financial statements have been prepared from those accounting records and adjusted, as necessary, in order to comply with the requirements of International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”).

b) Basis of measurement

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

c) Measurement and Presentation Currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”). Prior to 1 January 2003 measurement and presentation currency used in the preparation of the financial statements was the United States Dollar (“USD”). At 1 January 2003 Management have determined the Bank’s measurement currency to be RUR as it currently better reflects the economic substance of the underlying events and circumstances of the Bank. The RUR was also selected to be the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Bank’s assets, as well as the future operation of the Bank, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

a) Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate measurement currency 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 the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Income and expenses, and non-monetary items denominated in foreign currencies, whose purchase price was denominated in foreign currency, are translated to the measurement currency at the foreign exchange rate ruling at the date of the transaction.

b) Cash and cash equivalents

The Bank considers cash and nostro accounts to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

c) Financial instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading instruments are included in financial assets or liabilities held for trading in the balance sheet.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans. Originated loans and receivables are included in placements with banks and other financial institutions, loans to customers, due from the Central Bank of the Russian Federation and other assets in the balance sheet.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These instruments are included within investments in the balance sheet.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. These instruments are included within investments in the balance sheet.

(ii) Recognition

The Bank recognises financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

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

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

(iv) Fair value measurement principles

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

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

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.

(v) *Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities are recognised in the income statement.

(vi) *Derecognition*

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that assets. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

d) *Repurchase and reverse repurchase agreements*

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of provision for impairment.

e) *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.

f) *Property and equipment*

(i) *Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (refer to note 3(h) below).

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition. The estimated useful lives are as follows:

Office machines & equipment	5 years
Leasehold improvements	5 to 6 years
Data processing equipment	3 years
Motor vehicles	5 years
Computer software	3 years

g) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (refer to note 3(h) below).

h) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

(i) Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Bank's trading investments and investments available-for-sale is their fair value.

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

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is 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.

i) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

j) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

k) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially 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 following temporary differences is not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. 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 substantially 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 temporary differences, 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.

l) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the CBR and other Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings as and when declared.

m) Interest income and expense

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset/liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

n) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided.

o) Net trading income

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading and available-for-sale assets.

4 Interest income and interest expense

	2003	2002
	RUR '000	RUR '000
Interest income		
Loans to customers	519 544	548 798
Placements with banks and other financial institutions	126 793	149 090
Securities	122 024	92 005
	768 361	789 893
Interest expense		
Deposits and balances from banks and other financial institutions	237 509	492 248
Subordinated loan	37 469	-
Current accounts, deposits from customers, certificates of deposit and promissory notes	62 909	111 315
	337 887	603 563

5 Fee and commission income

	2003	2002
	RUR '000	RUR '000
Custody and brokerage fees	217 335	131 502
Agency and advisory fees	117 751	57 491
Currency control fees	39 264	33 636
Cash management fees	32 410	30 376
Foreign exchange commissions	26 914	23 887
Fund transfer fees	21 397	19 874
Guarantee and trade finance fees	9 435	13 981
Other	26 605	14 388
	491 111	325 135

6 Fee and commission expense

	2003 RUR '000	2002 RUR '000
Custody and brokerage fees	42 823	25 862
Guarantee fees	8 889	70 563
Funds transfer fees	5 456	5 078
Other	17 907	12 445
	75 075	113 948

7 Net foreign exchange income

	2003 RUR '000	2002 RUR '000
Net gain from revaluation of financial assets and liabilities	178 703	31 473
Net gain on spot transactions and derivatives	119 457	243 131
	298 160	274 604

8 Provisions

	2003 RUR '000	2002 RUR '000
Tax and legal provisions	(43 652)	-
Reversal of/(provision for) impairment on loans to customers	24 242	(51 159)
	(19 410)	(51 159)

9 General administrative expenses

	2003 RUR '000	2002 RUR '000
Employee compensation	344 364	331 436
Communications and information services	78 618	50 093
Occupancy	61 262	55 798
Depreciation	40 201	53 635
Amortisation of goodwill	33 347	8 264
Payroll related taxes and contributions	30 953	29 811
Professional services	26 313	32 256
Travel expenses	25 550	21 159
Security	16 924	14 514
Taxes other than on income	15 480	69 278
Office supplies	11 218	15 141
Other	21 136	13 637
	705 366	695 022

10 Income tax expense

	2003 RUR '000	2002 RUR '000
Current tax expense		
Current year	(105 667)	(28 777)
Over/(Under) provided in prior years	1 566	(6 708)
	<u>(104 101)</u>	<u>(35 485)</u>
Deferred tax benefit		
Origination and reversal of timing differences	(34 388)	55 336
Change in valuation allowance	103 013	(55 336)
	<u>68 625</u>	<u>-</u>
	<u>(35 476)</u>	<u>(35 485)</u>

The Bank's applicable tax rate for current and deferred tax is 24% (2002 : 24%).

Reconciliation of effective tax rate:

	2003 RUR '000	2002 RUR '000
Income before tax	<u>586 378</u>	<u>23 625</u>
Income tax expense using the applicable tax rate	140 731	5 670
Net non-deductible costs / (non-taxable income)	19 136	(23 414)
Change in valuation allowance	(103 013)	55 336
Effect of income taxed at lower tax rate	(19 812)	(8 815)
(Over)/under provided in prior years	<u>(1 566)</u>	<u>6 708</u>
Income tax expense	<u><u>35 476</u></u>	<u><u>35 485</u></u>

11 Due from the Central Bank of the Russian Federation

	2003 RUR '000	2002 RUR '000
Minimum reserve deposit	<u>675 459</u>	<u>693 663</u>
Nostro accounts	<u>1 630 573</u>	<u>311 646</u>
	<u>2 306 032</u>	<u>1 005 309</u>

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

12 Placements with banks and other financial institutions

	2003 RUR '000	2002 RUR '000
Nostro accounts	1 863 042	917 488
Loans and deposits	1 305 977	2 295 216
	3 169 019	3 212 704

Concentration of placements with banks and other financial institutions

As at 31 December 2003 and 2002, deposits and balances from banks and other financial institutions which individually comprised more than 10% of deposits and balances from banks and other financial institutions were as follows:

	2003 RUR '000	2002 RUR '000
Chase Manhattan Bank NY	1 366 774	-
ING Group Banks	-	2 494 249
	1 366 774	2 494 249

13 Financial instruments held for trading

	2003 RUR '000	2002 RUR '000
Financial assets held for trading		
<i>Debt and other fixed-income instruments</i>		
Russian Government GKO/OFZ	844 066	766 099
Municipal bonds	311 335	57 275
Corporate bonds	454 135	231 677
IFC Credit Linked Notes	-	73 549
Promissory notes	-	63 537
<i>Foreign currency derivative financial instruments</i>	52 865	731
	1 662 401	1 192 868
Financial liabilities held for trading		
<i>Foreign currency derivative financial instruments</i>	157 736	4 672
	157 736	4 672

Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are recognised in net securities trading income/(loss) or net foreign exchange income/(loss), as appropriate.

Foreign currency contracts

The table below summarises, by major currency, the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2003 and 2002 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date. The resultant unrealised gains and losses on these unmatured contracts have been recognised in the income statement and in financial instruments held for trading, as appropriate.

	Notional amount		Weighted average contracted exchange rates	
	2003 RUR '000	2002 RUR '000	2003	2002
Buy USD sell RUR				
Less than three months	10 360 989	367 014	29.69	32.39
Between three months and one year	942 176	-	30.88	-
Sell USD buy RUR				
Less than three months	3 991 994	1 250 367	29.47	31.91
Between three months and one year	1 050 026	-	31.02	-
Sell Euro buy RUR				
Less than three months	2 331 161	199 447	36.25	33.24
Between three months and one year	32 224	-	37.10	-
Buy Euro sell USD				
Less than three months	1 966 402	193 154	1.25	1.04
Sell Euro buy USD				
Less than three months	-	6 103	-	1.05
Buy GBP sell USD				
Less than three months	1 412	-	1.77	-

14 Loans to customers

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	2003 RUR '000	2002 RUR '000
<i>Retail customers</i>	24 661	26 000
<i>Commercial customers</i>		
Trade	3 576 617	1 700 116
Food and tobacco production	1 697 019	2 278 751
Manufacturing	1 525 322	219 281
Oil and petroleum production	1 031 803	1 794 198
Telecommunications	589 951	154 758
Mining/metallurgy	295 566	1 028 956
Construction	202 564	271 089
Finance	100 181	798 329
Food services	50 011	1 591 159
Real estate	-	286 091
Agriculture, forestry and timber	-	4 895
Other	51 150	240 608
	9 144 845	10 394 231
Provision for impairment	(182 897)	(207 139)
	8 961 948	10 187 092

Analysis of movements in the provision for impairment

	2003 RUR '000	2002 RUR '000
Balance at the beginning of the year	207 139	155 980
Net (recovery)/charge for the year	(24 242)	51 159
Balance at the end of the year	182 897	207 139

Concentration of loans to customers

As at 31 December 2003 and 2002, loans to customers which individually comprised more than 10% of gross loans to customers were as follows:

	2003 RUR '000	2002 RUR '000
OAONK Lukoil	1 031 803	1 090 872
TetraPack	974 994	-
McDonald's Group Companies	-	1 559 692
	2 006 797	2 650 564

Loan maturities

The maturity of the Bank's loan portfolio is presented in note 33, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

15 Investments

	2003 RUR '000	2002 RUR '000
Available-for-sale		
<i>Debt instruments – unlisted</i>		
IFC Credit Linked Notes	72 599	-
Promissory notes	-	161 210
<i>Equity instruments – unlisted</i>		
Depository Clearing Company	1 589	1 589
	74 188	162 799

16 Other assets

	2003 RUR '000	2002 RUR '000
Custody fees receivable	37 183	30 863
Accrued intercompany fees	11 782	-
Revenue based tax prepayments	1 972	22 313
Income tax prepayments	64	6 484
Rental prepayments	41	14 367
Other	19 490	30 227
	70 532	104 254

17 Property and equipment

RUR'000	Office Machines & Equipment	Leasehold Improve- ments	Data Processing Equipment	Motor Vehicles	Computer Software	Total
Cost						
At 1 January 2003	110 865	39 603	75 838	11 728	99 549	337 583
Additions	10 237	-	13 372	8 170	9 789	41 568
Disposals	(403)	-	(2 052)	(2 790)	(545)	(5 790)
At 31 December 2003	120 699	39 603	87 158	17 108	108 793	373 361
Depreciation						
At 1 January 2003	73 041	34 327	74 789	3 909	67 733	253 799
Depreciation charge	14 388	5 276	7 358	2 722	10 457	40 201
Disposals	(318)	-	(1 396)	(2 178)	(243)	(4 135)
At 31 December 2003	87 111	39 603	80 751	4 453	77 947	289 865
Carrying value						
At 31 December 2003	33 588	-	6 407	12 655	30 846	83 496
At 31 December 2002	37 824	5 276	1 049	7 819	31 816	83 784

18 Goodwill

	RUR'000
Cost	
At 1 January 2003	200 083
Additions	-
At 31 December 2003	200 083
Amortisation	
At 1 January 2003	8 264
Amortisation charge	33 347
At 31 December 2003	41 611
Carrying value	
At 31 December 2003	158 472
At 31 December 2002	191 819

Goodwill relates to the purchase of the Russian custody business of Credit Suisse First Boston, Moscow and is amortised over its useful life of 6 years.

19 Deposits and balances from banks and other financial institutions

	2003 RUR '000	2002 RUR '000
Vostro accounts	567 141	257 422
Term deposits	8 370 106	6 998 894
	8 937 247	7 256 316

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2003 and 2002, deposits and balances from banks and other financial institutions which individually comprised more than 10% of deposits and balances from banks and other financial institutions were as follows:

	2003 RUR '000	2002 RUR '000
ING Group Banks	6 026 625	4 786 381

20 Current accounts and deposits from customers

	2003 RUR '000	2002 RUR '000
Current accounts and demand deposits	3 906 286	3 524 540
Term deposits	277 630	3 406 366
	4 183 916	6 930 906

Blocked accounts

As of 31 December 2003, the Bank maintained customer account balances of RUR 42,574 thousand (2002: RUR 12,000 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2003 and 2002, current accounts and deposits from customers which individually exceeded 10% of total current accounts and deposits from customers were as follows:

	2003 RUR '000	2002 RUR '000
Vympelcom	-	1 261 173
Tyumen Oil Company	-	1 005 182
	-	2 266 355

21 Other liabilities

	2003	2002
	RUR '000	RUR '000
Employee compensation payable	66 662	68 781
Income tax payable	57 371	23 648
Tax and legal provisions	43 652	-
Payables under letters of credit	25 835	-
Payable to ING Group Banks	1 342	123 832
Other	4 068	22 567
	198 930	238 828

22 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as of 31 December 2003 and 2002. These unrecorded deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

RUR'000	Assets		Liabilities		Net	
	2003	2002	2003	2002	2003	2002
Financial instruments held for trading	-	-	(1 466)	(64 840)	(1 466)	(64 840)
Loans to customers	42 752	23 489	-	-	42 752	23 489
Investments	201	-	-	(190)	201	(190)
Property and equipment	13 106	23 425	-	-	13 106	23 425
Goodwill	-	1 716	(1 545)	-	(1 545)	1 716
Amounts payable under reverse repurchase agreements	-	67 128	-	-	-	67 128
Other liabilities	15 577	52 285	-	-	15 577	52 285
Net deferred tax assets/(liabilities)	71 636	168 043	(3 011)	(65 030)	68 625	103 013
Valuation allowance					-	(103 013)
Net tax assets/(liabilities)					68 625	-

The rate of tax applicable for deferred taxes was 24% (2002: 24%).

23 Share capital

Issued capital

The authorised, issued and outstanding share capital comprises 46 540 ordinary shares (2002: 46 540) with a par value of RUR 750.

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.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of 31 December 2003, reserves available for distribution amounted to RUR 711 428 thousand (2002: RUR 296 040 thousand).

24 Risk management

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

Credit risk

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

The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors.

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities. The Bank's interest rate policy is reviewed and approved by the Board of Directors. See Note 32 "Average effective interest rates".

Liquidity risk

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Board of Directors. See Note 33 "Maturity analysis".

Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank's foreign currency policy is reviewed and approved by the Board of Directors. See Note 34 "Currency analysis".

25 Commitments

The contractual amounts of commitments and contingent liabilities are set out in the following table by category.

	2003	2002
	RUR '000	RUR '000
Contracted amount		
Undrawn loan commitments	144 679	854 428
Guarantees and letters of credit	437 672	39 095

The above undrawn loan commitments include only those loan commitments that are not fully cancellable at the Bank's discretion. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

26 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2003	2002
	RUR '000	RUR '000
Less than one year	35 876	38 364
Between one and five years	-	38 237
	35 876	76 601

The Bank leases a number of premises under operating lease. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year 61,262 RUR'000 was recognized as an expense in the income statement in respect of operating leases (2002: 55,798 RUR'000).

27 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank that management believe it would not be able to defend, other than those already provided for in these financial statements.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

28 Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the consolidated balance sheet.

29 Related party transactions

Transactions with senior management

Total remuneration included in employee compensation (refer note 9):

	2003 RUR '000	2002 RUR '000
Senior management	<u>85 398</u>	<u>97 309</u>

The outstanding balances and average interest rates as of 31 December 2003 and 2002 with senior management are as follows:

	2003 RUR '000	Average Interest Rate	2002 RUR '000	Average Interest Rate
<i>Balance Sheet</i>				
Loans to senior management	7 621	9.59%	11 061	6.58%

Amounts included in the income statement in relation to loans to senior management are as follows:

	2003 RUR '000	2002 RUR '000
<i>Income statement</i>		
Interest income	278	408

Transactions with ING Group Banks

The outstanding balances and the related average interest rates as of 31 December 2003 and 2002 with ING Group Banks are as follows:

	2003 RUR '000	Average Interest Rate	2002 RUR '000	Average Interest Rate
<i>Assets</i>				
Placements with banks and other financial institutions	164 438	0.59%	2 494 249	1.00%
Financial instruments held for trading	46 476	-	731	-
Other assets	11 782	-	-	-
<i>Liabilities</i>				
Placements from banks and other financial institutions	6 026 625	3.52%	4 786 381	3.96%
Subordinated loan	774 042	5.53%	-	-
Financial instruments held for trading	157 736	-	4 672	-
Other liabilities	25 514	-	123 832	-

Amounts included in the income statement in relation to transactions with ING Group banks are as follows:

	2003 RUR '000	2002 RUR '000
Interest income	56 575	77 867
Interest expense	(158 119)	(188 649)
Fee and commission income	119 228	56 237
Fee and commission expense	(6 630)	(70 563)
Net foreign exchange loss	(99 804)	(44 921)
Other income	42 017	32 883
General administrative expenses	(515)	(4 483)

In addition gains and losses on translation of foreign currency deposits and balances to/from ING Group Banks are also included in the income statement for the years ended 31 December 2003 and 2002.

30 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2003	2002
	RUR '000	RUR '000
Cash	154 326	171 826
Due from Central Bank - nostro accounts	1 630 573	311 646
Nostro accounts with banks	1 863 042	917 488
	3 647 941	1 400 960

31 Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 Financial Instruments: Disclosure and Presentation, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The Bank believes that it is able to estimate fair value of financial assets and financial liabilities. The Bank estimates the fair value of these assets to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed financial assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

32 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2003 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value RUR '000	2003 Average Effective Interest Rate	Value RUR '000	2002 Average Effective Interest Rate
Interest Bearing Assets				
<i>Due from Central Bank</i>	2 306 032	0.00%	1 005 309	0.00%
<i>Placements with banks and other financial institutions</i>				
<i>Nostro accounts</i>				
- RUR	204 237	0.34%	114 996	0.44%
- USD	1 483 300	1.05%	336 298	1.01%
- other currencies	175 505	0.50%	466 194	0.43%
<i>Loans and deposits</i>				
- RUR	1 287 496	3.91%	305 418	14.33%
- USD	18 481	3.78%	1 989 798	1.25%
<i>Financial instruments held for trading</i>				
- RUR	1 609 536	8.86%	1 192 137	13.56%
<i>Loans to customers</i>				
- RUR	4 243 242	7.61%	2 824 012	15.40%
- USD	4 272 516	3.34%	7 165 540	3.99%
- other currencies	446 190	4.05%	197 540	5.86%
<i>Investments</i>				
- USD	72 599	6.24%	161 210	10.29%
Interest Bearing Liabilities				
<i>Deposits and balances from banks and other financial institutions</i>				
<i>Vostro accounts</i>				
- RUR	471 732	0.00%	210 867	10.82%
- USD	95 379	0.00%	44 933	0.00%
- other currencies	30	0.00%	1 622	0.00%
<i>Term deposits</i>				
- RUR	692 079	1.83%	2 229 676	13.17%
- USD	7 678 027	3.31%	4 769 218	3.92%
<i>Subordinated loan</i>				
- USD	774 042	5.45%	-	-

	Value RUR '000	2003 Average Effective Interest Rate	Value RUR '000	2002 Average Effective Interest Rate
<i>Current accounts and deposits from customers</i>				
<i>Current accounts and demand deposits</i>				
- RUR	2 273 910	0.00%	1 418 355	0.17%
- USD	1 421 066	0.01%	2 054 176	0.05%
- other currencies	211 310	0.00%	52 009	0.00%
<i>Term deposits</i>				
- RUR	151 843	0.37%	1 580 821	14.54%
- USD	91 880	0.66%	1 203 184	0.66%
- other currencies	33 907	1.60%	622 361	2.37%
<i>Certificates of deposit and promissory notes</i>				
- USD	324 642	0.53%	20 406	1.00%

33 Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2003. Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

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	Less than 1 month RUR '000	1 to 3 months RUR '000	3 months to 1 year RUR '000	1 year to 5 years RUR '000	More than 5 years RUR '000	No stated maturity RUR '000	Total RUR '000
Assets							
Cash	154 326	-	-	-	-	-	154 326
Due from the Central Bank of the Russian Federation	1 630 573	-	-	-	-	675 459	2 306 032
Placements with banks and other financial institutions	3 169 019	-	-	-	-	-	3 169 019
Financial instruments held for trading	1 583 690	74 774	3 937	-	-	-	1 662 401
Loans to customers	6 043 538	2 088 162	43 766	786 482	-	-	8 961 948
Investments	-	-	72 599	-	-	1 589	74 188
Other assets	14 526	56 006	-	-	-	-	70 532
Property and equipment	-	-	-	-	-	83 496	83 496
Goodwill	-	-	-	-	-	158 472	158 472
Deferred tax asset	-	-	-	-	-	68 625	68 625
Total assets	<u>12 595 672</u>	<u>2 218 942</u>	<u>120 302</u>	<u>786 482</u>	<u>-</u>	<u>987 641</u>	<u>16 709 039</u>
Liabilities							
Financial liabilities held for trading	63 609	55 740	35 747	2 640	-	-	157 736
Deposits and balances from banks and other financial institutions	4 785 354	4 129 673	22 220	-	-	-	8 937 247
Subordinated loan	-	-	-	-	774 042	-	774 042
Current accounts and deposits from customers	4 140 404	40 343	1 061	2 108	-	-	4 183 916
Certificates of deposit and promissory notes	324 353	-	289	-	-	-	324 642
Other liabilities	5 410	25 835	124 033	43 652	-	-	198 930
Total liabilities	<u>9 319 130</u>	<u>4 251 591</u>	<u>183 350</u>	<u>48 400</u>	<u>774 042</u>	<u>-</u>	<u>14 576 513</u>
Net position as at 31 December 2003	<u>3 276 542</u>	<u>(2 032 649)</u>	<u>(63 048)</u>	<u>738 082</u>	<u>(774 042)</u>	<u>987 641</u>	<u>2 132 526</u>
Net position as at 31 December 2002	<u>(1 154 823)</u>	<u>(12 618)</u>	<u>272 202</u>	<u>241 053</u>	<u>1 264 956</u>	<u>970 854</u>	<u>1 581 624</u>

34 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2003:

	RUR	USD	Other currencies	Total
	RUR '000	RUR '000	RUR '000	RUR '000
Assets				
Cash	50 273	94 567	9 486	154 326
Due from the Central Bank of the Russian Federation	2 306 032	-	-	2 306 032
Placements with banks and other financial institutions	1 491 733	1 501 781	175 505	3 169 019
Financial instruments held for trading	1 609 536	52 865	-	1 662 401
Loans to customers	4 243 242	4 272 516	446 190	8 961 948
Investment	74 188	-	-	74 188
Other assets	51 072	18 854	606	70 532
Property and equipment	83 496	-	-	83 496
Goodwill	158 472	-	-	158 472
Deferred tax asset	68 625	-	-	68 625
Total assets	10 136 669	5 940 583	631 787	16 709 039
Liabilities				
Financial liabilities held for trading	-	122 242	35 494	157 736
Deposits and balances from banks and other financial institutions	1 163 811	7 773 406	30	8 937 247
Subordinated loan	-	774 042	-	774 042
Current accounts and deposits from customers	2 425 753	1 512 946	245 217	4 183 916
Certificates of deposit and promissory notes	-	324 642	-	324 642
Other liabilities	170 610	27 142	1 178	198 930
Total liabilities	3 760 174	10 534 420	281 919	14 576 513
On balance sheet position	6 376 495	(4 593 837)	349 868	2 132 526
Off balance sheet position	(3 897 760)	4 293 331	(395 571)	-
Net position as of 31 December 2003	2 478 735	(300 506)	(45 703)	2 132 526
Net position as of 31 December 2002	1 124 469	475 113	(17 958)	1 581 624