

ING PRIME RATE TRUST  
Form N-CSR  
May 08, 2006

OMB APPROVAL

OMB Number: 3235-0570

Expires: October 31, 2006

Estimated average burden hours per response: 19.3

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF  
REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: **811-5410**

**ING Prime Rate Trust**

(Exact name of registrant as specified in charter)

**7337 E. Doubletree Ranch Rd., Scottsdale, AZ**  
(Address of principal executive offices)

**85258**  
(Zip code)

**CT Corporation System, 101 Federal Street, Boston, MA 02110**

Edgar Filing: ING PRIME RATE TRUST - Form N-CSR

(Name and address of agent for service)

Registrant's telephone number, including area code: **1-800-992-0180**

Date of fiscal year end: February 28

Date of reporting period: February 28, 2006

---

**Item 1. Reports to Stockholders.**

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Act (17 CFR 270.30e-1):

---

# Annual Report

**February 28, 2006**

ING Prime Rate Trust

**E-Delivery Sign-up details inside**

This report is submitted for general information to shareholders of the ING Funds. It is not authorized for distribution to prospective shareholders unless accompanied or preceded by a prospectus which includes details regarding the funds' investment objectives, risks, charges, expenses and other information. This information should be read carefully.

ING Prime Rate Trust

ANNUAL REPORT

February 28, 2006

---

Table of Contents

<u>Portfolio Managers Report</u>	<u>2</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>8</u>
<u>Statement of Assets and Liabilities</u>	<u>9</u>
<u>Statement of Operations</u>	<u>10</u>
<u>Statements of Changes in Net Assets</u>	<u>11</u>
<u>Statement of Cash Flows</u>	<u>12</u>
<u>Financial Highlights</u>	<u>13</u>
<u>Notes to Financial Statements</u>	<u>14</u>
<u>Portfolio of Investments</u>	<u>24</u>
<u>Additional Information</u>	<u>56</u>
<u>Tax Information</u>	<u>58</u>
<u>Trustee and Officer Information</u>	<u>59</u>
<u>Advisory Contract Approval Discussion</u>	<u>64</u>

<b>Go Paperless with E-Delivery!</b>	
Sign up now for on-line prospectuses, fund reports, and proxy statements. In less than five minutes, you can help reduce paper mail and lower fund costs.	
Just go to <a href="http://www.ingfunds.com">www.ingfunds.com</a> , click on the E-Delivery icon from the home page, follow the directions and complete the quick 5 Steps to Enroll.	
You will be notified by e-mail when these communications become available on the internet. Documents that are not available on the internet will continue to be sent by mail.	



## ING Prime Rate Trust

## PORTFOLIO MANAGERS REPORT

Dear Shareholders:

ING Prime Rate Trust (the Trust) is a diversified, closed-end management investment company that seeks to provide investors with as high a level of current income as is consistent with the preservation of capital. The Trust seeks to achieve this objective by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in senior loans.

**PORTFOLIO CHARACTERISTICS  
AS OF FEBRUARY 28, 2006**

Net Assets	\$1,100,671,274
Total Assets	\$2,090,097,763
Assets Invested in Senior Loans	\$2,027,621,327
Senior Loans Represented	484
Average Amount Outstanding per Loan	\$4,189,300
Industries Represented	38
Average Loan Amount per Industry	\$53,358,456
Portfolio Turnover Rate	81%
Weighted Average Days to Interest Rate Reset	41
Average Loan Final Maturity	64 months
Total Leverage as a Percentage of Total Assets (including Preferred Shares)	44%

## PERFORMANCE SUMMARY

The Trust declared \$0.12 of dividends during the fourth fiscal quarter and \$0.46 for the year ended February 28, 2006. Based on the average month-end net asset value (NAV) per share of \$7.45, this resulted in an annualized distribution rate of 6.58% for the quarter and 6.23%<sup>(1)</sup> for the year. The Trust's total net return for the fourth fiscal quarter, based on NAV, was 3.97%, versus a total gross return on the S&P/LSTA Leveraged Loan Index (LLI<sup>(2)</sup>) of 1.91% for the same quarter. For the year ended February 28, 2006, the Trust's total net return, based on NAV was 8.53% versus 5.62% gross return for the S&P/LSTA Leveraged Loan Index. The total market value return (based on full reinvestment of dividends) for the Trust's common shares during the fourth fiscal quarter was 9.08% and -0.82% for the year ended February 28, 2006.

## MARKET OVERVIEW

## Edgar Filing: ING PRIME RATE TRUST - Form N-CSR

The S&P Leveraged Loan Index posted a solid 5.62% gross return for the twelve month period ended February 28, 2006, or roughly 2.16% in excess of average one month London Inter-Bank Offered Rate ( LIBOR ). It continues to be favorable times but, by some accounts, very challenging times for loan investors, as market conditions remain highly charged. Demand for loans continues to be exceptionally strong as long-established loan buyers (such as the Trust) and,

---

(1) The distribution rate is calculated by annualizing dividends declared during the period and dividing the resulting annualized dividend by the Trust's average month-end net asset value (in the case of NAV) or the average month-end NYSE Composite closing price (in the case of Market). The distribution rate is based solely on the actual dividends and distributions, which are made at the discretion of management. The distribution rate may or may not include all investment income and ordinarily will not include capital gains or losses, if any.

(2) The **S&P/LSTA Leveraged Loan Index ( LLI )** is an unmanaged total return index that captures accrued interest, repayments, and market value changes. It represents a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers. Standard & Poor's and the Loan Syndications and Trading Association ( LSTA ) conceived the LLI to establish a performance benchmark for the syndicated leveraged loan industry. An investor cannot invest directly in an index.

(1) Source: Standard & Poor's Leveraged Commentary & Data



## ING Prime Rate Trust

## PORTFOLIO MANAGERS REPORT (continued)

increasingly, non-traditional investors including hedge funds and high yield bond investors look to floating rate loans as a hedge against rising rates. As of February 28, 2006, the number of investor groups actively trading loans was estimated at 235, up from approximately 170 at the end of 2004<sup>(1)</sup>.

As noted in our last report, increased competition has made sourcing new loan investments more demanding for all active investors and, in turn, has driven average borrowing (or credit) spreads on loans to new lows. Fortunately, on the other side of the equation, the available supply of new loans has generally maintained pace with demand, buoyed by robust M&A activity, sustained economic strength and low relative borrowing rates. Institutional loan volume surged to \$72 billion during the first quarter of 2006, up from \$46 billion during the previous calendar quarter, and topping the prior high water mark of \$52 billion during the first quarter of 2005<sup>(3)</sup>.

While new deal volume has been quite good, it has also been inconsistent at best and, at times, painfully uneven. When new issuance activity slows down, the pace of borrowing spread re-pricing (lower) inevitably heats up. As a result, credit spreads on new loans have continued on a flat to downward path, and secondary loan prices have remained very firm, even, in some cases, in the face of negative company-specific credit developments. In short, like most other capital markets, loan investors currently reside within a very liquidity-driven environment.

Credit conditions, and the direction of short-term interest rates, remain the primary focus of loan investors, and are paramount to overall loan performance. Default rates continued to grind upward in fiscal year ended February 28, 2006, ending the period at 2.08%, versus 1.98% at the end of calendar 2005, but still well shy of the average over the last full credit cycle<sup>(3)</sup>. Digging more deeply into the default statistics reveals a high concentration in a small number of industries (traditional automotive suppliers and domestic commercial airlines, areas in which the Trust has been significantly underweight for some time).

**TOP TEN INDUSTRY SECTORS  
AS OF FEBRUARY 28, 2006  
AS A PERCENTAGE OF:**

	<b>TOTAL ASSETS</b>	<b>NET ASSETS</b>
North American Cable	9.6%	18.1%
Healthcare, Education and Childcare	7.6%	14.4%
Chemicals, Plastics & Rubber	5.8%	10.9%
Oil and Gas	5.1%	9.7%
Utilities	4.8%	9.0%
Buildings and Real Estate	4.7%	8.9%
Printing and Publishing	4.4%	8.3%
Leisure, Amusement, Entertainment	4.2%	8.0%
Retail Stores	4.0%	7.6%
Automobile	3.8%	7.4%

<i>Portfolio holdings are subject to change daily.</i>
--

**TOP TEN SENIOR LOAN ISSUERS  
AS OF FEBRUARY 28, 2006  
AS A PERCENTAGE OF:**

		<b>TOTAL ASSETS</b>		<b>NET ASSETS</b>	
Charter Communications Operating, LLC		2.7	%	5.1	%
Metro-Goldwyn-Mayer Studios, Inc.		2.0	%	3.9	%
Sungard Data Systems, Inc.		1.6	%	3.0	%
Georgia-Pacific Corporation		1.5	%	2.9	%
Davita, Inc.		1.5	%	2.8	%
NRG Energy, Inc.		1.5	%	2.8	%
Century Cable Holdings, LLC		1.4	%	2.7	%
El Paso Corporation		1.3	%	2.6	%
Olympus Cable Holdings, LLC		1.3	%	2.5	%
Fidelity National Information Solutions, Inc.		1.3	%	2.4	%
<i>Portfolio holdings are subject to change daily.</i>					

---

(3) Source: Standard & Poor's Leveraged Commentary & Data

ING Prime Rate Trust

PORTFOLIO MANAGERS REPORT (continued)

Generally speaking, the broader U.S. economy remains on solid footing from a GDP and job growth perspective, while inflation, although showing signs of escalating, remains within acceptable ranges. It is, however, that threat of rising wholesale and retail prices that seemingly perpetuates a hawkish stance from the Federal Reserve Board ( Fed ). While senior loans have been proven an all-weather asset class, they historically have performed exceptionally well in periods of rising short-term interest rates.

**PORTFOLIO OVERVIEW**

The Trust NAV performance during fiscal year ended February 28, 2006, was largely due to constructive asset selection, the avoidance of defaults, and favorable recoveries on a small number of holdings previously classified as non-performing. The top two individual issuers at period-end, Charter Communications Operating LLC (2.7% of total assets) and MGM Studios, Inc. (2.0% of total assets) were, by a fairly wide margin, the two largest contributors to the Trust s returns for the fiscal year. The only material detractors to the Trust s period returns were the Adelphia Communications family of borrowers, notably Century Cable Holdings LLC and Olympus Cable Holdings LLC (1.4% and 1.3% of total assets, respectively), and a relatively small position in Movie Gallery, Inc. (approximately 0.24% of total assets). A degree of price volatility is a constant part of the Adelphia saga as the company continues to work through the asset disposition process. Movie Gallery, along with the rest of the brick and mortar video rental industry, continues to struggle with weak box office results and increased competition from on-line video distribution channels. We continue to monitor developments in this area closely.

There were no significant changes in sector positioning during the period. North American Cable (9.5%) and Healthcare, Education and Childcare (7.6%) closed out the period as the Trust s top two sector exposures. We continue to view these sectors as attractive based on a combination of low secured leverage levels and healthy market multiples (i.e., strong collateral coverage), relative price stability and continuity of demand. The lone material change in the Trust s top sector positioning was a reduction in Buildings/Real Estate to 4.7% (from 6.3% as of the end of the third fiscal quarter), this due to sizeable prepayments of a small number of issuers in this sector.

The Trust remains well diversified. The average individual loan position represented approximately 0.20% of total assets at period-end, down from 0.24% at the end of last fiscal quarter, while the average industry sector accounted for roughly 2.55%, down fractionally from the prior quarter-end.

#### **USE OF LEVERAGE**

The Trust utilizes financial leverage to seek to increase the yield to the holders of common shares. As of February 28, 2006, the Trust had \$450 million of Aaa/AA<sup>(4)</sup> rated cumulative auction rate preferred shares outstanding, and \$465 million of borrowings outstanding under \$625 million in available credit facilities. Total leverage, as a percentage of total assets (including preferred shares), was 43.78% at period end. The use of leverage for investment purposes increases both investment opportunity and investment risk.

---

(4) Obligations rated Aaa by Moody's Investors Service are judged to be of the highest quality, with minimal credit risk. An obligator rated AAA has extremely strong capacity to meet its financial commitments. AAA is the highest Issuer Credit Rating assigned by Standard & Poor's. Credit quality refers to the Trust's underlying investments, not to the stability or safety of this Trust.

ING Prime Rate Trust

PORTFOLIO MANAGERS REPORT (continued)

**OUTLOOK**

As of this writing, there does not appear to be any signs on the investment or economic horizons that would point to a change in current loan market dynamics. Credit conditions are expected to remain reasonably stable (Standard & Poor's Leveraged Commentary & Data is forecasting an improvement in default rates by year-end), and although proving to be very enigmatic, the new Fed has, at least thus far, maintained an inflation fighting (i.e., rate-raising) bias. As such, we see no abatement in the overall demand for floating rate secured loans.

Variables to the equation would include the consistency and quality of new loan supply, and as a direct result of how that supply/demand balance takes shape, the direction of credit spreads. While spreads appeared to have bottomed out near the end of 2005, there are fresh indications that they could be headed modestly lower over the near-term. A positive offset to that development would likely be the continuation of very strong secondary loan valuations.

Our strategy remains unchanged: to seek to deliver attractive risk-adjusted returns and moderate NAV volatility. As such, we remain focused on the better quality subset of the loan universe (i.e., better relative credit ratings, traditional first position collateral packages, and standard covenant protections) and will cede excess returns to maintain that strategy.

Jeffrey A. Bakalar  
*Senior Vice President*  
*Senior Portfolio Manager*  
*ING Investment Management Co.*

Daniel A. Norman  
*Senior Vice President*  
*Senior Portfolio Manager*  
*ING Investment Management Co.*

ING Prime Rate Trust  
April 18, 2006

ING Prime Rate Trust

PORTFOLIO MANAGERS REPORT (continued)

	Average Annual Total Returns for the Years Ended February 28, 2006			
	1 Year	3 Years	5 Years	10 Years
Based on Net Asset Value (NAV)	8.53%	10.59%	5.67%	5.79%
Based on Market Value	(0.82)%	9.23%	3.94%	5.03%
S&P/LSTA Leveraged Loan Index <sup>(a)</sup>	5.62%	6.62%	5.07%	
Credit-Suisse Leveraged Loan Index	5.96%	7.22%	5.13%	5.65%

The table above illustrates the total return of ING Prime Rate Trust against the Indices indicated. An Index has no cash in its portfolio, imposes no sales charges and incurs no operating expenses. An investor cannot invest directly in an index.

Total returns based on net asset value reflect that the Investment Manager may have waived or recouped fees and expenses otherwise payable by the Trust.

*Performance data represents past performance and is no guarantee of future results. Investment return and principal value of an investment in the Trust will fluctuate. Shares, when sold, may be worth more or less than their original cost. The Trust's future performance may be lower or higher than the performance data shown. Please log on to [www.ingfunds.com](http://www.ingfunds.com) or call (800) 992-0180 to get performance through the most recent month end.*

*Assumes rights were exercised and excludes sales charges and commissions<sup>(b),(c)</sup>*

(a) Performance since inception for the index is 5.31% from January 1, 1997.

(b) Calculation of total return assumes a hypothetical initial investment at the net asset value (in the case of NAV) or the NYSE Composite closing price (in the case of Market Value) on the last business day before the first day of the stated period, with all dividends and distributions reinvested at the actual reinvestment price.

(c) On October 18, 1996, the Trust issued to its shareholders non-transferable rights which entitled the holders to subscribe for 18,122,963 shares of the Trust's common stock at the rate of one share of common stock for each five rights held. On November 12, 1996, the offering expired and was fully subscribed. The Trust issued 18,122,963 shares of its common stock to exercising rights holders at a subscription price of \$9.09. Offering costs of \$6,972,203 were charged against the offering proceeds.

*Senior loans are subject to credit risks and the potential for non-payment of scheduled principal or interest payments, which may result in a reduction of the Trust's NAV.*

*This report contains statements that may be forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements.*

*The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The portfolio managers' views are subject to change at any time based on market and other conditions.*

#### INDEX DESCRIPTIONS

The **Credit-Suisse Leveraged Loan Index** is an unmanaged index of below investment grade loans designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. An investor cannot invest directly in an index.



## ING Prime Rate Trust

PORTFOLIO MANAGERS REPORT (continued)

## YIELDS AND DISTRIBUTIONS RATES

Quarter Ended	Prime Rate	Net Asset Value ( NAV ) 30-Day SEC Yield(A)	Market 30-Day SEC Yield(A)	Average Annualized Distribution Rate at NAV(B)	Average Annualized Distribution Rate at Market(B)
February 28, 2006	7.50%	8.40%	9.10%	6.59%	7.25%
November 30, 2005	7.00%	8.09%	9.17%	6.25%	6.97%
August 31, 2005	6.50%	7.24%	7.73%	6.07%	6.48%
May 31, 2005	6.00%	6.17%	6.48%	5.98%	6.15%

(A) Yield is calculated by dividing the Trust's net investment income per share for the most recent thirty days by the net asset value (in the case of NAV) or the NYSE Composite closing price (in the case of market) at quarter-end. Yield calculations do not include any commissions or sales charges, and are compounded for six months and annualized for a twelve-month period to derive the Trust's yield consistent with the SEC standardized yield formula for investment companies.

(B) The distribution rate is calculated by annualizing each monthly dividend, then averaging the annualized dividends declared for each month during the quarter and dividing the resulting average annualized dividend amount by the Trust's average net asset value (in the case of NAV) or the NYSE Composite closing price (in the case of Market) at the end of the period.

*Risk is inherent in all investing. The following are the principal risks associated with investing in the Trust. This is not, and is not intended to be, a description of all risks of investing in the Trust. A more detailed description of the risks of investing in the Trust is contained in the Trust's current prospectus.*

**Credit Risk:** The Trust invests a substantial portion of its assets in below investment grade senior loans and other below investment grade assets. Below investment grade loans involve a greater risk that borrowers may not make timely payment of the interest and principal due on their loans. They also involve a greater risk that the value of such loans could decline significantly. If borrowers do not make timely payments of the interest due on their loans, the yield on the Trust will decrease. If borrowers do not make timely payment of the principal due on their loans, or if the value of such loans decreases, the value of the Trust's NAV will decrease.

**Interest Rate Risk:** Changes in short-term market interest rates will directly affect the yield on the Trust. If short-term market interest rates fall, the yield on the Trust will also fall. To the extent that the interest rate spreads on loans in the

Trust experience a general decline, the yield on the Trust will fall and the value of the Trust's assets may decrease, which will cause the Trust's value to decrease. Conversely, when short-term market interest rates rise, because of the lag between changes in such short-term rates and the resetting of the floating rates on assets in the Trust, the impact of rising rates will be delayed to the extent of such lag.

**Leverage Risk:** The Trust borrows money for investment purposes. Borrowing increases both investment opportunity and investment risk. In the event of a general market decline in the value of assets such as those in which the Trust invests, the effect of that decline will be magnified in the Trust because of the additional assets purchased with the proceeds of the borrowings.

ING Prime Rate Trust

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
of ING Prime Rate Trust

We have audited the accompanying statement of assets and liabilities of ING Prime Rate Trust (the Trust ), including the portfolio of investments, as of February 28, 2006, the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of February 28, 2006 by correspondence with the custodian and brokers, or by other appropriate auditing procedures. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of ING Prime Rate Trust as of February 28, 2006, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with principles generally accepted in the United States of America

Boston, Massachusetts  
April 21, 2006

## ING Prime Rate Trust

STATEMENT OF ASSETS AND LIABILITIES as of February 28, 2006

**ASSETS:**

Investments in securities at value (Cost \$2,022,392,049)	\$	2,062,387,741
Cash		4,295,285
Receivables:		
Investment securities sold		7,310,139
Interest		15,979,023
Other		34,555
Prepaid expenses		91,020
Total assets		2,090,097,763

**LIABILITIES:**

Notes payable		465,000,000
Payable for investments purchased		68,792,698
Accrued interest payable		1,987,052
Deferred arrangement fees on senior loans		912,171
Dividends payable - preferred shares		227,982
Payable to affiliates		1,666,363
Accrued trustee fees		16,231
Other accrued expenses and liabilities		823,992
Total liabilities		539,426,489
Preferred shares, \$25,000 stated value per share at liquidation value (18,000 shares outstanding)		450,000,000
<b>NET ASSETS</b>	<b>\$</b>	<b>1,100,671,274</b>
Net assets value per common share outstanding (net assets less preferred shares at liquidation value, divided by 145,033,235 shares of beneficial interest authorized and outstanding, no par value)	\$	7.59

**NET ASSETS CONSIST OF:**

Paid-in capital	\$	1,331,413,656
Undistributed net investment income		5,062,694
Accumulated net realized loss on investments		(275,800,768)
Net unrealized appreciation of investments		39,995,692
<b>NET ASSETS</b>	<b>\$</b>	<b>1,100,671,274</b>

See Accompanying Notes to Financial Statements

## ING Prime Rate Trust

STATEMENT OF OPERATIONS for the year ended February 28, 2006

**INVESTMENT INCOME:**

Interest	\$	125,254,189
Arrangement fees earned		1,302,967
Dividends		123,028
Other		2,497,421
Total investment income		129,177,605

**EXPENSES:**

Investment management fees		16,295,070
Administration fees		5,092,209
Transfer agent fees		133,955
Interest expense		20,993,214
Shareholder reporting expense		169,725
Custodian fees		877,978
Professional fees		589,783
Preferred Shares - Dividend disbursing agent fees		1,208,731
Insurance expense		45,716
Pricing expense		85,052
ICI fees		4,546
Postage expense		233,965
Trustee fees		73,392
Miscellaneous expense		264,809
Total expenses		46,068,145
Net investment income		83,109,460

**REALIZED AND UNREALIZED GAIN ON INVESTMENTS:**

Net realized gain on investments		422,159
Net change in unrealized appreciation on investments		16,658,806
Net realized and unrealized gain on investments		17,080,965

**DISTRIBUTIONS TO PREFERRED SHAREHOLDERS:**

From net investment income		(15,839,470)
Net increase in net assets resulting from operations	\$	84,350,955

See Accompanying Notes to Financial Statements

## ING Prime Rate Trust

## STATEMENTS OF CHANGES IN NET ASSETS

	<b>Year Ended February 28, <u>2006</u></b>	<b>Year Ended February 28, <u>2005</u></b>
<b>FROM OPERATIONS:</b>		
Net investment income	\$ 83,109,460	\$ 62,675,310
Net realized gain/(loss) on investments	422,159	(7,289,446)
Net change in unrealized appreciation on investments	16,658,806	28,507,450
Distributions to preferred shareholders from net investment income	(15,839,470)	(7,597,393)
Net increase in net assets resulting from operations	84,350,955	76,295,921
<b>FROM DISTRIBUTIONS TO COMMON SHAREHOLDERS:</b>		
From net investment income	(66,428,156)	(59,700,239)
Total distributions to common shareholders	(66,428,156)	(59,700,239)
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Dividends reinvested for common shares		4,891,202
Sale of shares in connection with shelf offerings		50,936,150
Net increase from capital share transactions		55,827,352
Net increase in net assets	17,922,799	72,423,034
<b>NET ASSETS:</b>		
Beginning of year	1,082,748,475	1,010,325,441
End of year (including undistributed net investment income of \$5,062,694 and \$4,220,860, respectively)	\$ 1,100,671,274	\$ 1,082,748,475
<b>SUMMARY OF CAPITAL SHARE TRANSACTIONS:</b>		
Shares issued in payment of distributions from net investment income		652,703
Shares sold in connection with shelf offering		6,742,261
Net increase in shares outstanding		7,394,964

See Accompanying Notes to Financial Statements

## ING Prime Rate Trust

## STATEMENT OF CASH FLOWS for the year ended February 28, 2006

**INCREASE (DECREASE) IN CASH****Cash Flows From Operating Activities:**

Interest received	\$	119,160,104
Dividends received		123,028
Facility fees paid		(847,505)
Dividends paid to preferred shareholders		(15,756,300)
Arrangement fee received		448,310
Other income received		2,540,619
Interest paid		(20,119,216)
Other operating expenses paid		(24,210,613)
Purchases of securities		(1,656,049,422)
Proceeds from sales of securities		1,685,021,528
Net cash provided by operating activities	\$	90,310,533

**Cash Flows From Financing Activities:**

Distributions paid to common shareholders	\$	(66,428,156)
Net paydown of notes payable		(31,000,000)
Net cash flows used in financing activities		(97,428,156)
Net decrease		(7,117,623)
Cash at beginning of year		11,412,908
Cash at end of year	\$	4,295,285

**Reconciliation of Net Increase in Net Assets Resulting from Operations to Net Cash Provided by Operating Activities:**

Net increase in net assets resulting from operations	\$	84,350,955
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Change in unrealized appreciation of securities		(16,658,806)
Net accretion of discounts on securities		(1,425,815)
Realized gain on sale of securities		(422,159)
Purchase of securities		(1,656,049,422)
Proceeds on sale of securities		1,685,021,528
Decrease in other assets		43,198
Increase in interest receivable		(4,668,270)
Decrease in prepaid arrangement fees on notes payable		30,473
Increase in prepaid expenses		(11,048)
Decrease in deferred arrangement fees on senior loans		(854,657)
Increase in preferred shareholder dividend payable		83,170
Decrease in affiliate payable		(54,584)
Decrease in accrued trustee fees		(15,350)
Increase in accrued expenses		941,320
Total adjustments		5,959,578
Net cash provided by operating activities	\$	90,310,533

See Accompanying Notes to Financial Statements

Edgar Filing: ING PRIME RATE TRUST - Form N-CSR

ING PRIME RATE TRUST

FINANCIAL HIGHLIGHTS

For a common share outstanding throughout the period

		Years Ended February 28 or February 29,				
		2006	2005	2004	2003	2002
<b>Per Share Operating Performance</b>						
Net asset value, beginning of year	\$	7.47	7.34	6.73	7.20	8.09
Income from investment operations:						
Net investment income	\$	0.57	0.45	0.46	0.50	0.74
Net realized and unrealized gain (loss) on investments	\$	0.12	0.16	0.61	(0.47)	(0.89)
Total from investment operations	\$	0.69	0.61	1.07	0.03	(0.15)
Distributions to Common Shareholders						
from net investment income	\$	(0.46)	(0.43)	(0.42)	(0.45)	(0.63)
Distribution to Preferred Shareholders	\$	(0.11)	(0.05)	(0.04)	(0.05)	(0.11)
Net asset value, end of year	\$	7.59	7.47	7.34	6.73	7.20
Closing market price at end of year	\$	7.02	7.56	7.84	6.46	6.77
Total Investment Return <sup>(1)</sup>						
Total investment return at closing market price <sup>(2)</sup>	%	(0.82)	2.04	28.77	2.53	(9.20)
Total investment return at net asset value <sup>(3)</sup>	%	8.53	7.70	15.72	0.44	(3.02)
<b>Ratios/Supplemental Data</b>						
Net assets end of year (000 s)	\$	1,100,671	1,082,748	1,010,325	922,383	985,982
Preferred Shares-Aggregate amount outstanding (000 s)	\$	450,000	450,000	450,000	450,000	450,000
Liquidation and market value per share of Preferred Shares	\$	25,000	25,000	25,000	25,000	25,000
Borrowings at end of year (000 s)	\$	465,000	496,000	225,000	167,000	282,000
Asset coverage per \$1,000 of debt <sup>(4)</sup>	\$	2,203	2,140	2,500	2,500	2,350
Average borrowings (000 s)	\$	509,178	414,889	143,194	190,671	365,126
<b>Ratios to average net assets including Preferred Shares<sup>(5)</sup></b>						
Expenses (before interest and other fees related to revolving credit facility)	%	1.64	1.60	1.45	1.49	1.57
Net expenses after expense reimbursement	%	3.02	2.21	1.65	1.81	2.54
Gross expenses prior to expense reimbursement	%	3.02	2.22	1.65	1.81	2.54
Net investment income	%	5.44	4.21	4.57	4.97	6.83
<b>Ratios to average net assets plus borrowings</b>						
Expenses (before interest and other fees related to revolving credit facility)	%	1.58	1.63	1.84	1.82	1.66
Net expenses after expense reimbursement	%	2.90	2.26	2.09	2.23	2.70
Gross expenses prior to expense reimbursement	%	2.90	2.27	2.09	2.23	2.70
Net investment income	%	5.24	4.32	5.82	6.10	7.24
<b>Ratios to average net assets</b>						
Expenses (before interest and other fees related to revolving credit facility)	%	2.33	2.29	2.11	2.19	2.25
Net expenses after expense reimbursement	%	4.27	3.17	2.40	2.68	3.64
	%	4.27	3.18	2.40	2.68	3.64



Edgar Filing: ING PRIME RATE TRUST - Form N-CSR

Gross expenses prior to expense reimbursement						
Net investment income	%	7.71	6.04	6.68	7.33	9.79
Portfolio turnover rate	%	81	93	87	48	53
Common shares outstanding at end of year (000 s)		145,033	145,033	137,638	136,973	136,973

- (1) Total investment return calculations are attributable to common shares.
- (2) Total investment return measures the change in the market value of your investment assuming reinvestment of dividends and capital gain distributions, if any, in accordance with the provisions of the Trust's dividend reinvestment plan.
- (3) Total investment return at net asset value has been calculated assuming a purchase at net asset value at the beginning of each period and a sale at net asset value at the end of each period and assumes reinvestment of dividends and capital gain distributions in accordance with the provisions of the dividend reinvestment plan. This calculation differs from total investment return because it excludes the effects of changes in the market values of the Trust's shares.
- (4) Asset coverage represents the total assets available for settlement of Preferred Stockholder's interest and notes payables in relation to the Preferred Shareholder interest and notes payable balance outstanding. The Preferred Shares were first offered November 2, 2000.
- (5) Ratios do not reflect the effect of dividend payments to Preferred Shareholders; income ratios reflect income earned on assets attributable to the Preferred Shares; ratios do not reflect any add-back for the borrowings.

See Accompanying Notes to Financial Statements

ING Prime Rate Trust

NOTES TO FINANCIAL STATEMENTS as of February 28, 2006

**NOTE 1 ORGANIZATION**

ING Prime Rate Trust (the Trust), a Massachusetts business trust, is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a diversified, closed-end, management investment company. The Trust invests primarily in senior loans, which generally are not registered under the Securities Act of 1933, as amended (the 33 Act), but which contain certain restrictions on resale and cannot be sold publicly. These loans bear interest (unless otherwise noted) at rates that float periodically at a margin above the London Inter-Bank Offered Rate (LIBOR) and other short-term rates.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the significant accounting policies consistently followed by the Trust in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America for investment companies.

A. *Senior Loan and Other Security Valuation.* Senior loans held by the Trust are normally valued at the mean of the means of one or more bid and ask quotations obtained from an independent pricing service or other sources determined by the Board of Trustees to be independent and believed to be reliable. Loans for which reliable market value quotations are not readily available may be valued with reference to another loan or a group of loans for which reliable quotations are readily available and whose characteristics are comparable to the loan being valued. Under this approach, the comparable loan or loans serve as a proxy for changes in value of the loan being valued.

The Trust has engaged an independent pricing service to provide market value quotations from dealers in loans and, when such quotations are not readily available, to calculate values under the proxy procedure described above. As of February 28, 2006, 99.56% of total investments were valued based on these procedures. It is expected that most of the loans held by the Trust will continue to be valued with reference to quotations from the independent pricing service or with reference to the proxy procedure described above.

Prices from a pricing source may not be available for all loans and ING Investments, LLC (the Investment Manager) or ING Investment Management Co. (ING IM, the Sub-Adviser), may believe that the price for a loan derived from market quotations or the proxy procedure described above is not reliable or accurate. Among other reasons, this may be the result of information about a particular loan or borrower known to the Investment Manager or the Sub-Adviser that the Investment Manager or the Sub-Adviser believes may not be known to the pricing service or reflected in a price quote. In this event, the loan is valued at fair value as determined in good faith under procedures established by the Trust's Board of Trustees and in accordance with the provisions of the 1940 Act. Under these procedures, fair value is determined by the Investment Manager or Sub-Adviser and monitored by the Trust's Board of Trustees through its Valuation, Brokerage and Proxy Committee.

In fair valuing a loan, consideration is given to several factors, which may include, among others, the following: (i) the characteristics of and fundamental analytical data relating to the loan, including the cost, size, current interest rate, period until the next interest rate reset, maturity and base lending rate of the loan, the terms and conditions of the loan and any related agreements, and the position of the loan in the borrower's debt structure; (ii) the nature, adequacy and value of the collateral, including the Trust's rights, remedies and interests with respect to the collateral;

## Edgar Filing: ING PRIME RATE TRUST - Form N-CSR

(iii) the creditworthiness of the borrower and the cash flow coverage of outstanding principal and interest, based on an evaluation of its financial condition, financial statements and information about the borrower's business, cash flows, capital structure and future prospects; (iv) information relating to the market for the loan,

ING Prime Rate Trust

NOTES TO FINANCIAL STATEMENTS as of February 28, 2006 (continued)

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

including price quotations for, and trading in, the loan and interests in similar loans; (v) the reputation and financial condition of the agent for the loan and any intermediate participants in the loan; (vi) the borrower's management; and (vii) the general economic and market conditions affecting the fair value of the loan. Securities for which the primary market is a national securities exchange are valued at the last reported sale price. Securities reported by NASDAQ will be valued at the NASDAQ Official Closing Price. Securities traded in the over-the-counter market and listed securities for which no sale was reported on a valuation date are valued at the mean between the last reported bid and ask price on such exchange. Securities, other than senior loans, for which reliable market value quotations are not readily available, and all other assets, will be valued at their respective fair values as determined in good faith by, and under procedures established by, the Board of Trustees of the Trust. Investments in securities maturing in 60 days or less from the date of valuation are valued at amortized cost, which, when combined with accrued interest approximates market value.

B. *Federal Income Taxes.* It is the Trust's policy to comply with subchapter M of the Internal Revenue Code and related excise tax provisions applicable to regulated investment companies and to distribute substantially all of its net investment income and net realized capital gains to its shareholders. Therefore, no federal income tax provision is required. No capital gain distributions will be made by the Trust until any capital loss carryforwards have been fully utilized or expire.

C. *Security Transactions and Revenue Recognition.* Revolver and delayed draw loans are booked on a settlement date basis. Security transactions and senior loans are accounted for on trade date (date the order to buy or sell is executed). Realized gains or losses are reported on the basis of identified cost of securities sold. Dividend income is recognized on the ex-dividend date. Interest income is recorded on an accrual basis at the then-current interest rate of the loan. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed. Cash collections on non-accrual senior loans are generally applied as a reduction to the recorded investment of the loan. Senior loans are generally returned to accrual status only after all past due amounts have been received. For all loans, except revolving credit facilities, fees received are treated as discounts and are accreted whereas premiums are amortized. Fees associated with revolving credit facilities are deferred and recognized over the shorter of four years or the actual term of the loan.

D. *Distributions to Common Shareholders.* The Trust declares and pays dividends monthly from net investment income. Distributions from capital gains, if any, are declared and paid annually. The Trust may make additional distributions to comply with the distribution requirements of the Internal Revenue Code. The character and amounts of income and gains to be distributed are determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America for investment companies. The Trust records distributions to its shareholders on the ex-dividend date.

E. *Dividend Reinvestments.* Pursuant to the Trust's Shareholder Investment Program (formerly known as the Automatic Dividend Reinvestment Plan, the Program), DST Systems, Inc., the Program administrator, purchases, from time to time, shares of beneficial interest of the Trust on the open market to satisfy dividend reinvestments. Such shares are purchased on the open market only when the closing sale or bid price plus commission is less than the NAV per share of the Trust's common shares on the valuation date. If the market price plus commissions is equal to or exceeds the net asset value, new shares are issued by the Trust at

ING Prime Rate Trust

NOTES TO FINANCIAL STATEMENTS as of February 28, 2006 (continued)

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

the greater of (i) net asset value or (ii) the market price of the shares during the pricing period, minus a discount of 5%.

F. *Use of Estimates.* Management of the Trust has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses and contingencies to prepare these financial statements in conformity with generally accepted accounting principles in the United States of America for investment companies. Actual results could differ from these estimates.

G. *Share Offerings.* The Trust issues shares under various shelf registration statements, whereby the net proceeds received by the Trust from share sales may not be less than the greater of (i) the NAV per share or (ii) 94% of the average daily market price over the relevant pricing period.

**NOTE 3 INVESTMENTS**

For the year ended February 28, 2006, the cost of purchases and the proceeds from principal repayment and sales of investments, excluding short-term notes, totaled \$1,678,081,584 and \$1,685,447,688 respectively. At February 28, 2006, the Trust held senior loans valued at \$2,027,621,327 representing 98.3% of its total investments. The market value of these assets is established as set forth in Note 2.

The senior loans acquired by the Trust typically take the form of a direct lending relationship with the borrower, and are typically acquired through an assignment of another lender's interest in a loan. The lead lender in a typical corporate loan syndicate administers the loan and monitors the collateral securing the loan.

Common and preferred shares, and stock purchase warrants held in the portfolio were acquired in conjunction with loans held by the Trust. Certain of these stocks and warrants are restricted and may not be publicly sold without registration under the 33 Act, or without an exemption under the 33 Act. In some cases, these restrictions expire after a designated period of time after issuance of the shares or warrants.

## ING Prime Rate Trust

NOTES TO FINANCIAL STATEMENTS as of February 28, 2006 (continued)

**NOTE 3 INVESTMENTS (continued)**

Dates of acquisition and cost of assigned basis of restricted securities are as follows:

	<b>Date of Acquisition</b>	<b>Cost or Assigned Basis</b>
Allied Digital Technologies Corporation Residual Interest in Bankruptcy Estate	06/05/02	\$ 186,961
AM Cosmetics Corporation Liquidation Interest	03/07/03	25
Block Vision Holdings Corporation Common Shares	09/17/02	
Boston Chicken, Inc. Residual Interest in Boston Chicken Plan Trust	12/26/00	1,422,661
Cedar Chemical Liquidation Interest	12/31/02	
Covenant Care, Inc. Warrants	12/22/95	
Covenant Care, Inc. Warrants	01/18/02	
Decision One Corporation Common Shares	05/17/05	1,116,773
Electro Mechanical Solutions Residual Interest in Bankruptcy Estate	10/02/02	15
Enterprise Profit Solutions Liquidation Interest	10/21/02	
EquityCo, LLC Warrants	02/25/05	
Euro United Corporation Residual Interest in Bankruptcy Estate	06/21/02	305,999
Gate Gourmet Borrower, LLC Warrants	12/04/03	
Gemini Leasing, Inc. Common Shares	01/08/04	
Grand Union Company Residual Interest in Bankruptcy Estate	07/01/02	2,576
Humphreys, Inc. Residual Interest in Bankruptcy Estate	05/15/02	50
Imperial Home Décor Group, Inc. Common Shares	05/02/01	1,654,378
Imperial Home Décor Group, Inc. Liquidation Interest	01/22/04	
Insilco Technologies Residual Interest in Bankruptcy Estate	05/02/03	1,273
IT Group, Inc. Residual Interest in Bankruptcy Estate	09/12/03	100
Keveco, Inc. Residual Interest in Bankruptcy Estate	06/05/02	50
Lincoln Pulp and Eastern Fine Residual Interest in Bankruptcy Estate	06/08/04	
Lincoln Paper & Tissue, LLC Warrants	08/25/05	
London Clubs International Warrants	12/08/04	
Malden Mills Industries, Inc. Common Shares	11/04/03	
Malden Mills Industries, Inc. Preferred Shares	11/04/03	
Morris Material Handling, Inc. Common Shares	10/09/01	3,009,059
Neoplan USA Corporation Common Shares	08/29/03	
Neoplan USA Corporation Series B Preferred Shares	08/29/03	
Neoplan USA Corporation Series C Preferred Shares	08/29/03	428,603
Neoplan USA Corporation Series D Preferred Shares	08/29/03	3,524,300
New Piper Aircraft, Inc. Residual Interest in Litigation Proceeds	07/02/03	
New World Restaurant Group, Inc. Warrants	09/27/01	40
Norwood Promotional Products, Inc. Common Shares	08/23/04	32,939
Safelite Glass Corporation Common Shares	10/12/00	173,588
Safelite Realty Corporation Common Shares	10/12/00	
Transtar Metals Residual Interest in Bankruptcy Estate	01/09/03	40,230
TSR Wireless, LLC Residual Interest in Bankruptcy Estate	10/15/02	
U.S. Aggregates Residual Interest in Bankruptcy Estate	04/07/03	

Edgar Filing: ING PRIME RATE TRUST - Form N-CSR

U.S. Office Products Company Residual Interest in Bankruptcy Estate

02/11/04

Total restricted securities excluding senior loans (market value of \$32,592,556 was 3.0% of net assets at February 28, 2006)

\$11,899,620



ING Prime Rate Trust

NOTES TO FINANCIAL STATEMENTS as of February 28, 2006 (continued)

**NOTE 4 MANAGEMENT AND ADMINISTRATION AGREEMENTS**

The Trust has entered into an Investment Management Agreement with the Investment Manager to provide advisory and management services. The Investment Management Agreement compensates the Investment Manager with a fee, computed daily and payable monthly, at an annual rate of 0.80% of the Trust's Managed Assets. For purposes of the Investment Management Agreement, Managed Assets shall mean the Trust's average daily gross asset value, minus the sum of the Trust's accrued and unpaid dividends on any outstanding preferred shares and accrued liabilities (other than liabilities for the principal amount of any borrowings incurred, commercial paper or notes issued by the Trust and the liquidation preference of any outstanding preferred shares).

The Investment Manager entered into a Sub-Advisory Agreement with ING IM, a wholly-owned subsidiary of ING Groep N.V., effective August 19, 2003. Subject to such policies as the Board or the Investment Manager may determine, ING IM manages the Trust's assets in accordance with the Trust's investment objectives, policies, and limitations.

The Trust has also entered into an Administration Agreement with ING Funds Services, LLC (the Administrator), an indirect wholly-owned subsidiary of ING Groep N.V., to provide administrative services and also to furnish facilities. The Administrator is compensated with a fee, computed daily and payable monthly, at an annual rate of 0.25% of the Trust's Managed Assets.

**NOTE 5 TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES**

At February 28, 2006, the Trust had the following amounts recorded in payables to affiliates on the accompanying Statement of Assets and Liabilities:

<u>Accrued Investment Management Fees</u>	<u>Accrued Administrative Fees</u>
---	--