ING Bank (Eurasia) ZAO

Financial Statements

for the year ended 31 December 2006

ING Bank (Eurasia) ZAO
Shareholders, Officers and Auditors

Shareholders on 31 December 2006	% Ownership	% Votes
ING Bank N.V.	99.981	99.981
Van Zwamen Holding B.V.	0.019	0.019
	100.000	100.000

Board of Directors on 31 December 2006

I. van Vaesberg
H. W. ten Bosch
J. Ouven
D. Tuneberg
R. Neeland

Board of Management on 31 December 2006

H. W. ten Bosch
S. Matveev
S. Walker
M. Chaikin
T. Savina
O. Semenova
N. Londarenko

Auditors

ZAO KPMG

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ING Bank (Eurasia) ZAO

Report on the Financial Statements

We have audited the accompanying financial statements of ING Bank (Eurasia) ZAO (the "Bank"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in shareholders' equity and statement of cash flows 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 the 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 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
14 May 2007

	Notes	2006 RUR'000	2005 RUR'000
Interest income	5	2 684 604	1 548 529
Interest expense	5	(1 795 368)	(799 868)
Net interest income		**889 236**	**748 661**
Fee and commission income	6	1 333 262	809 516
Fee and commission expense	7	(361 996)	(183 765)
Net fee and commission income		**971 266**	**625 751**
Net securities trading income		30 089	74 754
Net foreign exchange income	8	565 998	302 064
Other income		81 372	74 038
Operating income		**2 537 961**	**1 825 268**
Impairment losses	9	(622)	(40 876)
General administrative expenses	10	(1 117 340)	(981 121)
Operating expenses		**(1 117 962)**	**(1 021 997)**
Income before taxes		**1 419 999**	**803 271**
Income tax expense	11	(478 081)	(259 009)
Net income		**941 918**	**544 262**

The financial statements were approved by the Management Board on 14 May 2007.

General Director
Hendrik W. ten Bosch

Chief Financial Officer
Olga Semenova

The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	**2006 RUR'000**	**2005 RUR'000**
ASSETS			
Cash		242 885	247 824
Due from the Central Bank of the Russian Federation	12	2 196 662	3 029 962
Placements with banks and other financial institutions	13	16 462 008	11 052 905
Financial instruments at fair value through profit or loss			
- Unpledged	14	11 781 192	3 732 880
- Pledged under sale and repurchase agreements	14	2 637 593	-
Loans to customers	15	17 485 677	15 277 788
Other assets	16	203 925	245 207
Property and equipment	17	110 279	138 391
Goodwill	18	125 125	125 125
Deferred tax asset	19	75 222	55 584
Total Assets		**51 320 568**	**33 905 666**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	14	2 455 587	101 401
Deposits and balances from banks and other financial institutions	20	15 980 280	8 286 547
Amounts payable under repurchase agreements	21	2 551 367	-
Subordinated loans	22	1 426 198	1 458 653
Current accounts and deposits from customers	23	22 477 112	20 560 586
Certificates of deposit and promissory notes		-	17 087
Other liabilities	24	339 496	237 380
Total Liabilities		**45 230 040**	**30 661 654**
Shareholders' Equity	25		
Share capital		2 024 745	209 745
Share premium		2 788 125	2 698 527
Retained earnings		1 277 658	335 740
Total Shareholders' Equity		**6 090 528**	**3 244 012**
Total Liabilities and Shareholders' Equity		**51 320 568**	**33 905 666**
Commitments and Contingencies	27,28,29		

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	**2006 RUR'000**	**2005 RUR'000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission receipts		3 892 400	2 177 432
Interest and fee and commission payments		(2 004 130)	(954 259)
Net receipts from financial assets at fair value through profit or loss and foreign exchange		942 875	174 434
Other income		81 062	49 917
General administrative expenses		(971 684)	(884 575)
		1 940 523	**562 949**
(Increase)/decrease in operating assets			
Reserve deposits with the Central Bank of the Russian Federation		296 927	51 827
Placements with banks and other financial institutions		(10 695 116)	(1 388 922)
Financial instruments at fair value through profit or loss		(8 386 881)	(1 581 638)
Loans to customers		(2 771 869)	(5 268 569)
Other assets		8 983	27 796
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		8 226 412	(1 405 553)
Amounts payable under repurchase agreements		2 549 668	
Current accounts and deposits from customers		1 906 725	9 572 459
Certificates of deposit and promissory notes		(17 087)	(34 817)
Other liabilities		19 204	22 788
Net cash from operating activities before taxes paid		**(6 922 511)**	**558 320**
Taxes paid		(496 731)	(287 359)
Cash flows from operations		**(7 419 242)**	**270 961**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of subsidiary, net of cash disposed	4	(4 444)	-
Net purchases of property and equipment		(32 376)	(132 776)
Cash flows from investing activities		**(36 820)**	**(132 776)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of subordinated loans		-	676 074
Proceeds from issuance of share capital		1 904 598	-
Cash flows from financing activities		**1 904 598**	**676 074**
Net (decrease)/increase in cash and cash equivalents		**(5 551 464)**	**814 259**
Effect of changes in exchange rates on cash and cash equivalents		(263 020)	46 738
Cash and cash equivalents at the beginning of the year		8 418 766	7 557 769
Cash and cash equivalents at the end of the year	32	**2 604 282**	**8 418 766**

	Share Capital RUR'000	Share premium RUR'000	(Accumulated losses)/Retained earnings RUR'000	Total RUR'000
Balance at 1 January 2005	**209 745**	**2 698 527**	**(208 522)**	**2 699 750**
Net income	-	-	544 262	544 262
Balance at 31 December 2005	**209 745**	**2 698 527**	**335 740**	**3 244 012**
Shares issued	1 815 000	89 598	-	1 904 598
Net income	-	-	941 918	941 918
Balance at 31 December 2006	**2 024 745**	**2 788 125**	**1 277 658**	**6 090 528**

The statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

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 principal activities of the Bank are deposit taking, commercial lending, operations with securities and foreign exchange, custodian and cash management services. The activities of the Bank are regulated by the Central Bank of the Russian Federation ("the CBR").

The Bank is part of the ING Group, an international financial group headquartered in Amsterdam and operating in over 50 countries. Details of related party transactions with the ING Group are provided in note 31 to the financial statements.

The registered address of the Bank's head office is 36, Krasnoproletarskaya st., 127473, Moscow, Russian Federation. The majority of the Bank's assets and liabilities are located in the Russian Federation.

The average number of persons employed by the Bank during the period was 281 (2005: 237).

In February 2006 the Bank disposed of its 100% owned subsidiary – ING Leasing, refer to Note 4. The Bank consolidated the results of operations of ING Leasing until the date the control ceased to exist.

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 assessment.

c) Economic dependence

The Bank is 100% owned by ING Group. The activities of the Bank are coordinated by the requirements of the ING Group and determination of the pricing of the Bank's services to/from the ING Group is undertaken in conjunction with other ING Group companies. Related party transactions are detailed in note 31.

2 Basis of preparation

a) Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Basis of measurement

The financial statements are prepared on a fair value basis for financial instruments at fair value through profit or loss 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 amortized cost or historical cost.

c) Functional and Presentation Currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”). Management have determined the Bank’s functional currency to be the RUR as it 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) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

Information about significant areas of estimation uncertainty and critical judgments made by Management in the application of IFRSs that have significant effect on these financial statements are described in Note 15 “Loans to customers” in relation to provision for loan impairment.

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements. Changes in accounting policies are described in Note 3 (q).

a) Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional 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 functional 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 functional 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 reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability.

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;

- are 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;

- are a derivative (except for a derivative that is a designated and effective hedging instrument); or

- are, upon initial recognition, designated by the Bank as at fair value through the profit or loss.

The Bank 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.

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

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

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 the Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, those that the Bank upon initial recognition designates as available-for-sale, or those for which 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:

- the Bank upon initial recognition designates as at fair value through profit or loss;

- the Bank 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.

(ii) Recognition

Financial assets and liabilities are recognized in the balance sheet when the Bank becomes a party to the contractual provisions on 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, 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 amortized cost using the effective interest method;

- held-to-maturity investments which are measured at amortized cost using the effective yield method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and 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

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement; and

- a gain or loss on an available-for-sale financial asset is recognized 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 derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized 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 recognized in the income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

d) 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 price represents interest expense and is recognized in the income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If securities purchased under agreement to resell are sold to third parties, the obligation to return them is recorded at fair value as a financial liability held for trading.

e) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

f) 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.

g) Property and equipment

(i) Owned asset

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as financial leases. Equipment acquired by way of financial lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, in the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

(iii) 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 when property and equipment are put into use. The estimated useful lives are as follows:

Office machines & equipment	5 years
Data processing equipment	3 years
Motor vehicles	5 years

h) 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 impairment losses.

i) Other intangible assets

(i) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Computer software	3 years

j) Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Bank reviews its loans 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 an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Bank 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 the Bank 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 (excluding future losses that have not been incurred) 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 an 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, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized 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.

(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 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 recognized in the income statement and can not be reversed.

(iii) 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 recognized 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 reversed 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.

k) 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.

l) Share capital

(i) Share premium

Share premium represents the excess of contributions received over the nominal value of shares issued.

(ii) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings calculated in accordance with Russian legislation as and when declared.

(iii) Redemption of shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

m) 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 are 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 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.

n) Interest income and expense

With the exception of financial instruments at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest method. Interest income on financial instruments at fair value through profit or loss comprises coupon interest only. Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in net securities trading income.

o) Fee and commission income

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

Other fee and commission income is recognised when the corresponding service is provided.

p) Net securities trading income

Net securities trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss and gains and losses arising from disposals of available-for-sale assets.

q) Changes in accounting policies

As mentioned above the accounting policies have been consistently applied by the Bank, except for changes resulting from the amendments to IFRSs, as described below.

- As at 1 January 2006, the Bank adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – "Financial Guarantee Contracts". Upon application of this amendment, a financial guarantee issued is recognised initially at its fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee.
- As at 1 January 2006, the Bank adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option". Upon application of this amendment, the Bank may designate a financial instrument as at fair value through profit or loss only if certain conditions are met. Financial instruments which were designated as at fair value through profit or loss as at 31 December 2005 complied with the requirements of the amendment and were retained within this category upon its application.

Application of the above amendments did not have an impact on income and retained earnings of the Bank.

r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007, provides disclosure requirements regarding the significance of financial instruments to the Bank's financial position and performance, and qualitative and quantitative information about the nature and extent of risks arising from financial instruments. The Standard supersedes International Financial Reporting Standard IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements in International Financial Reporting Standard IAS 32 "Financial Instruments: Presentation and Disclosure". A large portion of existing disclosure requirements in International Financial Reporting Standard IAS 32 "Financial Instruments: Presentation and

Disclosure" is transferred to the new Standard. The title of International Financial Reporting Standard IAS 32 is amended to IAS 32 "Financial Instruments: Presentation".

- IFRIC 9 "Reassessment of embedded derivatives", which is effective for annual periods beginning on or after 1 November 2006, clarifies that an embedded derivative shall be assessed for separation from the host contract and accounted for as a derivative when the Bank 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.

- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's capital.

4 Disposal of subsidiary

On 15 February 2006 the Bank disposed of its 100% investment in leasing subsidiary - ING Leasing. The disposal of the subsidiary had the following effect on the Bank's assets and liabilities at the date of disposal:

	2006
	RUR '000
Assets	
Cash	5 203
Loans issued	538 031
Other assets	96 794
Liabilities	
Loans received	(633 279)
Other liabilities	(6 300)
Net identifiable assets and liabilities related to investment interest disposed	**449**
Gain on disposal	310
Total consideration received	**759**
Less: cash and cash equivalents disposed	(5 203)
Net cash outflow on disposal	**(4 444)**

The gain on disposal is included in other income.

5 Interest income and interest expense

	2006	**2005**
Interest income	**RUR '000**	**RUR '000**
Placements with banks and other financial institutions	1 131 299	585 054
Loans to customers	982 524	685 407
Financial instruments at fair value through profit or loss	570 781	278 068
	2 684 604	**1 548 529**
Interest expense		
Current accounts, deposits from customers and promissory notes	1 077 901	432 177
Deposits and balances from banks and other financial institutions	526 866	310 260
Subordinated loans	134 257	57 431
Financial instruments at fair value through profit or loss	31 823	-
Amounts payable under repurchase agreements	24 521	-
	1 795 368	**799 868**

6 Fee and commission income

	2006 RUR '000	2005 RUR '000
Custody and brokerage fees	834 781	443 924
Agency and advisory fees	203 925	100 738
Currency control fees	84 996	89 599
Guarantee and trade finance fees	31 059	57 803
Money transfer fees	36 991	31 308
Cash management fees	46 692	29 610
Foreign exchange commissions	18 049	20 142
Other	76 769	36 392
	1 333 262	**809 516**

7 Fee and commission expense

	2006 RUR '000	2005 RUR '000
Custody and brokerage fees	313 190	125 887
Guarantee fees	19 736	35 182
Money transfer fees	14 903	9 415
Other	14 167	13 281
	361 996	**183 765**

8 Net foreign exchange income

	2006 RUR '000	2005 RUR '000
Net gain from revaluation of financial assets and liabilities	318 630	236 089
Net gain on spot transactions and derivatives	247 368	65 975
	565 998	**302 064**

9 Provisions for impairment

	2006 RUR '000	2005 RUR '000
Decrease/(increase) in provision for impairment on loans to customers	804	(21 486)
Increase in provisions for impairment on placements with banks and other financial institutions	(16 592)	(2 355)
Decrease/(increase) in provisions for guarantees and letters of credit	15 166	(17 035)
	(622)	**(40 876)**

10 General administrative expenses

	2006 RUR ’000	2005 RUR ’000
Employee compensation	618 197	493 588
Occupancy and accommodation	121 515	123 095
Communications and information services	98 265	50 008
Depreciation	57 421	64 588
Payroll related taxes and contributions	40 993	39 978
Equipment maintenance	49 082	78 401
Travel and representation	51 928	45 725
Professional services	31 967	37 154
Security	7 749	13 169
Office supplies	7 734	8 776
Taxes other than on income	5 126	9 448
Other	27 363	17 191
	1 117 340	**981 121**

11 Income tax expense

	2006 RUR ’000	2005 RUR ’000
Current tax expense		
Current year	495 889	272 603
Underprovided in prior years	1 830	3 490
	497 719	276 093
Deferred tax benefit		
Origination and reversal of timing differences	(166 458)	(75 163)
Change in valuation allowance	146 820	58 079
	(19 638)	(17 084)
	478 081	**259 009**

The Bank’s applicable tax rate for current and deferred tax is 24%.

Reconciliation of effective tax rate:

	2006 RUR ’000	2005 RUR ’000
Income before tax	1 419 999	803 271
Income tax expense using the applicable tax rate	340 800	192 785
Net non-deductible costs	7 652	9 880
Effect of income taxed at lower tax rate	(19 021)	(5 225)
Effect of change in valuation allowance	146 820	58 079
Underprovided in prior years	1 830	3 490
	478 081	**259 009**

12 Due from the Central Bank of the Russian Federation

	2006 RUR '000	2005 RUR '000
Nostro account	1 266 030	1 802 403
Minimum reserve deposits	930 632	870 960
Reserve deposit on clients' operations subject to currency control	-	356 599
	2 196 662	**3 029 962**

The minimum reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted.

Amounts due from CBR at 31 December 2005 include amounts placed by the Bank on the reserve deposit on clients operations subject to currency control. These were non-interest bearing term deposits that originated from customer transactions subject to Russian currency control legislation. Amounts and terms of those deposits were the same as those of customer deposits, placed with the Bank. These deposits are no longer required in 2006 due to a change in legislation.

The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

13 Placements with banks and other financial institutions

	2006 RUR '000	2005 RUR '000
Nostro accounts	1 095 367	6 368 539
Loans and deposits	15 385 588	4 686 721
	16 480 955	**11 055 260**
Provision for impairment	(18 947)	(2 355)
	16 462 008	**11 052 905**

Analysis of movements in the provision for impairment

	2006 RUR '000	2005 RUR '000
Balance at the beginning of the year	2 355	-
Net charge for the year	16 592	2 355
Balance at the end of the year	**18 947**	**2 355**

Concentration of placements with banks and other financial institutions

As at 31 December 2006 and 2005, 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:

	2006 RUR '000	2005 RUR '000
Dexia Bank	4 455 760	-
Fortis Bank	1 731 744	-
Chase Manhattan Bank NY	-	3 788 751
ING Group Banks	-	2 419 542
Lloyds Bank	-	1 641 411
	6 187 504	**7 849 704**

14 Financial instruments at fair value through profit or loss

	2006 RUR '000	2005 RUR '000
Assets		
Unpledged		
Financial assets held for trading		
Russian corporate bonds	6 055 081	2 720 361
Federal loan bonds of the Russian Federation (OFZ bonds)	3 156 517	35 909
Russian municipal bonds	177 193	26 587
Foreign currency contracts (spots and forwards)	317 162	115 471
Financial assets designated as at fair value through profit or loss upon initial recognition		
Amounts receivable from ING Bank N.V. under reverse repurchase agreements	2 075 239	-
Corporate bonds of Russian Standard Bank	-	462 905
Loan to Russian Standard Bank	-	139 232
Credit linked notes issued by ING Bank N.V. linked to loan granted to Russian Bank of Development	-	232 415
	11 781 192	**3 732 880**
Pledged under sale and repurchase agreements		
Financial assets held for trading		
Federal loan bonds of the Russian Federation (OFZ bonds)	2 637 593	-
	14 418 785	**3 732 880**
Liabilities		
Financial liabilities held for trading		
Foreign currency contracts (spots and forwards)	(386 279)	(92 877)
Foreign currency contracts (SWAPs)	-	(8 524)
Financial liability relating to securities taken under reverse repurchase agreements and subsequently sold	(2 069 308)	-
	(2 455 587)	**(101 401)**

Gains and losses arising on derivative financial instruments and changes in fair value of other financial instruments through profit or loss 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 Bank's spot and forward exchange contracts outstanding at 31 December 2006 and 2005 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**	
	2006 RUR '000	**2005 RUR '000**	**2006**	**2005**
Buy USD sell RUR				
Less than three months	27 154 964	11 944 047	26.46	28.69
Between three months and one year	11 488 125	1 438 938	26.46	28.75
More than one year	3 546 023	-	27.15	-
Sell USD buy RUR				
Less than three months	28 352 208	8 554 094	26.46	28.68
Between three months and one year	5 219 746	4 246 306	26.80	28.80
More than one year	4 424 398	-	26.84	-
Sell Euro buy RUR				
Less than three months	1 433 799	777 045	34.30	34.27
Between three months and one year	3 269 237	1 910 041	34.37	35.06
Buy Euro sell RUR				
Between three months and one year	1 387 860	-	34.95	-
Buy Euro sell USD				
Less than three months	267 163	512 775	1.32	1.19
Buy USD sell EUR				
Less than three months	-	276 806	-	1.19
Buy GBR sell USD				
Less than three months	1 812	-	1.96	-
Buy CHF sell EUR				
Less than three months	3 240	-	1.61	-

15 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:

	2006 RUR ’000	2005 RUR ’000
Retail customers	31 836	25 888
Commercial customers		
Manufacturing	3 176 203	3 087 456
Trade	3 104 167	5 413 406
Food and tobacco production	2 379 301	2 817 016
Mining/metallurgy	2 160 323	-
Power	1 901 754	1 206 155
Chemical	1 443 196	-
Oil and petroleum production	1 318 154	1 007 686
Telecommunications	1 084 665	756 994
Finance	699 576	692 370
Logistics/Warehouses	-	187 729
Other	235 455	132 845
	17 534 630	**15 327 545**
Provision for impairment	(48 953)	(49 757)
	17 485 677	**15 277 788**

Concentration of loans to customers

As at 31 December 2006 and 2005 loans to customers which individually comprised more than 10% of gross loans to customers were as follows:

	2006 RUR ’000	2005 RUR ’000
RAO UES	1 901 754	-
TetraPack	-	2 350 464
	1 901 754	**2 350 464**

Analysis of movements in the provision for collective impairment

	2006 RUR ’000	2005 RUR ’000
Balance at the beginning of the period	49 757	28 271
Net (recovery)/charge for the period	(804)	21 486
Balance at the end of the period	**48 953**	**49 757**

The Bank has reviewed its current loan portfolio and has not identified any loans which display individually indicators of impairment. In addition, the Bank historically has had no uncollectible loans. The Bank has therefore created collective provision for impairment for groups of loans with similar credit risk characteristics based on worldwide historical loss trends for these types of loans.

Loan maturities

The maturity of the Bank's loan portfolio is presented in note 35, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio or draw-down repayment date. Due to the short-term nature of the credits issued by the Bank, which are usually prolonged, 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.

16 Other assets

	2006 RUR '000	2005 RUR '000
Custody fees receivable	134 500	88 228
Settlements with suppliers	33 423	24 133
VAT receivable	-	92 918
Other accrued income	18 156	11 494
Settlements with VISA International and Europay International	8 325	4 660
Income tax receivable	-	18 223
Other	9 521	5 551
	203 925	**245 207**

17 Property and equipment

RUR'000	Office Machines & Equipment	Data Processing Equipment	Motor Vehicles	Computer Software	Total
Cost					
At 31 December 2005	182 682	68 860	22 722	98 448	372 712
Additions	9 370	12 763	10 243	-	32 376
Disposals	(15 228)	(1 623)	(8 308)	(252)	(25 411)
At 31 December 2006	176 824	80 000	24 657	98 196	379 677
Depreciation					
At 31 December 2005	112 185	21 521	5 971	94 644	234 321
Depreciation charge	35 925	13 316	4 683	3 497	57 421
Disposals	(15 225)	(1 623)	(5 244)	(252)	(22 344)
At 31 December 2006	132 885	33 214	5 410	97 889	269 398
Carrying value					
At 31 December 2006	**43 939**	**46 786**	**19 247**	**307**	**110 279**
At 31 December 2005	**70 497**	**47 339**	**16 751**	**3 804**	**138 391**

18 Goodwill

Goodwill relates to the purchase of the Russian custody business of Credit Suisse First Boston, Moscow. Goodwill is tested for impairment annually, no impairment loss was recognised for the years ended 31 December 2006 and 2005.

19 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 2006 and 2005. The net deferred tax asset represents the amount that can be off set against the future taxable profits.

These temporary differences, which have no expiry dates, except for losses carried forward, that expire within 10 years from the year of origination, are listed below at their tax effected accumulated values:

	Assets		**Liabilities**		**Net**	
RUR'000	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Financial instruments at fair value through profit or loss	6 601	4 956	-	-	6 601	4 956
Loans to customers	17 377	15 966	-	-	17 377	15 966
Other assets	-	-	(4 373)	(1 901)	(4 373)	(1 901)
Property and equipment	6 105	8 051	-	-	6 105	8 051
Goodwill	-	-	(17 298)	(9 379)	(17 298)	(9 379)
Other liabilities	66 810	37 891	-	-	66 810	37 891
Tax losses carried forward	204 899	58 079	-	-	204 899	58 079
	301 792	**124 943**	**(21 671)**	**(11 280)**	**280 121**	**113 663**
Valuation allowance	(204 899)	(58 079)	-	-	(204 899)	(58 079)
Net deferred tax assets/(liabilities)	**96 893**	**66 864**	**(21 671)**	**(11 280)**	**75 222**	**55 584**

The rate of tax applicable for deferred taxes was 24% (31 December 2005: 24%).

As at 31 December 2005 and 2006 the Bank recognised deferred tax asset on losses from non-deliverable forward deals, which were not allowed to be deducted for current tax purposes, but could be carried forward for the future ten years. The Bank created valuation allowance against these deferred tax items as it considers that it is not probable that sufficient profits will be available in the future years to utilise these benefits.

20 Deposits and balances from banks and other financial institutions

	2006 RUR '000	**2005 RUR '000**
Current accounts and demand deposits	711 808	639 964
Term deposits	15 268 472	7 646 583
	15 980 280	**8 286 547**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2006 and 2005, 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:

	2006 RUR '000	**2005 RUR '000**
ING Group Banks	6 070 122	1 121 548
Sberbank	3 101 274	-
Alfa Bank	-	1 500 863
	9 171 396	**2 622 411**

21 Amounts payable under repurchase agreements

	2006 RUR '000	2005 RUR '000
Amounts due to banks and other financial institutions	2 551 367	-
	2 551 367	**-**

Securities pledged

As of 31 December 2006, the Bank had certain securities pledged as collateral under repurchase agreements (refer to Note 14).

22 Subordinated loans

	2006 RUR '000	2005 RUR '000
Subordinated loan from ING Bank N.V. in the nominal amount of USD 25 000 thousand maturing on 30 December 2012 at an interest rate of 12 month LIBOR + 6% (2005: 3 month LIBOR + 4%)	726 317	768 676
Subordinated loan from ING Bank N.V. in the nominal amount of EUR 20 000 thousand maturing on 21 November 2015 at an interest rate of 3 month EURIBOR + 6% (2005: 3 month EURIBOR + 6%)	699 881	689 977
	1 426 198	**1 458 653**

According to the terms of the agreements on the loans above, the creditor may not demand repayment of loan before maturity. In case of bankruptcy of the borrower, liabilities under the loan are repaid after settlement of all other liabilities of the Bank. Interest on the loan is paid annually.

23 Current accounts and deposits from customers

	2006 RUR '000	2005 RUR '000
Current accounts and demand deposits	9 079 294	7 996 635
Term deposits	13 397 818	12 563 951
	22 477 112	**20 560 586**

Blocked accounts

As at 31 December 2006 there were no current accounts and deposits from customers blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank (2005: RUR 48 759 thousand).

Concentrations of current accounts and customer deposits

As at 31 December 2006 and 2005, current accounts and deposits from customers which individually exceeded 10% of total current accounts and deposits from customers were as follows:

	2006 RUR '000	2005 RUR '000
TNK - BP	5 284 369	2 885 414
Interros Group	3 433 002	3 251 175
Rosneft	-	2 872 745
Megafon	-	2 192 218
	8 717 371	**11 201 552**

24 Other liabilities

	2006 RUR '000	2005 RUR '000
Employee compensation payable	220 201	149 642
Payables to suppliers	69 618	16 272
Other taxes payable	27 419	43 891
Income tax payable	19 211	-
Provision for guarantees and letters of credit	1 869	17 035
Other	1 178	10 540
	339 496	**237 380**

25 Share capital

Issued capital

The authorised, issued and outstanding share capital as at 31 December 2006 comprises 2 466 540 ordinary shares (31 December 2005: 46 540) with a par value of RUR 750. During 2006, an additional 2 420 000 ordinary shares were issued by the Bank.

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 of the Russian Federation. In accordance with the legislation of the Russian Federation, as of 31 December 2006, retained earnings available for distribution amounted to RUR 2 681 815 thousand (2005: RUR 1 622 684 thousand).

26 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 market risk, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk. These risks are managed in the following manner:

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Bank’s exposure to fair value interest rate risk at year end refer to Notes 34 and 35.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank’s exposure to currency risk at year end refer to Notes 14 and 36.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.

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 Management Board.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank’s liquidity policy is reviewed and approved by the Management Board. For further information on the Bank’s exposure to liquidity risk at year end refer to Note 35.

27 Commitments

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

	2006 RUR ’000	2005 RUR ’000
Contracted amount		
Undrawn loan commitments	1 630 724	305 765
Guarantees and letters of credit	2 669 730	5 191 136

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. Consequently commitments listed above should not be treated as expected cash outflows.

28 Operating leases

The Bank leases a number of premises under operating lease. The leases typically run for an initial period of up to five 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.

Non-cancellable operating lease rentals are payable as follows:

	2006 RUR '000	**2005 RUR '000**
Less than one year	82 688	85 707
Between one and five years	174 338	260 702
	257 026	**346 409**

During this year ended 31 December 2006 RUR 121 515 thousand (31 December 2005: RUR 123 095 thousand) was recognized as an expense in the income statement in respect of operating leases.

29 Contingencies

Insurance

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's management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, 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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these IFRS financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30 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 recognized in the balance sheet.

31 Related party transactions

Control relationships

The Bank's Parent Company is ING Bank N.V. which produces publicly available financial statements. The party that has the ultimate control over the Bank is ING Group N.V.

Transactions with the Board of Management

Total remuneration included in employee compensation (refer note 10):

	2006 RUR '000	**2005 RUR '000**
Short-term benefits		
Employee compensation	59 358	54 617
Salary related taxes	1 408	2 255
Post-employment benefits		
Contributions to non-state pension funds	243	340
Total remuneration	**61 009**	**57 212**

Loans issued to directors and senior management and average interest rates as of 31 December 2006 and 2005 are as follows:

	2006 RUR '000	**Average Interest Rate**	**2005 RUR '000**	**Average Interest Rate**
Loans to customers	5 943	8.95%	6 518	8.27%
Interest income	484		145	

The amounts presented above include operations and balances only in respect of the senior management (Board of Management members) of the Bank.

Transactions with Parent Company

The outstanding balances and the related average interest rates as of 31 December 2006 and 2005 with the Parent Company are as follows:

	2006 RUR '000	Average Interest Rate	2005 RUR '000	Average Interest Rate
Assets				
Placements with banks and other financial institutions	601 429	1.74%	2 413 192	1.13%
Financial instruments at fair value through profit or loss (except for foreign currency contracts)	2 075 239	5.33%	232 415	7.60%
Financial instruments at fair value through profit or loss (foreign currency contracts)	234 733	-	77 069	-
Other assets	33	-	4 319	-
Liabilities				
Placements from banks and other financial institutions	6 047 846	4.84%	554 891	4.33%
Financial instruments at fair value through profit or loss (except for foreign currency contracts)	2 069 308	5.00%	-	-
Financial instruments at fair value through profit or loss (foreign currency contracts)	307 080	-	57 972	-
Subordinated loans	1 426 198	9.80%	1 458 653	7.99%
Other liabilities	45 004	-	-	-
Off Balance sheet items				
Guarantees received	23 779 475	-	17 419 494	-

Amounts included in the income statement in relation to transactions with the Parent Company are as follows:

	2006 RUR '000	2005 RUR '000
Interest income	47 526	41 811
Interest expense	(381 535)	(92 542)
Fee and commission income	19 343	-
Fee and commission expense	(17 720)	(24 291)
Net foreign exchange (loss)/gain	(570 257)	15 301
General administrative expenses	(45 004)	-

Transactions with other ING Group Companies

The outstanding balances and the related average interest rates as of 31 December 2006 and 2005 with other ING Group companies are as follows:

	2006 RUR '000	**Average Interest Rate**	**2005 RUR '000**	**Average Interest Rate**
Assets				
Placements with banks and other financial institutions	9 986	0.00%	6 350	0.00%
Financial instruments at fair value through profit or loss (foreign currency contracts)	22 858	-	15	-
Loans to customers	39 115	6.03%	-	-
Other assets	14 529	-	7 514	-
Liabilities				
Financial instruments at fair value through profit or loss (foreign currency contracts)	2 206	-	-	-
Placements from banks and other financial institutions	22 276	0.00%	566 657	4.92%
Customer accounts	163 804	0.62%	20	0.00%
Other liabilities	1 732	-	660	-
Off Balance sheet items				
Guarantees received	252 160	-	-	-
Undrawn loan commitments	264 368	-	-	-

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

	2006 RUR '000	**2005 RUR '000**
Interest income	5 520	-
Interest expense	(6 354)	(5 614)
Fee and commission income	89 991	38 886
Net foreign exchange gain	21 712	146 102
Other income	79 772	60 770

32 Cash and cash equivalents

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

	2006 RUR '000	**2005 RUR '000**
Cash	242 885	247 824
Due from Central Bank - nostro account	1 266 030	1 802 403
Nostro accounts with banks	1 095 367	6 368 539
	2 604 282	**8 418 766**

33 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.

The estimated fair value of quoted trading financial instruments is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all the other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

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 unrelated willing parties on an arm's length basis. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

34 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2006 and 2005 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, except for loans to customers totaling RUR 4 775 614 thousand and subordinated loans which carry variable rates.

	2006		**2005**	
	Value RUR '000	**Average Effective Interest Rate**	**Value RUR '000**	**Average Effective Interest Rate**
Interest Bearing Assets				
Placements with banks and other financial institutions				
Nostro accounts				
- RUR	315 332	0.08%	149 990	0.25%
- USD	645 587	0.95%	5 194 300	3.09%
- other currencies	134 448	0.60%	1 024 249	0.05%
Loans and deposits				
- RUR	6 405 817	5.27%	1 278 963	5.65%
- USD	3 705 097	5.77%	3 405 403	4.09%
- other currencies	5 255 727	3.63%	-	-
Financial instruments at fair value through profit or loss				
Unpledged				
- RUR	9 388 791	7.23%	3 617 409	8.30%
- USD	2 075 239	5.33%	-	-
Pledged under sale and repurchase agreements				
- RUR	2 637 593	8.45%	-	-
Loans to customers				
- RUR	10 271 440	6.86%	7 261 996	6.97%
- USD	5 417 217	7.03%	5 163 287	5.68%
- other currencies	1 797 020	5.27%	2 852 505	3.60%

	2006		2005	
	Value RUR '000	**Average Effective Interest Rate**	**Value RUR '000**	**Average Effective Interest Rate**
Interest Bearing Liabilities				
Financial instruments at fair value through profit or loss				
- USD	2 069 308	5.00%	-	-
Deposits and balances from banks and other financial institutions				
Current accounts and demand deposits				
- RUR	370 208	0.00%	450 850	0.00%
- USD	340 563	0.00%	188 407	0.00%
- other currencies	1 037	0.00%	707	0.00%
Term deposits				
- RUR	11 926 012	4.34%	6 829 708	5.10%
- USD	3 073 951	5.32%	816 875	4.06%
- other currencies	268 509	3.59%	-	2.06%
Amounts payable under repurchase agreements				
- RUR	2 551 367	6.26%	-	-
Subordinated loans				
- USD	726 317	10.87%	768 676	7.24%
- other currencies	699 881	9.84%	689 977	8.78%
Current accounts and deposits from customers				
Current accounts and demand deposits				
- RUR	4 776 020	0.82%	3 677 197	0.71%
- USD	3 376 434	0.17%	3 417 490	0.28%
- other currencies	926 840	0.27%	901 948	0.13%
Term deposits				
- RUR	6 341 021	4.63%	3 781 294	5.10%
- USD	6 800 292	4.91%	8 354 579	4.06%
- other currencies	256 505	3.26%	428 078	0.60%
Certificates of deposit and promissory notes				
- EUR	-	-	17 087	1.75%

Other currencies in the table above are primarily the Euro.

35 Maturity analysis

Except for securities held for trading, the following table shows the Bank's assets and liabilities by remaining contractual maturity dates as at 31 December 2006. The portfolio of unpledged trading securities is classified within less than one month in the table below as the Management of the Bank believes, that such financial assets can be realised within this period. The portfolio of trading securities pledged under sale and repurchase agreements is classified within one to three months in the table below in accordance with the maturity of the corresponding repurchase agreements. Information about the contractual maturity of these securities is provided later in this Note.

	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	242 885	-	-	-	-	-	242 885
Due from the Central Bank of the Russian Federation	1 266 030	-	-	-	-	930 632	2 196 662
Placements with banks and other financial institutions	10 775 528	4 486 900	442 551	757 029	-	-	16 462 008
Financial instruments at fair value through profit or loss							
- Unpledged	9 442 795	2 202 785	118 748	16 864	-	-	11 781 192
- Pledged under sale and repurchase agreements	2 637 593	-	-	-	-	-	2 637 593
Loans to customers	4 940 481	4 983 202	2 762 144	2 906 743	1 893 107	-	17 485 677
Other assets	508	148 221	51 380	3 816	-	-	203 925
Property and equipment	-	-	-	-	-	110 279	110 279
Goodwill	-	-	-	-	-	125 125	125 125
Deferred tax asset	-	-	-	-	-	75 222	75 222
Total assets	29 305 820	11 821 108	3 374 823	3 684 452	1 893 107	1 241 258	51 320 568
Liabilities							
Financial liabilities at fair value through profit or loss	52 714	2 209 776	129 928	63 169	-	-	2 455 587
Deposits and balances from banks and other financial institutions	13 002 992	1 260 561	168 320	1 548 407	-	-	15 980 280
Amounts payable under repurchase agreements	2 551 367	-	-	-	-	-	2 551 367
Subordinated loans	74 227	-	-	-	1 351 971	-	1 426 198
Current accounts and deposits from customers	22 113 604	299 194	64 314	-	-	-	22 477 112
Other liabilities	20 257	276 604	31 432	11 203	-	-	339 496
Total liabilities	37 815 161	4 046 135	393 994	1 622 779	1 351 971	-	45 230 040
Net position as at 31 December 2006	**(8 509 341)**	**7 774 973**	**2 980 829**	**2 061 673**	**541 136**	**1 241 258**	**6 090 528**
Net position as at 31 December 2005	(4 598 120)	3 514 556	2 214 919	2 145 073	(1 222 476)	1 190 060	3 244 012

The following table shows securities held for trading by their contractual maturities (maturity of the instrument stipulated by the issuer) as at 31 December 2006.

	Unpledged	**Pledged under sale and repurchase agreements**
	RUR '000	**RUR '000**
Less than 1 month	21 947	4 547
1 to 3 months	63 592	11 374
6 months to 1 year	710 083	-
1 to 5 years	7 198 202	399 800
More than 5 years	1 394 967	2 221 872
	9 388 791	**2 637 593**

Except in relation to loans to customers totaling RUR 4 775 614 thousand as of 31 December 2006, which reprice on a monthly or quarterly basis, and subordinated loans which reprice as disclosed in Note 22, the remaining contractual maturity dates of financial assets and liabilities in the maturity table above also represents the contractual interest rate repricing dates.

36 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2006.

	RUR	USD	Other currencies	Total
	RUR '000	RUR '000	RUR '000	RUR '000
Assets				
Cash	135 797	94 128	12 960	242 885
Due from the Central Bank of the Russian Federation	2 196 662	-	-	2 196 662
Placements with banks and other financial institutions	6 721 149	4 350 684	5 390 175	16 462 008
Financial instruments at fair value through profit or loss				
- Unpledged	9 705 953	2 075 239	-	11 781 192
- Pledged under sale and repurchase agreements	2 637 593			2 637 593
Loans to customers	10 271 440	5 417 217	1 797 020	17 485 677
Other assets	53 760	148 319	1 846	203 925
Property and equipment	110 279	-	-	110 279
Goodwill	125 125	-	-	125 125
Deferred tax asset	75 222	-	-	75 222
Total assets	32 032 980	12 085 587	7 202 001	51 320 568
Liabilities				
Financial liabilities at fair value through profit or loss	386 279	2 069 308	-	2 455 587
Deposits and balances from banks and other financial institutions	12 296 220	3 414 514	269 546	15 980 280
Amounts payable under repurchase agreements	2 551 367	-	-	2 551 367
Subordinated loans	-	726 317	699 881	1 426 198
Current accounts and deposits from customers	11 117 041	10 176 726	1 183 345	22 477 112
Other liabilities	227 904	51 267	60 325	339 496
Total liabilities	26 578 811	16 438 132	2 213 097	45 230 040
Net on balance sheet position	**5 454 169**	**(4 352 545)**	**4 988 904**	**6 090 528**
Off balance sheet position	(877 586)	3 923 786	(3 046 200)	-
Net position as of 31 December 2006	**4 576 583**	**(428 759)**	**1 942 704**	**6 090 528**
Net position as of 31 December 2005	**3 142 658**	**719 957**	**(618 603)**	**3 244 012**

Other currencies in the table above are primarily the Euro.