

ICBC (Moscow)

Financial statements for the year ended December 31, 2012  
(in thousands of Russian Rubles, unless otherwise stated)

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■ АУДИТ ■ КОНСАЛТИНГ ■ ПРАВО ■



Accountants &  
business advisers

## Independent Auditor's Report

To the Shareholders of

Joint-Stock Commercial Bank INDUSTRIAL  
AND COMMERCIAL

BANK OF CHINA (MOSCOW)  
(Closed Joint-Stock Company)

### Auditing entity

**Name:**

Joint-Stock Commercial Bank INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MOSCOW) (Closed Joint-Stock Company) (hereinafter – ICBC (Moscow)).

**Registered address:**

109028, Moscow, Serebryanicheskaya Emb.Str., 29.

**State registration:**

Certificate of Lending Agency State Registration № 3475 issued by the Central Bank of the Russian Federation on 30 August 2007.

Certificate of entry in the Unified State Register of Legal Entities № 1077711000157 issued by the Federal Tax Service Department of Moscow on 30 August 2007.

### Auditor

**Name:**

Limited liability company "Accountants and Business Advisers" (LLC, FBK).

**Location:**

101990, Moscow, 44/1, Myasnitskaya Street, building 2 A5.

**State registration:**

Registered by Moscow Registration Chamber on 15 November 1993, certificate: series IO3 3 № 484.583 ПП. Registered in the Unified State Register of Legal Entities on 24 July 2002, with a primary state registration number 1027700058286.



**Membership in the self-regulated auditors' organization:**

Non-commercial Partnership of "Auditor's Chamber of Russia".

**Number of the self-regulated auditors' organization in the register of audit organizations:**

Certificate of membership in the non-commercial Partnership "Auditors' Chamber of Russia"

№ 5353, OPH3 – 10201039470.

We have audited the accompanying financial statements of ICBC (Moscow), which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the Notes to Financial Statements for the year ended on 31 December 2012.

**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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Federal Standards for Audit Activities and International Standards on Auditing. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

The audit involved 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 considered 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. The audit also included evaluating the appropriateness of accounting policies 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 audit opinion.

**Opinion**

In our opinion, the financial statements present fairly in all material respects, the financial position of ICBC (Moscow) as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.



## Other Information

Audit of the Bank financial statements for the period from 01 January 2011 to 31 December 2011 was carried out by the Alt-Audit, Ltd audit firm. By the results of the audit, Alt-Audit, Ltd in the independent auditor's opinion expressed an unmodified opinion that the ICBC (Moscow) financial statements for 2011 were prepared in all material aspects in accordance with a fair presentation framework.

Vice-President of FBK LLC

Audit Manager

«27» June 2013



A.G. Terekhov

(on the basis of power of attorney № 5/13 of  
15.01.2013 , with the three years validity period )

M.A. Chizhov

(certificate of competence of 08.10.2012 № 01-  
000911, OPH3 20401041936)



Financial statements for the year ended December 31, 2012  
(in thousands of Russian Rubles, unless otherwise stated)

**Statement of Financial Position**  
as at December 31, 2012 and December 31, 2011  
(in thousands of Russian Rubles)

	Note	December 31, 2012	December 31, 2011
<b>ASSETS</b>			
Cash and cash equivalents	12	649 019	633 047
Mandatory cash balances with the Bank of Russia	27	375 260	173 206
Due from financial institutions	13	8 916 647	5 206 403
Loans and receivables	14	3 850 606	1 404 376
Held-to-maturity financial assets	15	507 435	607 090
Deferred tax asset	10	4 456	93
Property and equipment and intangible assets	16	3 018	3 170
Other assets	17	21 845	14 027
<b>Total assets</b>		<b>14 328 286</b>	<b>8 041 412</b>
<b>LIABILITIES</b>			
Due to financial institutions	18	8 324 569	4 609 508
Customer accounts	19	1 954 358	775 542
Other liabilities and provisions	20	2 669	915
Subordinated loans	21	1 519 359	1 510 769
<b>Total liabilities</b>		<b>11 800 955</b>	<b>6 996 734</b>
<b>EQUITY</b>			
Share capital / Paid-in capital	22	2 309 500	1 000 000
Retained earnings /(Accumulated deficit)	23	217 831	44 678
<b>Total equity</b>		<b>2 527 331</b>	<b>1 044 678</b>
<b>Total liabilities and equity</b>		<b>14 328 286</b>	<b>8 041 412</b>

Approved for release by the Bank Board resolution dated June 26, 2013

[ ] President

[ ] Deputy Chief Accountant

Notes on pages from 11 to 43 form an integral part of these financial statements.



Zheng Weidong

Zhang Wenjian



**Statement of Changes in Equity**  
**for the year ended December 31, 2012 and December 31, 2011**  
 (in thousands of Russian Rubles)

Note	Share capital / Paid-in capital	Treasury stock	Share premium	Available-for-sale financial asset revaluation reserve at fair value	Property and equipment revaluation reserve	Retained earnings / (Accumulated deficit)	Total equity
Opening balance as at January 1, 2011	1 000 000					17 038	1 017 038
Comprehensive income for the year ended December 31, 2011 after tax 23						27 640	27 640
Opening balance as at January 1, 2012	1 000 000					44 678	1 044 678
Comprehensive income for the year ended December 31, 2012 after tax 23						173 153	173 153
Issuance of shares:							
par value 22	1 309 500						1 309 500
Ending balance as at December 31, 2012	2 309 500					217 831	2 527 331

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[ ] President  
 [ ] Deputy Chief Accountant

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Zheng Weidong

Zhang Wenjian

**Statement of Cash Flows**  
**for the year ended December 31, 2012 and December 31, 2011**  
(in thousands of Russian Rubles)

	Note	2012	2011
<i>Operating cash flow</i>			
Interest received		357 533	111 464
Interest paid		(105 341)	(19 360)
Fees and commissions received		11 703	7 409
Fees and commissions paid		(2 213)	(899)
Income / (expense) from transactions with financial assets at fair value through profit or loss, available-for-sale financial assets		-	(5)
Income / (expense) from foreign currency transactions		(2 439)	26 930
Other operating income		2 460	10
Operating expense paid		(138 939)	(109 637)
(Income tax expense) / Income tax recovery		(49 550)	(3 677)
<b>Cash flow from / (used in) operating activity before changes in operating assets and liabilities</b>		<b>73 214</b>	<b>12 235</b>
<i>Increase / (decrease) in net cash flow from operating assets and liabilities</i>			
Net increase / (decrease) in mandatory cash balances with the Bank of Russia		(202 054)	(162 881)
Net increase / (decrease) in due from financial institutions		(3 692 079)	(4 179 844)
Net increase / (decrease) in loans and receivables		(2 419 106)	19 410
Net increase / (decrease) in other assets		9 470	3 964
Net increase / (decrease) in due to financial institutions		3 684 018	4 120 122
Net increase / (decrease) in customer accounts		1 178 474	(158)
Net increase / (decrease) in other liabilities		2 909	(261)
<b>Net cash flow from / (used in) operating activity</b>		<b>(1 365 154)</b>	<b>(187 413)</b>
<i>Investment cash flow</i>			
Acquisition of held-to-maturity financial assets		-	(203 373)
Sales revenue from held-to-maturity financial assets		99 996	398 740
Acquisition of property and equipment		(1 295)	(732)
<b>Net cash flow from / (used in) investment activity</b>		<b>98 701</b>	<b>194 635</b>
<i>Financial cash flow</i>			
Issuance of ordinary shares (Share capital investments by participants)		1 309 500	-
Change in subordinated loans		(91 170)	(4 455)
<b>Net cash flow from / (used in) financial activity</b>		<b>1 218 330</b>	<b>(4 455)</b>
Effect of changes in exchange rate on cash and cash equivalents		64 095	55 106
<b>Net increase in cash and cash equivalents</b>		<b>15 972</b>	<b>57 863</b>
Cash and cash equivalents at the beginning of the reporting period	12	533 047	575 173
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>12</b>	<b>549 019</b>	<b>633 036</b>

Approved for release by the Bank Board resolution dated June 26, 2013

[ ] President  
[ ] Deputy Chief Accountant

Notes on pages from 11 to 43 form an integral part of these financial statements.



Zheng Weidong

Zhang Wenjian



ICBC (Moscow)

Financial statements for the year ended December 31, 2012  
(in thousands of Russian Rubles, unless otherwise stated)

**Notes to Financial Statements**  
(in thousands of Russian Rubles)

**1 Principal activity**

ZAO Industrial and Commercial Bank of China (Moscow) (hereinafter, the Bank) was established in 2007.

Industrial and Commercial Bank of China Limited is the principal shareholder of the Bank.

Owners (shareholders) of the Bank are presented in the table below:

Owner (shareholder)	December 31, 2012	December 31, 2011
Industrial and Commercial Bank of China Limited	100%	100%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The Bank holds the following licenses issued by the Central Bank of the Russian Federation (the Bank of Russia):

- general banking license No. 3475 issued on October 9, 2007.

Principal banking transactions of the Bank are as follows:

principal banking transactions of the Bank

The Board of directors of the Bank is headed by Luo Xi.

The Bank does not have any subsidiaries and associated companies and does not prepare consolidated financial statements.

The Bank does not have any branches.

The principal place of business of the Bank is Moscow.

In 2012 the full-equivalent employee number 2012 was 51 persons (2011: 40 persons). As at December 31, 2012, the number of persons employed was 60 persons (2012: 45 persons).

These financial statements were approved for release on June 26, 2013 by resolutions of the Board of ICBC (Moscow).

**2 Economic environment in which the Bank operates**

The Bank primarily operates in the Russian Federation.

The government of the Russian Federation continues to introduce economic reforms and improve judicial, tax and regulatory legislation. Current government's actions on modernization of Russian economy are aimed at increase in labour productivity and improvement in quality of production, and also at increase in the share of industries that produce science-intensive products and services. The future stability of Russian economy depends largely on such reforms and the effectiveness of economic, financial and money and credit measures taken by the government. In 2012 Russian economy continues to recover after the financial crisis which was followed by growth in demand for loans both from corporate customers and individuals. And rather high liquidity indices of Russian banking sector encourage competition for high-quality borrowers.

Despite these signs of recovery of Russian economy, there is still an uncertainty about its further growth and ability of the Bank and its counterparties to borrow new funds at acceptable rates which may have an impact on financial position, performance and growth prospects of the Bank. While Russian economy is sensitive to negative trends in global markets, there is still a risk of heightened volatility of Russian financial markets.

While the direction of a Bank is confident that in these circumstances it takes all necessary measures to maintain the sustainability and growth of business, negative trends in the above areas could have an adverse effect on operating results and financial standing of the Bank. And now it is difficult to estimate this effect.

The tax, currency and customs laws of the Russian Federation allow various interpretations and are subject to frequent changes. The additional difficulty for banks currently operating in the Russian Federation is the imperfection of the legal framework applicable to insolvency and bankruptcy cases, absence of formalized procedures of registration and enforcement of loan security, and also defects of legal and fiscal systems. The prospects for further economic development of the Russian Federation depend largely on the effectiveness of economic, financial and currency measures taken by the government of the Russian Federation, and also on development of tax, legal, regulatory and political systems.

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Financial statements for the year ended December 31, 2012  
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### 3 Basis for presentation

The Bank's financial statements are prepared in accordance with IFRS, all standards adopted earlier and interpretations of Standing Interpretations Committee and IFRS Interpretations Committee. The Bank maintains its records and prepares financial statements in compliance with the requirements of laws applicable in its registration countries. These financial statements are based on the Bank's statutory books and records adjusted and reclassified to comply with IFRS. Below shown are the accounting policies used in preparation of these consolidated financial statements. The accounting policies have been consistently applied in relation to all the periods presented in these financial statements (unless otherwise stated).

The Bank keeps books in the currency of the Russian Federation and makes accounting records in compliance with the requirements of banking laws of the Russian Federation. These financial statements were prepared on the basis of these accounting records which were adjusted to bring them in compliance with all material aspects of IFRS.

These financial statements are prepared on a going-concern basis. Refer to note Effect of Estimates and Assumptions on Recognised Assets and Liabilities.

The financial statements are presented in the national currency of the Russian Federation (RUB) which is the Bank's functional currency and presentation currency. Unless otherwise stated, figures in the financial statements are in thousands of Russian rubles

The accounting policies applied by the Bank are the same as those applied by the Bank for the previous year, with the addition of new and revised standards which must be applied to annual periods beginning on January 1, 2012.

The Bank did not use voluntary reclassification during the reporting and previous reporting periods.

A number of new Standards and interpretations, mandatory for reporting periods beginning on or after January 1, 2013, was issued, but was not early adopted by the Bank:

IAS 19 Employee Benefits (hereinafter, IAS 19), issued in June 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, prescribes the accounting and disclosure by employers for employee benefits. IAS 19 improves the accounting for pensions and other post-employment benefits by eliminating the option to defer the recognition of gains and losses, known as the corridor approach, streamlines the presentation of changes in assets and liabilities and enhances the disclosure requirements for defined benefit plans. The Bank is currently assessing the impact that IAS 19 could have on its financial statements.

IAS 27 Separate Financial Statements (hereinafter, IAS 27), revised in May 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity presents separate financial statements. IAS 27 provides that, when an entity prepares separate financial statements, such investments shall be accounted for either at cost or in accordance with IFRS 9 Financial Instruments. IAS 27 was issued together with IFRS 10 Consolidated statements, and they superseded IAS 27 Consolidated and Separate Financial Statements (as amended in 2008). The Bank is currently assessing the impact that IAS 27 could have on its financial statements.

IAS 28 Investments in Associates and Joint Ventures (hereinafter, IAS 28), revised in May 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 superseded IAS 28 Investments in Associates (2003). The Bank is currently assessing the impact that IAS 28 could have on its financial statements.

IFRS 9 Financial Instruments (hereinafter, IFRS 9), originally issued in November 2009, subsequently reissued in October 2010 and amended in December 2011, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. Specifically, for the subsequent measurement, all financial assets shall be classified as those measured at amortised cost and those measured at fair value through profit or loss, and an entity can make an irrevocable election to recognize revaluation of equity instruments not held for sale through other comprehensive income in its statement of other comprehensive income. Many requirements for classification and measurement of financial liabilities were carried over from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 without any amendments. The main difference is that changes in the credit risk of financial liabilities measured at fair value through profit or loss shall be recognised and disclosed in other comprehensive income. The Bank is currently assessing the impact that IFRS 9 could have on its financial statements.

IFRS 11 Joint Arrangements (hereinafter, IFRS 11), issued in May 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, improves the accounting for joint arrangements by introducing an approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. The classification of a joint arrangement will depend upon the rights and obligations of the parties to the arrangement. The standard provides that a joint arrangement may be classified as either a joint operation or a joint venture. IFRS 11 also prescribes that the proportionate consolidation method cannot be used to account for joint arrangements. IFRS 11 superseded (IAS) 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. B The Bank is currently assessing the impact that IFRS 11 could have on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities (hereinafter, IFRS 12), issued in May 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, is a new international financial reporting standard requiring disclosures about an entity's interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Bank is currently assessing the impact that IFRS 12 could have on its financial statements.

IFRS 13 Fair Value Measurement (hereinafter, IFRS 13), issued in May 2011, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, defines fair value, provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. IFRS 13 applies where another IFRS requires or allows fair value measurements or disclosures about fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The Bank is currently assessing the impact that IFRS 13 could have on its financial statements.

Amendments to IAS 1 Presentation of Financial Statements (hereinafter, IAS 1), Presentation of Other Comprehensive Income, issued in June 2011, effective for annual periods beginning on or after July 1, 2012, with early adoption permitted, requires that items presented in other comprehensive income shall be grouped based on whether they are potentially reclassifiable to profit or loss subsequently. The amendments to IAS 1 only revise the way other comprehensive income is presented and do not affect on the financial positions or amounts in the income statement.

Amendments to IAS 32 Financial Instruments: Presentation (hereinafter, IAS 32), Offsetting Financial Assets and Financial Liabilities, issued in December 2011, effective for annual periods beginning on or after January 1, 2014, with retrospective adoption permitted. The amendments clarify the meaning of 'currently has a legal enforceable right to set-off' and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Bank is currently assessing the impact that these amendments could have on its financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures, Disclosures — Offsetting Financial Assets and Financial Liabilities, issued in December 2011, effective for annual periods beginning on or after January 1, 2013, with retrospective adoption permitted, provide users of an entity's financial statements with information to help them to evaluate the effect or potential effect of offsetting on the entity's financial position, analyse and compare financial statements prepared in accordance with IFRS with those prepared in accordance with US GAAP. The Bank is currently assessing the impact that these amendments could have on its financial statements.

Amendments to IFRS 10, IFRS 11 IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance, issued in June 2012, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provide an entity with transition relief as to present adjusted comparative information in its financial statement for the immediately preceding comparative period only.

Improvements to IFRS (2009-2011), issued in May 2012, effective for annual periods beginning on or after January 1, 2013. The International Accounting Standards Board issued a collection of amendments to IFRS mainly to remedy internal con-compliance and clarify the wording:

amendments to IAS 1 Presentation of Financial Statements specify the composition of a complete set of financial statements and clarify requirements for comparative information. The Bank is currently assessing the impact that these amendments could have on its financial statements;

amendments to IAS 16 Property and equipment address classification of spare parts and servicing equipment within property and equipment. The Bank is currently assessing the impact that these amendments could have on its financial statements;

amendments to IAS 32 Financial Instruments: Presentation clarify tax effect of distributions to holders of equity instruments. The Bank is currently assessing the impact that these amendments could have on its financial statements;

amendments to IAS 34 Interim Financial Reporting address information to be disclosed for reportable segments. The Bank is currently assessing the impact that these amendments could have on its financial statements;

amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards address repeated application of IFRS 1 and borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRS. The Bank is currently assessing the impact that these amendments could have on its financial statements.

The Bank is currently assessing the impact that these changes could have on its financial statements.

The Bank believes that these standards and interpretations will not have a significant impact on its financial statements at their first-time adoption.

Financial statements require estimates and assumptions that influence volume of assets and liabilities to be recognised, disclosures to contingent assets and liabilities at the date of financial statements, and also income and expense during the reporting period.

Estimates made by the Bank's direction during the adoption of the accounting policies that have a significant impact on amounts recognised in the financial statements and that are most significant for the financial statements are disclosed in notes.

#### 4 Accounting principles

##### 4.1 Key Valuation Techniques

When recognizing financial instruments, the Banks applies the following valuation techniques:

- at fair value,
- at amortised cost, or
- at cost.

**Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial instruments are regarded as quoted in an active market if their quoted prices are readily and regularly available from an exchange through information analysis systems or from other information sources and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value of quoted financial instruments is based on:

- quoted market prices for, as a rule, financial instruments trading through the organizers of the trading;
- the asking price for financial assets and the bid price for financial liabilities and the estimated fair value based on the information and analytical systems (such as Reuters and Bloomberg), market dealers and other institutions.

If the market for a financial instrument is not active, the following information can be used for fair value measurement:

- recent quoted market price (asking (bid) price) from independent sources if no significant changes occurred in the economic situation to the reporting date;
- actual price of the transaction made by the Bank in the common course of business if no significant changes occurred from the transaction date to the reporting date.

In the event of significant changes, the most recent quoted price (transactions price) shall be adjusted to the change in the quoted price (transaction price) for similar financial instruments. The recent quoted price (transaction price) of debt securities can be adjusted with account on the circulation period of the debt security.

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(in thousands of Russian Rubles, unless otherwise stated)

Fair value measurement is based on a going concern principle of an entity that has neither the intention nor the need to liquidate or curtail materially the scale of its operations or perform transaction on unfavorable conditions. Thus, the fair value is not equal to the amount that the Bank receives at an involuntary transaction, liquidation procedure or at going-out-of-business sell.

The fair value of financial instruments when quoted market prices from external resources are not available is measured by such techniques as discounted cash flow and financial analysis of investment objects. Any valuation technique widely applied by market participants and evidencing reliability of measurement and pricing resulted from actual market transactions may be applied for measuring the price of financial instruments.

A valuation technique may be chosen for any individual measurement of fair value; and if not justified otherwise techniques based on the quoted market prices and bid and asking prices are applied. The fair value of financial instruments is measured depending on various factors, circumstances and requires professional judgments.

The Bank classifies information used to measure the fair value of a financial instrument depending on the materiality of input data used for valuation as follows:

- current prices (quotes) in an active market of financial instruments that are equivalent to the financial instrument being evaluated (Level 1);
- in the absence of information on current prices (quotes), the price of the latest transaction made in an active market, if no significant changes in economic conditions occurred from the moment of the transaction until the end of the reporting period, and current prices (quotes) for equivalent financial instruments if the conditions have changed since the time of the transaction, as well as information based on observable market data (Level 2);
- prices calculated using valuation methods whose input data are not based on observable market data (Level 3).

The amortised cost of a financial asset or a financial liability is the amount at which the financial asset or financial liability is measured at initial recognition less any paid or received cash, adjusted to cumulative amortization of any difference between the initial amount and the maturity amount and to recognised impairment. Amortization of the stated difference is made using the effective interest method. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium are not presented separately and are included in the carrying amount of related assets and liabilities.

For variable rate financial assets and financial liabilities, cash flows and effective interest rate are revalued at the establishment date of new coupon (interest) rate. The effective interest rate is revalued on the base of the current carrying amount and estimated future payments. The current amortised cost of the financial instrument is not changed; the further measurement of the amortised cost is based on the new effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant useful life of the financial asset or financial liability.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, if applicable, a shorter period to the net carrying amount of the financial asset or the financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment) but does not consider future credit losses.

This calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When issued loans and other debt instruments become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

As expected, cash flows and estimated life of a group of similar financial instruments can be reliably measured. However, in rare circumstances when cash flows and expected life of a financial instrument cannot be measured, the Bank shall use contractual cash flows within the entire contractual term of the financial instrument.

**Cost** is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition including transactions cost. Cost method applies only to investments in debt instruments the market for which is not active and whose fair value cannot be reliably measured and to related derivatives the market for which is not active and which are settled through such unquoted debt instruments. Transaction costs are incremental costs directly attributable to acquisition, issue or disposal of a financial instrument. They include fee and commission paid to agents, consultants, brokers, dealers, levies paid to supervisory authorities and stock exchanges, and property transfer taxes and levies. Transaction costs exclude bonuses and discounts on debt liabilities, finance costs, internal administrative and storage expenses.

#### 4.2 Initial Recognition of Financial Instruments

When the Bank recognizes a financial asset or financial liability initially, it shall measure them at its fair value plus, in the case of a financial asset or financial 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 financial liability. Profit or loss on initial recognition of a financial asset or a financial liability is only recorded if there is a difference between the fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Under usual payment conditions, purchase and sale of financial assets are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset, or at the payment date, i.e. at the date when a financial asset is delivered to or by the Bank. The Bank consistently applies the method selected to all sales and purchases of financial assets designated to the same category of financial assets. For this purpose, there are two separate categories: financial assets held for sale and financial assets at fair value through profit or loss.

Under transaction date method:

- a financial asset to be received and commitment to pay for it are recognised at the transaction date;
- a financial asset to be sold, and any profit or loss on its disposal, and receivables from customer to be repaid are derecognised at the

Under payment date method:

- an asset is recognised when the Bank receives it;
- an asset is derecognised and profit or loss on its disposal is recognised when the Bank delivers it.

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Under payment date method, the Bank recognizes any change in the fair value of a financial asset to be delivered between the transaction date and the payment date as it recognizes a change in the value of the asset purchased, i.e. the change in value of assets measured at cost or amortised cost is not recognised; it is charged against profit or loss with regard to assets designated as financial assets at fair value through profit or loss and is recognised among other components of statement of changes in equity applicable to assets designated as available for sale.

Under payment date method, transactions are classified as those with derivative financial instrument until payments are made.

#### 4.3 Impairment of Financial Assets

In order to reliably disclose the risk exposures, the Bank makes provisions for investments in all categories of financial assets, except for financial assets at fair value through profit or loss.

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence for the Bank that a financial asset is impaired or not (whether or not there is a loss event) is as follows:

- payment has been delayed and the delay in payment cannot be related to failure of the payment system;
- the borrower or issuer faces significant financial difficulty that is evidenced by the financial statements of the borrower or issuer received by the Bank;
- it becoming probable that the borrower or the issuer will enter bankruptcy;
- due to adverse changes in the payment status of borrowers or issuers caused by changes in national or local economic conditions that have an impact on the borrower or the issuer;
- the value of the security has considerably decreased due to unfavorable market conditions;
- the lender, for economic or legal reasons, granting to the borrower a concession that the lender would not otherwise consider;
- the assets have been given to the borrower in order to settle a liability of an earlier given asset;
- disappearance of an active market for that financial asset because the issuer's financial difficulties (not because the asset is not traded in a market);
- information on any existent breaches of contracts for similar financial assets by the issuer or the borrower.

Impairment losses in financial assets carried at amortised cost are recognised in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the financial asset.

The Bank does not recognize impairment losses at initial recognition of financial assets.

If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows within a group of financial assets to be collectively assessed for impairment are estimated on the base of the contractual cash flows over the remaining life of the asset and on the base of the historical loss experience of the Bank which will appear as a result of loss events and on the possibility to recover the past-due debts. The historical loss experience is adjusted on the basis of relevant observable data that reflect current economic conditions that have not affected the prior periods or to remove the past effects unobservable in the current period.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which excludes future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the discounted value of expected cash flows of a collateralized financial asset includes cash flows that may arise upon the sale of the collateral, less the sale cost, regardless of the degree of probability of such sale.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss has been recognised (such as improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision account and recorded within profit or loss.

After a loan has been adjusted to the repayment amount as a result of impairment, the interest income is reflected on the basis of the interest rate that was used for discounting future cash flows in order to measure impairment loss.

Uncollectible financial assets are written off against the related impairment loss provision in the statement of financial position after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

When writing-off unrecoverable debts and related interests, the Bank takes the necessary and appropriate steps to collect this amount that arise from law, business customs or a contract.

Unrecoverable debts and related interests are written off by means of the provision for potential impairment losses in accordance with the resolution of the Bank's competent authority on the basis of documents confirming the failure of counterparty to perform its obligations at least within one year. Where the debt exceeds 1% of the Bank's equity, writing-off of this debt shall be confirmed by reports of competent government authorities (judicial reports, reports of the Federal Service of Court Bailiffs and their equivalents).

When in case of review of conditions for impaired financial assets reviewed conditions differ markedly from the previous those, a new asset is initially recognised at fair value.

Impairment losses on available-for-sale financial assets are recognised in profit or loss when incurred due to one or more events ("loss events") after the initial recognition of the available-for-sale financial assets.

A considerable or prolonged decrease in fair value of an equity security designated as available for sale below its acquisition cost indicates its impairment. In case of impairment indication, the cumulative loss defined as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss is transferred from statement of changes in equity to profit or loss. Impairment losses on equity instruments are not reversed through profit and loss accounts; increase in the fair value after impairment is recognised directly in statement of changes in equity.

In case of debt instruments designated as available for sale, impairment is assessed on the same criteria ("loss events") as for financial assets carried at amortised cost. The loss amount to be reclassified into profit or loss is the difference between the purchase price of the asset (less principle payments and amortization of assets evaluated by effective interest method) and the current fair value less the impairment loss related to the asset that have been recognised in profit or loss. Interest earned on impaired assets are based on the amortised costs including impairment loss recognised using the interest rate applied for discounting future cash flows for purposes of impairment loss assessment. Interest income is recognised against "Interest income" of the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit and loss accounts of the current reporting period.

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#### 4.4 Derecognition of Financial Assets

The Bank derecognizes financial assets only when:

- the rights to receive cash flows from the asset have expired; or
- the Bank transfers the financial asset and the transfer qualifies for derecognition.

The Bank transfers a financial asset only if:

- the Bank transfers the contractual rights to receive the cash flows from the financial asset; or
- the Bank retains the contractual rights to receive the cash flows from the financial asset, but assumes a contractual obligation to pay the cash flows to one or more third parties, and when the certain other conditions are met.

Upon transfer of a financial asset, the Bank evaluates the degree to which it retains risks and benefits associated with owning this financial asset. Where the Bank:

- transfers all the significant risks and benefits associated with owning a financial asset, the financial asset is derecognised. Rights or obligations created or retained in the transfer are recognised separately as assets or liabilities;
- retains substantially risks and benefits associated with owning a financial asset, recognition of this financial asset is continued;
- neither retains nor transfers substantially all the risks and benefits associated with owning a financial asset, it determines whether the control over the financial asset is retained. If the control is not retained, the Bank derecognizes the transferred financial asset. Rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. When control is retained, the Bank continues to recognize the transferred financial asset to the extent of participant in it.

When an asset is redesignated with a considerable change in the terms, the redesignated asset is derecognised and the asset received is recognised in the balance sheet as an addition.

When an asset is redesignated without considerable changes in the terms, the received asset is carried at the carrying amount of the redesignated asset.

#### 4.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, accounts balances in current accounts of the Bank, and cash equivalents in the forms of short-term and highly liquid investments easily convertible into a certain amount of cash and exposed to insignificant risk of value fluctuation. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts in respect of which there are any limitations on their use shall be excluded from cash and cash equivalents.

#### 4.6 Due from the Bank of Russia (Central Banks)

Due from the Bank of Russia (central banks) are funds deposited with the Bank of Russia which are not intended for financing current transactions of the Bank. Consequently, they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

#### 4.7 Financial Assets at Fair Value through Profit and Loss

A financial asset is designated as a financial asset at fair value through profit or loss if it is acquired with a view to subsequent disposal. Derivatives with positive fair value are also classified as financial assets at fair value through profit or loss, except for derivatives that are designated as effective hedging instruments.

Initially and consequently financial assets at fair value through profit or loss are recorded at fair value that is based on quoted market prices or on the basis of different valuation techniques using an assumption on profitability to realize these financial assets in the future. Depending on circumstances, different valuation techniques can be applied. Available published quoted market prices are the best basis for the fair value of an instrument.

When quoted market prices are not available, techniques related to the information on recent market transactions between knowledgeable willing and independent parties or to current fair value of similar instruments or to analysis of the discounted cash flow, or model for option price measurement are used. When there is a reliable valuation technique widely used by the market participants to determine the price of instruments that has proved reliability of estimated prices, it is advisable to apply such a technique.

Realized and unrealized income and expenses of transactions with financial assets at fair value through profit and loss are recorded in the income statement immediately at the period when they occur as income less transaction costs related to financial assets at fair value through profit or loss.

Interest income from financial assets at fair value through profit is recorded in the income statement as interest income from financial assets at fair value through profit and loss. Dividends received are recorded against dividend revenue in the income statement within operating income.

Purchase and sale of financial assets at fair value through profit or loss that shall be delivered within the time limit established got this market by law or convention (regular way purchase and sale), are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset.

Otherwise such transactions are recorded within derivatives until payments are made.

The Bank classifies financial assets at fair value through profit and loss in the appropriate category at the acquisition date. Financial assets classified as financial assets at fair value through profit and loss are not to be reclassified.

#### 4.8 Due from Other Banks

Due from other banks includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market provided by the Bank to bank-contractors (including the Bank of Russia), other than:

- a) "overnight" placements;
- b) those that the entity intends to sell immediately or in the near term, which shall be classified as held for sale, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- c) those that the Bank upon initial recognition designates as available for sale;
- d) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

The Bank decided to reclassify financial assets qualifying credits and receivables from assets at fair value through profit or loss and assets available for sale to due from other banks.

The funds placed at other banks are recognised when cash is given (placed). Due from other banks are carried at fair value at initial recognition. Financial assets reclassified from assets at fair value through profit or loss or from assets available for sale must be recognised at fair value on the date of reclassification. Profit or loss already recognised in profit and loss at the time of financial assets reclassification from assets at fair value through profit or loss are unrecoverable. Subsequently, extended loans and placed deposits are recorded at amortised cost less provisions for impairment. The amortised cost is based on the fair value of a loan or deposit calculated using existing interest rates applicable to similar loans and deposits, effective on the date a loan was extended or deposit was placed.

The difference between the fair value and the nominal value of a loan (deposit) occurring when loans are extended (deposits are placed) at interest rates above or below existing rates is recorded in the comprehensive income statement when such loan is extended (deposit is placed) against income (expenses) on assets invested at rates above (below) the market rates. Subsequently, the carrying amount of such loans (deposits) is adjusted to amortization of these gains (loss) and the interest income is recognised in the income statement, using the effective interest method.

The procedure for determining impairment of financial assets is set out in 4.3 Impairment of Financial Assets.

#### 4.9 Loans and Receivables

This category includes 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, which shall be classified as held for trading, and those that the Bank on initial recognition designates as at fair value through profit or loss;
- those that the Bank upon the initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Initial recognition of loans and receivables is carried at fair value plus transaction costs (i.e. the fair value of the consideration paid or received). If an active market exists, the fair value of loans and receivables is measured as current cost of all future proceedings (payments) discounted by the prevailing market rate for a similar instrument. This market rate broken down by currencies, terms and borrowers is published at the website of the Bank of Russia. If an active market does not exist, there can be applied one of valuation techniques to measure the fair value of loans and receivables.

Subsequent measurement of loans and receivables is carried at amortised cost using the effective interest method.

Loans and receivables are recorded when cash is provided to borrowers (individuals or credit institutions). Interest-bearing loans other than market interest rates are measured at payment date at fair value that is the principle and future interest payments discounted by interest market rates for similar loans.

The difference between the fair value and the nominal value of a loan is recorded in the income statement as income from assets at rates higher than the market rates or as an expense from assets at rates lower than the market rates. Subsequently, the carrying amount of these loans will be adjusted by amortization of income (expense) from the loan and the related income is recorded in the income statement using the effective interest method.

The Bank avoids impairment losses on initial recognition of loans and receivables. Risks associated with providing loans to borrowers that initially bear a heightened risk are recognised at higher loan interest rate (risk premium) which is calculated as average percent of loan indebtedness behind by 30 days and more under loans classified to 3 and higher risk groups that is determined on the basis of the Bank's statistical data for the last reporting year, and also market interest rates for similar loans published on the website of the Bank of Russia.

Loans and receivables are impaired 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 asset and losses have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of loss is measured as the difference between the carrying value of the asset and estimated future cash flows discounted by original effective interest rate for this asset.

The carrying amount of loans and receivables is reduced by means of the provision for impairment of loan portfolio. After assessment of objective evidence of impairment on an individual basis, in case of absence of such evidence, loans are included in a group of financial assets with similar credit risk to assess any evidence of their impairment on an aggregate basis.

As at December 31, 2012, the Bank assesses evidence of impairment both on an individual and aggregate basis.

The Bank developed and approved a credit risk assessment procedure which is used by the Bank to perform an analysis for impairment of receivables and assessment of cash flows. The amount of loss on impairment of loans classified in the first risk group is determined by calculation of general economic risk for banking sector on the basis of statistical data published in the online edition of banking sector digest of the Russian Federation on the website of the Bank of Russia.

Unrecoverable loans are written off by means of the provision for impairment. Writing off can be realized only after all procedures are completed and the loss amount is measured. Recovery of earlier written off amounts is credited to changes in provisions for impairment (change in impairment amounts) of the loan portfolio in the income statement. Decrease of earlier created provision for impairment of the loan portfolio is credited to change in provision for impairment (change in impairment amounts) of loan portfolio in the income statement.

#### 4.10 Available-for-sale financial assets

This category includes non-derivative financial assets designated as available-for-sale or not classified as loans and receivables, held-to-maturity investments, and financial assets at fair value through profit and loss. The Bank classifies financial assets at the acquisition date.

Available-for-sale financial assets are initially carried at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The fair value is usually represented by its acquisition cost. Subsequently, available-for-sale financial assets are measured at fair value based on the quoted market price.

Available-for-sale investments that do not have a quoted market price from independent sources are measured at fair value of recent sale of similar equity securities by independent third parties, based on analysis of other information such as discounted cash flows and other financial information on the investment object and other valuation techniques.

Depending on circumstances, there can be applied different valuation techniques. Investments in equity that do not have quoted market prices are recognised at cost.

Unrealized gains and losses resulting from change in fair value of available-for-sale financial assets are recognised in the statement of changes in equity.

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On disposal of available-for-sale financial assets, related accumulated unrealised gains and losses are included in the income statement as income less expenses from transactions with available-for-sale financial assets. Impairment and recovery of earlier impaired value of available-for-sale financial assets are recorded in the income statement.

In the event the carrying amount of available-for-sale financial assets exceeds their estimated recoverable cost, the carrying amount of the assets is reduced. The recoverable cost is the current cost of estimated future cash flows discounted by current market price of similar financial asset.

Interest income from available-for-sale financial assets is recorded in the income statement as interest income from available-for-sale financial assets. Dividends received are recorded in the income statement as income from dividends within income from transactions with securities.

Under usual payment conditions, purchase and sale of available-for-sale financial assets are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset. (Alternatively, the Bank may record them at the payment date).

All other purchase and sale are recorded as forward transactions until payments are made.

#### 4.11 Held-to-Maturity Financial Assets

This category includes financial assets with fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank classifies financial assets at the acquisition date. The Bank assesses its intention and ability to hold the financial assets designated as held-to-maturity to maturity at the end of every reporting period but not only at the initial recognition date of such financial assets.

Held-to-maturity financial assets are initially carried at fair value plus transaction costs and subsequently at amortised cost using the effective interest method less provision for impairment which is the difference between the carrying amount and the current cost of estimated future cash flows discounted by original effective interest method.

Interest income from held-to-maturity financial assets is recorded in the income statement as interest income from held-to-maturity financial assets.

Under usual payment conditions, purchase and sale of held-to-maturity financial assets are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset. All other purchase and sale are recorded as forward transactions until payments are made.

#### 4.12 Property and equipment

Property and equipment are recognised either at acquisition cost restated to the equivalent purchasing power of the currency of the Russian Federation as on January 1, 2003 for assets acquired prior to January 1, 2003 or in revalued amount, as noted below, less accumulated depreciation and provision for impairment, where required.

In the event the carrying amount of the asset exceeds its estimated recoverable cost, the carrying amount of the asset is reduced to its recoverable cost, and the difference is recorded in the income statement. The estimated recoverable cost is the highest of fair value of the asset less realization cost and value of its usage.

The Bank assesses any indication of impairment of property and equipment at the end of every reporting period. In the event such indication exists, the Bank measures recoverable cost as the higher of net realisable value of the property and equipment and value of their usage.

In the event the carrying amount of property and equipment exceeds their estimated recoverable cost, the carrying amount of property and equipment is reduced to their recoverable cost, and the difference is recorded in the income statement as impairment losses of property and equipment unless they are previously revaluated. In this case, revaluation surplus is excluded, and any additional loss is recognised in profit or loss. Impairment loss recognised with respect to property and equipment in prior years is reversed when there are any changes in estimates used to measure recoverable cost of property and equipment.

Gains and losses arising from disposal of property and equipments are measured at carrying amount and are accounted for at calculating the income (loss) amount. Costs of repairs and maintenance are recorded in the income statement when incurred.

#### 4.13 Depreciation

Depreciation is charged on a straight-line basis over the useful life of assets using the following depreciation rates:

Group of property and equipment	Depreciation rates
Office equipment	4.9%-48%
Furniture and other implements	4.9%-19.7%
Motor vehicles	32.4%

The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the depreciation approach to the asset, the method shall be changed to reflect the changed approach. Therefore, the effect of the change will be accounted for as a change in accounting estimate in accordance with IAS 8 IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Depreciation is recognised even if the fair value of an asset exceeds its carrying amount under condition its residual value does not exceed its carrying amount. Repair and maintenance of an asset do not exclude the need to depreciate it.

Depreciation is recognised when an asset is available for use i.e. when its location and condition enable the Bank to use it in accordance with its intentions. Depreciation is derecognised at the date when the asset is derecognised.

#### 4.14 Operating leases

Where the Bank is a lessee in an operating lease, the total lease payments are recorded in the income statement on a straight-line basis over the period of the lease. Where an operating lease ceases before the end of the lease period, any payment due to the lessor as compensation is reported as expense in the period in which the operating lease ceases.

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#### 4.15 Borrowings

Borrowings include customer accounts, deposits and balances from banks, and other borrowed funds.

Borrowings are initially recognised at fair value that is the received amount less transaction costs incurred. Subsequently, borrowings are reported at amortised cost any difference between net proceeds and the redemption value is recorded in the income statement over the period of borrowings using the effective interest method. (Hedge accounting applies to deposits bearing risks that are hedged through derivatives).

Borrowings with interest rates other than market are measured at acquisition date at fair value that includes the principle and the future interest payments discounted by market interest rates for similar amounts. The difference between the fair and nominal value of these amounts is recorded in the income statement as income from borrowings at rates lower than the market rates. Subsequently the carrying amount of borrowings is adjusted by amortization of initial income (expense) from borrowings and the correspondent expenses are recorded as interest expenses in the income statement using the effective yield method.

#### 4.16 Financial Liabilities at Fair Value through Profit and Loss

Financial liabilities at fair value through profit or loss include derivatives with negative their fair value that are not carried as hedging instruments and the seller's obligation to deliver securities at a short sale (obligations arising on negotiation of a sale of financial instruments that are not carried at the time of the negotiation).

#### 4.17 Debt Securities Issued

Debt securities issued include notes, deposit certificates and bonds issued by the Bank. Debt security issued are initially recognised at fair value that is the received amount (fair value of the property received) less transaction costs. Subsequently, debt securities issued are carried at amortised cost and any difference between their initial amount and maturity amount is recorded in the income statement over the circulation period of the debt security using the effective interest method.

At issuance of convertible bonds, the fair value of the option on conversion is measured and separately recognised in the statement of cash flows. The outstanding liability on further payments to holders of bonds to repay the principle and interests is calculated on the basis of the market rate for equivalent inconvertible bonds and recognised at amortised cost using the effective interest method within other borrowings until this liability is settled at conversion or the term to maturity of the bonds is expired.

In the event the Bank repurchases own debt securities, these securities are removed from the balance sheet and the difference between the carrying amount of the liability and the amount paid is included in income (expense) from (early) settlement of the liability.

#### 4.18 Trade and Other Payables

The Bank recognizes accounts payable upon fulfilling the liabilities by a contractor and carries them at amortised cost.

#### 4.19 Credit Related Commitments

The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

Financial guarantees and credit commitments are recognised initially at fair value confirmed, as a rule, by the amount of received fees and commissions. This amount is depreciated by the straight-line method over the commitment term, other than credit commitment, if it is probable that the Bank will enter into a particular loan agreement and will not plan to use the loan within a short period after it is issued; such fee and commission income related to credit commitments are accounted for as deferred income and included in the loan carrying amount on initial recognition. At the end of every reporting period commitments are measured at the amortised amount on initial recognition or at the best estimation of expenses to settle commitments as at the end of the reporting period, whichever is higher.

The Bank makes provisions for credit related commitments if losses arising from such commitments are probable.

#### 4.20 Share Capital and Share Premium

Share capital is carried at historical cost. For contributions in cash prior to 1 January 2003, inflation is taken into account; non-cash contributions are carried at fair value at the contribution date.

Share premium represents contributions to the share capital in excess of par value of issued shares.

#### 4.21 Treasury Stock

When the Bank or its subsidiaries redeem the Bank's shares, the equity is decreased by the amount paid, including all additional transaction costs less taxes until these shares are sold or the equity is decreased by their par value. When such shares are thereafter sold the amount received is included with the equity.

#### 4.22 Dividends

Dividends declared after the date of the balance sheet are reported in notes to events after the balance sheet date. Dividends are paid and other profit is distributed on the basis of net profit for the current year as specified in the accounting reports prepared in accordance with legislation of the Russian Federation.

If the Bank declares dividends to holders of equity instruments after the end of the reporting period they are not recognised as liabilities at the end of the reporting period.

Dividends are reported in the statement as a distribution of profit when they are approved by general meeting of shareholders (general meeting of participants).

#### 4.23 Income and Expense Recognition

Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method.

Fees attributable to the effective interest rate include origination fees received or paid by the Bank relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commissions for the obligation to provide a loan at market prices received by the Bank form an integral part of the effective interest rate if it is probable that the Bank will enter into a particular loan agreement and will not plan to use the loan within a short period after it is issued. The Bank does not classify commitments to originate loans as financial liabilities at fair value through profit or loss.

When issued loans and other debt instruments become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the interest rate that was used to discount future cash flows for the purpose of measuring the recoverable amount.

Other fee and commission income and other income and expenses are recorded, as a rule, on an accrual basis during the period of provision of a service by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Fee and commission income from third party transactions, e.g. from acquisition of loans, shares and other securities or purchase or sale of entities received in such transactions, is recorded upon completion of the transaction. Fee and commission income from investing portfolio management and other management and consulting services are recorded under provisions of relevant services contracts, as a rule, on a proportion basis of the time spent. Fee and commission income from services related to management of assets (trusting management) is recorded under the provisions of the contract at the date when the Bank receives the right to receive this income and the income amount can be measured. Income from long-term services is recognised every reporting period on proportion basis of the services provided. The Bank applies the same method to services related to property management, financial planning and to custody services provided on a constant basis in the long run.

#### 4.24 Income Tax

The financial statements records tax expenses in accordance with legislation of the Russian Federation.

Income tax (recovery) in the income statement for the year includes current taxes and changes in deferred taxes. Current tax is calculated on the basis of the expected taxable profit for the year with income tax rates applicable on the date of the balance sheet. Taxes, other than income tax, are recorded within operating expenses.

Deferred income tax is calculated on the basis of balance assets and liabilities method in relation to all temporary differences between the tax base of assets and liabilities and their carrying amount in accordance with the financial statements. Deferred tax assets and liabilities are measured at tax rates enacted in this period or substantively enacted at the end of the reporting period which are expected to apply to the period when the assets are realized or the liabilities are settled.

Deferred tax assets are recorded only to the extent that it is probable that future taxable income is available against which the temporary differences can be utilised. Deferred tax assets and liabilities are only set off within the Bank.

Deferred tax arising from revaluation of available-for-sale financial assets at fair value, with revaluation results credited or charged to equity, is also recognised directly in equity. When these financial assets are disposed of, the respective amounts of deferred income tax are reflected in the statement of income.

Deferred tax assets and liabilities are recognised for temporary differences associated with investments in subsidiaries and associates to the extent that the Bank is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future.

#### 4.25 Foreign Currency Translation

Items in the Bank's financial statements are measured in the currency of the primary economic environment in which the Bank operates (functional currency).

The financial statements are presented in the national currency of the Russian Federation that is the functional currency of the Bank and the presentation currency of these financial statements.

Transactions in foreign currency are stated at the official exchange rate of the Bank of Russia at the transaction date. Foreign exchange gains and losses resulting from the settlement of the transactions in foreign currency are included in the income statement at the official rate of the Bank of Russia at the transaction date.

Monetary assets and liabilities are translated into the currency of the Russian Federation at the official exchange rate of the Bank of Russia at the date of the balance sheet.

Foreign exchange gains and losses resulting from transactions with debt securities and other monetary financial assets at fair value are included in income and expenses from revaluation of foreign currency.

Gains and losses related to non-monetary items such as equity securities classified as financial assets at fair value through profit or loss are recorded as a part of income and expenses from revaluation at fair value.

Gains and losses related to non-monetary available-for-sale financial assets are charged against equity through the fund of revaluation of available-for-sale financial assets.

As on December 31, 2012, the official rate of the Bank of Russia applied for revaluation of foreign currency balances amounted to:

USD	30.3727
EUR	40.2286
10 CNY	48.7406

Presently the currency of the Russian Federation is not easily convertible in most countries outside the Russian Federation.

#### 4.26 Offsetting

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

#### 4.27 Estimated Liabilities

Estimated liabilities are recognised when the Bank has obligations (legal or due to business practice) arisen prior the end of the reporting period. To settle these liabilities, outflow of economic resources is probable and the amount of the liabilities can be reasonably measured.

#### 4.28 Staff Costs and Related Contributions

Expenses related to salary, wages, bonuses, contributions to state non-budgetary funds are made when works are performed by the Bank's employees; expenses related to temporary disability, maternity leave and other incentives are made when they occur.

The Bank takes the responsibility for payments related to leaves that the Bank's employees have not used. Such liabilities are recorded in the statement of financial position within Other Liabilities and simultaneously in the income statement as leaves falling on the reporting period and within undistributed profit as leaves falling on the previous period.

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#### 4.29 Related Party Transactions

The Bank conducts related party transactions. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

In considering related party relationship, the Bank's attention is directed to the economic substance of the relationship, not merely the legal form.

### 5 Interest income and expense

Interest income and expense are as follows.

	December 31, 2012	December 31, 2011
<i>Interest income</i>		
Due from financial institutions	229 925	83 855
Loans to customers	118 377	25 410
Held-to-maturity financial assets	42 311	66 544
<b>Total interest income from assets not at fair value through profit or loss</b>	<b>390 613</b>	<b>175 809</b>
<b>Total interest income</b>	<b>390 613</b>	<b>175 809</b>
<i>Interest expense</i>		
Due to financial institutions	(125 761)	(18 480)
Accounts and deposits of individuals and legal entities	(10 693)	(4 985)
Factoring transactions	(32)	(5)
<b>Total interest expense on liabilities not at fair value through profit or loss</b>	<b>(136 486)</b>	<b>(23 470)</b>
<b>Total interest expense</b>	<b>(136 486)</b>	<b>(23 470)</b>
<b>Net interest income</b>	<b>254 127</b>	<b>152 339</b>

As at December 31, 2012, the Bank did not have loans without interest accrual (2011: no loans without interest accrual).

### 6 Provisions for impairment and other provisions

Provisions for impairment recognised in profit or losses include contributions made in the current year to create provisions for impairment in accordance with International Accounting Standards.

The change in provisions for impairment for 2012 is as follows:

	Balances as at December 31, 2011	Write-offs from provisions	Income from recovery of provisions for impairment less expense on creation of provisions for impairment	Balances as at December 31, 2012
<i>Change in provision for impairment of interest bearing assets</i>				
Loans to customers	34 346		(14 247)	20 099
<b>Total change in provision for impairment of interest bearing assets</b>	<b>34 346</b>	<b>-</b>	<b>(14 247)</b>	<b>20 099</b>
<i>Change in provision for impairment of other assets and other provisions</i>				
Change in other provisions and change in estimated liabilities	10 788	(89)	(10 685)	14
Change in provision for impairment of receivables and other assets	10 788	(89)	(10 685)	14
<b>Total change in provision for impairment of other assets and other provisions</b>	<b>10 788</b>	<b>(89)</b>	<b>(10 685)</b>	<b>14</b>
<b>Total change in provisions for impairment</b>	<b>45 134</b>	<b>(89)</b>	<b>(24 932)</b>	<b>20 113</b>

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The change in provisions for impairment for 2011 is as follows:

	Balances as at December 31, 2010	Write-offs from provisions	Income from recovery of provisions for impairment less expense on creation of provisions for impairment	Balances as at December 31, 2011
<i>Change in provision for impairment of interest bearing assets</i>				
Loans to customers	-		34 346	34 346
<b>Total change in provision for impairment of interest bearing assets</b>	-	-	<b>34 346</b>	<b>34 346</b>
<i>Change in provision for impairment of other assets and other provisions</i>				
Change in other provisions and change in estimated liabilities	10 866	-	(78)	10 788
Change in provision for impairment of receivables and other assets	10 866		(78)	10 788
<b>Total change in provision for impairment of other assets and other provisions</b>	<b>10 866</b>	-	<b>(78)</b>	<b>10 788</b>
<b>Total change in provisions for impairment</b>	<b>10 866</b>	-	<b>34 268</b>	<b>45 134</b>

#### 7 Commission income and expenses

Commission income and expenses are as follows:

	December 31, 2012	December 31, 2011
<i>Commission income</i>		
Cash transactions	9 767	5 124
Guarantees issued	215	116
Other	2 853	2 155
<b>Total commission income</b>	<b>12 835</b>	<b>7 395</b>
<i>Commission expense</i>		
Settlement and cash services, maintenance of accounts	(806)	(447)
Guarantees received	(216)	-
Brokerage and similar agreements	(137)	(178)
Transactions with currency valuables	(459)	(98)
Other	(605)	(176)
<b>Total commission expense</b>	<b>(2 223)</b>	<b>(899)</b>
<b>Total commission income and expense</b>	<b>10 612</b>	<b>6 496</b>

#### 8 Other operating income

Other operating income is as follows:

	December 31, 2012	December 31, 2011
<i>Other operating income</i>		
Fines and other penalties	2 390	-
Income from rental of property and other income from property and equipment	-	5
Income from writing-off unclaimed accounts payable	56	-
Other	2	5
<b>Total other operating income</b>	<b>2 448</b>	<b>10</b>

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## 9 Administrative and other operating expenses

Administrative and other operating expenses are as follows:

	December 31, 2012	December 31, 2011
<i>Operating expenses</i>		
Staff costs	81 394	56 411
Depreciation	1 647	2 695
Charge for the right to use intellectual property	462	3 530
Communications services	5 404	4 482
Expenses associated with property and equipment (maintenance, repair, sale)	4 358	5 573
Professional services	618	460
Advertising and marketing	503	100
Representation costs	1 248	617
Business travel expenses	2 960	2 472
Operating lease expense	20 628	20 299
Security costs	2 014	2 014
Taxes and duties other than income tax	7 537	6 474
Inventories writing-off	3 038	1 484
Insurance expenses	1 959	1 594
Other operating expenses	6 583	4 126
<b>Total administrative and other operating expenses</b>	<b>140 353</b>	<b>112 331</b>

Staff costs include:

	December 31, 2012	December 31, 2011
<i>Staff costs</i>		
Salaries and bonuses	69 694	50 467
Contributions to state funds	10 923	5 555
Costs of training	599	217
Other staff benefits	178	172
<b>Total staff costs</b>	<b>81 394</b>	<b>56 411</b>

Other operating expense include labour costs, operating lease expenses, expenses for taxes and duties, costs of communication services, costs of maintenance, repair and sale of property and equipment and other operating expenses (2011: the break-down of expenses is similar to those in 2012).

Average monthly salary per employee amounts to RUB 114 thousand in 2012 (2011: RUB 105 thousand).

## 10 Income tax

Income tax comprises the following:

	December 31, 2012	December 31, 2011
Current income tax (expense) / recovery	(44 632)	(3 516)
Deferred taxes	4 363	142
<b>Income tax (expenses) / recovery</b>	<b>(40 269)</b>	<b>(3 374)</b>

The current income tax rate applicable to the most part of the Bank's profit for 2012 is 20% (2011: 20%). In August 2008, to substitute the previous income tax rate of 24%, a new income tax rate of 20% was introduced which is effective since January 1, 2009.

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Estimated tax expenses and actual tax expenses are compared below.

	December 31, 2012	December 31, 2011
Profit / (Loss) before taxes	213 422	31 014
Estimated tax deductions (recovery) at the rate of 20%	(42 684)	(6 203)
other permanent difference	2 415	2 829
<b>Income tax (expenses) / recovery</b>	<b>(40 269)</b>	<b>(3 374)</b>

Differences between IFRS and tax legislation of the Russian Federation (and other countries) give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and calculation of income tax. Tax effects of movements in these temporary differences for 2012 and 2011 as presented below are recognised at the rate of 20% (2011: 20%), except for income from government (municipal) securities taxable at the rate of 15%, 9%, 0% (2011: 15%, 9%, 0%).

	December 31, 2011	Acquisition and sale	Change recognised in profit and losses	Change recognised in equity	December 31, 2012
<i>Tax effect of deductible temporary differences</i>					
Provisions for impairment of loan portfolio	-	-	4 020	-	4 020
Property and equipment: depreciation	87	-	470	-	557
Other	9	-	229	-	238
<b>Total deferred tax assets</b>	<b>96</b>	<b>-</b>	<b>4 719</b>	<b>-</b>	<b>4 815</b>
Unrecognised deferred tax assets	-	-	-	-	-
<b>Net deferred tax assets</b>	<b>96</b>	<b>-</b>	<b>4 719</b>	<b>-</b>	<b>4 815</b>
<i>Tax effect of taxable temporary differences</i>					
Property and equipment: recognition and measurement	-	-	359	-	359
Other	3	-	(3)	-	-
<b>Total deferred tax liabilities</b>	<b>3</b>	<b>-</b>	<b>356</b>	<b>-</b>	<b>359</b>
<b>Total net deferred tax assets (liabilities)</b>	<b>93</b>	<b>-</b>	<b>4 363</b>	<b>-</b>	<b>4 456</b>

  

	December 31, 2010	Acquisition and sale	Change recognised in profit and losses	Change recognised in equity	December 31, 2011
<i>Tax effect of deductible temporary differences</i>					
Property and equipment: depreciation and revaluation	-	-	87	-	87
Other	14	-	(5)	-	9
<b>Total deferred tax assets</b>	<b>14</b>	<b>-</b>	<b>82</b>	<b>-</b>	<b>96</b>
Unrecognised deferred tax assets	-	-	-	-	-
<b>Net deferred tax assets</b>	<b>14</b>	<b>-</b>	<b>82</b>	<b>-</b>	<b>96</b>
<i>Tax effect of taxable temporary differences</i>					
Property and equipment: depreciation and revaluation	63	-	(63)	-	-
Other	-	-	3	-	3
<b>Total deferred tax liabilities</b>	<b>63</b>	<b>-</b>	<b>(60)</b>	<b>-</b>	<b>3</b>
<b>Total net deferred tax assets (liabilities)</b>	<b>(49)</b>	<b>-</b>	<b>142</b>	<b>-</b>	<b>93</b>

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## 11 Earnings (Loss) per share

Basic earnings (loss) per share is calculated by dividing net profit or loss attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year less average number of ordinary shares repurchased by the Bank.

Parent entity (the Bank) does not have dilutive potential ordinary shares. Diluted earnings per share are thus equal to the basic earnings per share.

	December 31, 2012	December 31, 2011
Earnings (Loss) attributable to shareholders holding ordinary shares of the Bank	173 153	27 640
Earnings (Loss) for the year	173 153	27 640
Weighted average number of ordinary shares outstanding (in thousands)	92	40
Basic and diluted earnings (loss) per ordinary share (in RUB per share)	1 874,36	691,00
Basic and diluted earnings (loss) per preferred share (in RUB per share)	number of shares = 0	number of shares = 0

Earnings (Loss) for year attributable to shareholders holding ordinary and preferred shares are calculated as follows:

	December 31, 2012	December 31, 2011
Earnings (Loss) for the year	173 153	27 640
Retained earnings for the year	173 153	27 640
Earnings or loss for the year attributable to shareholders holding ordinary shares	173 153	27 640

Basic earnings (loss) per ordinary share (in RUB per share):

	December 31, 2012	December 31, 2011
Earnings (Loss) attributable to shareholders holding ordinary shares of the Bank	173 153	27 640
Earnings or loss for the year	173 153	27 640
Weighted average number of ordinary shares outstanding (in thousands)	92	40
Basic earnings (loss) per ordinary share (in RUB per share)	1 874,36	691,00

Diluted earnings (loss) per ordinary share (in RUB per share):

	December 31, 2012	December 31, 2011
Earnings (Loss) attributable to shareholders holding ordinary shares of the Bank	173 153	27 640
Interest expense from convertible debt liabilities (after tax)		
Earnings (Loss) used for calculation of diluted earnings per share	173 153	27 640
Weighted average number of ordinary shares outstanding (in thousands)	92	40
Plus additional shares resulting from expected conversion:		
CWeighted average number of ordinary shares for calculation of diluted earnings per share (in thousands)	92	40
Diluted earnings (loss) per ordinary share (in RUB per share)	1 874,36	691,00

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## 12 Cash and cash equivalents

	December 31, 2012	December 31, 2011
Cash	32 067	13 295
Balances on accounts with the Bank of Russia (other than mandatory reserves)	11 086	11 184
Balances on correspondent accounts and overnight deposits with resident banks	374	50
Balances on correspondent accounts and overnight deposits with non-resident banks	605 492	608 518
<b>Total cash and cash equivalents</b>	<b>649 019</b>	<b>633 047</b>

Geographical analysis of cash and cash equivalents, break-down of cash and cash equivalents by currency and maturity, and also analysis of interest rates are given in Note 25.

## 13 Due from financial institutions

Due from financial institutions include loans provided by the Bank to (deposits placed by the Bank with) counterparties, including the Bank of Russia.

	December 31, 2012	December 31, 2011
Term interbank credits and deposits	8 909 137	5 206 403
Other accounts with financial institutions	7 510	-
<b>Total due from financial institutions before provision for impairment</b>	<b>8 916 647</b>	<b>5 206 403</b>
Provision for impairment	-	-
<b>Total due from financial institutions</b>	<b>8 916 647</b>	<b>5 206 403</b>

For information on fair value of due from financial institutions refer to Note 28.

Interest rates, maturities and geographical concentration of due from financial institutions are analyzed in Note 25. Information on related party transactions is given in Note 29.

## 14 Loans and receivables

	December 31, 2012	December 31, 2011
Loans to legal entities	3 870 705	1 438 722
<b>Total loans and receivables before provision for impairment</b>	<b>3 870 705</b>	<b>1 438 722</b>
Provision for impairment	(20 099)	(34 346)
<b>Total loans and receivables</b>	<b>3 850 606</b>	<b>1 404 376</b>

During 2012 the Bank did not provide loans and receivables to customers at rates below the market rates.

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The break-down of the Bank's loans and receivables by industry is as follows:

	December 31, 2012		December 31, 2011	
	Amount (thousands of Russian Rubles)	%	Amount (thousands of Russian Rubles)	%
Trade and services	1 154 597	29,8%	698 180	48,5%
Industry	790 973	20,4%	321 961	22,4%
Oil and gas and chemical industries	968 814	25,0%	128 784	9,0%
Electric-power industry	663 060	17,1%	289 797	20,1%
Financing and investing	293 261	7,7%	-	0,0%
<b>Total loans and receivables before provision for impairment</b>	<b>3 870 705</b>	<b>100,0%</b>	<b>1 438 722</b>	<b>100,0%</b>
Provision for impairment	(20 099)		(34 346)	
<b>Total loans and receivables</b>	<b>3 850 606</b>		<b>1 404 376</b>	

Loans and receivables individually reviewed for impairment as at December 31, 2012 are as follows.

	Gross Loans	Provision for impairment	Net Loans	Impairment provision towards gross loans
<i>Loans and receivables individually reviewed for impairment</i>				
Loans to legal entities				
- pass loans	3 005 001	(1 918)	3 003 083	0,1%
<b>Total loans to legal entities</b>	<b>3 870 705</b>	<b>(20 099)</b>	<b>3 850 606</b>	<b>0,5%</b>
<b>Total loans and receivables individually reviewed for impairment</b>	<b>3 870 705</b>	<b>(20 099)</b>	<b>3 850 606</b>	

Loans and receivables individually reviewed for impairment as at December 31, 2012 are as follows.

	Gross Loans	Provision for impairment	Net Loans	Impairment provision towards gross loans
<i>Loans and receivables individually reviewed for impairment</i>				
Loans to legal entities				
- pass loans	1 438 722	(34 346)	1 404 376	2,4%
<b>Total loans to legal entities</b>	<b>1 438 722</b>	<b>(34 346)</b>	<b>1 404 376</b>	<b>2,4%</b>
<b>Total loans and receivables individually reviewed for impairment</b>	<b>1 438 722</b>	<b>(34 346)</b>	<b>1 404 376</b>	

Interest rates, maturities and geographical concentration of loans and receivables to customers are analyzed in Note 25. Information on related party transactions is given in Note 29.

For information on fair value of loans and receivables to customers refer to Note 28.

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#### 15 Held-to-maturity financial assets

	December 31, 2012	December 31, 2011
<i>Debt securities</i>		
Government debt securities	30 748	130 297
Debt securities of other banks	323 690	323 678
Corporate bonds	152 997	153 115
<b>Total debt securities before provision for impairment</b>	<b>507 435</b>	<b>607 090</b>
Provision for impairment	-	-
<b>Total held-to-maturity financial assets</b>	<b>507 435</b>	<b>607 090</b>

During at 2012 the Bank did not allocate funds in held-to-maturity financial assets at rates below market rates.

Interest rates, maturities and geographical concentration of held-to-maturity financial assets are analyzed in Note 25. Information on related party transactions is given in Note 29.

For information on fair value of held-to-maturity financial assets refer to Note 28.

#### 16 Property and equipment and intangible assets

The value of property and equipment and intangible assets in 2012 is as follows.

	Buildings	Office equipment	Motor vehicles	Investments	Lease	Intangible assets	Furniture and other implements	Total property and equipment and intangible assets
Carrying amount as at January 1	-	2 868	33	-	-	-	269	3 170
<i>Value (or estimate)</i>								
Value (or estimate) as at January 1	-	9 042	1 308	-	-	-	942	11 292
Additions	-	1 395	-	-	-	-	100	1 495
Value (or estimate) as at December 31	-	10 437	1 308	-	-	-	1 042	12 787
<i>Cumulative depreciation</i>								
Cumulative depreciation as at January 1	-	(6 174)	(1 275)	-	-	-	(673)	(8 122)
Depreciation charge	-	(1 382)	(33)	-	-	-	(232)	(1 647)
Cumulative depreciation as at December 31	-	(7 556)	(1 308)	-	-	-	(905)	(9 769)
Carrying amount as at December 31	-	2 881	-	-	-	-	137	3 018

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The value of property and equipment and intangible assets in 2011 is as follows.

	Buildings	Office equipment	Motor vehicles	Investments	Lease Intangible assets	Furniture and other implements	Total property and equipment and intangible assets
Carrying amount as at January 1	-	4 304	436	-	-	392	5 132
Value (or estimate)							-
Value (or estimate) as at January 1	-	8 478	1 308	-	-	804	10 590
Additions		595				138	733
Disposals		(31)					(31)
Revaluation							-
Value (or estimate) as at December 31	-	9 042	1 308	-	-	942	11 292
Cumulative depreciation							-
Cumulative depreciation as at January 1	-	(4 174)	(872)	-	-	(412)	(5 458)
Depreciation charge		(2 031)	(403)			(261)	(2 695)
Disposals		31					31
Cumulative depreciation as at December 31	-	(6 174)	(1 275)	-	-	(673)	(8 122)
Carrying amount as at December 31	-	2 868	33	-	-	269	3 170

#### 17 Other assets

	December 31, 2012	December 31, 2011
Prepaid expenses, advances, excess payments	21 859	24 815
Provision for impairment	(14)	(10 788)
<b>Total other assets</b>	<b>21 845</b>	<b>14 027</b>

Interest rates, maturities and geographical concentration of other assets are analyzed in Note 25. Information on related party transactions is given in Note 29.

#### 18 Due to financial institutions

	December 31, 2012	December 31, 2011
Correspondent accounts and overnight deposits of other banks	1 320 981	617 754
Term loans and deposits of other banks	7 003 588	3 991 754
<b>Total due to financial institutions</b>	<b>8 324 569</b>	<b>4 609 508</b>

Other banks lent funds at fixed interest rates of 0.55-4.22% (2011: 0.40 – 5.31%).

For information on fair value of due to financial institutions refer to Note 28.

Interest rates, maturities and geographical concentration of due to financial institutions are analyzed in Note 25. Information on related party transactions is given in Note 29.

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## 19 Customer accounts

	December 31, 2012	December 31, 2011
<i>Accounts of private entities</i>		
Current and settlement accounts	1 386 512	775 542
Term deposits	566 024	-
<b>Total accounts of private entities</b>	<b>1 952 536</b>	<b>775 542</b>
<i>Individual accounts</i>		
Current accounts and demand deposits	67	-
<b>Total individual accounts</b>	<b>67</b>	<b>-</b>
<i>Other customer accounts</i>		
Other customer accounts	1 755	-
<b>Total other customer accounts</b>	<b>1 755</b>	<b>-</b>
<b>Total customer accounts</b>	<b>1 954 358</b>	<b>775 542</b>

During 2012, the Bank did not borrow from customer accounts at rates above the market rates.

For information on fair value of customer accounts refer to Note 26.

Interest rates, maturities and geographical concentration of customer accounts are analyzed in Note 25. Information on related party transactions is given in Note 29.

## 20 Other liabilities

Other liabilities include non-financial liabilities only.

	December 31, 2012	December 31, 2011
Accounts payable	437	386
Current income tax liabilities	26	103
Taxes payable other than current income taxes	315	271
Liabilities under financial guarantee agreements	1 177	45
Other liabilities	714	110
<b>Total other liabilities</b>	<b>2 669</b>	<b>915</b>

## 21 Subordinated loans

Subordinated debt amounting to RUB 1,519,359 thousand (2011: RUB 1,610,769 thousand) has a floating interest rate established on the basis of 3M Libor+. Subordinated loans cannot be repaid early.

## 22 Share capital and share premium

	Number of shares	Par value per share, thousands of Russian Rubles	Par value, RUB (thousands of Russian Rubles)
Ordinary shares/ interests	92 380	25	2 309 500
<b>Total share capital and share premium</b>	<b>92 380</b>		<b>2 309 500</b>

The par value of each ordinary share is RUB 25 thousand per share. Each share represents one vote.

On November 25, 2012, the Bank registered increase in its share capital by RUB 1,309,500 thousand or by 52,380 valued at RUB 25 thousand each.

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### 23 Retained earnings / accumulated deficit

The Bank keeps books in the currency of the Russian Federation and makes accounting records in compliance with the requirements of banking laws of the Russian Federation. These financial statements are prepared on the basis of these accounting records which were adjusted to bring them in compliance with all material aspects of IFRS.

The table below presents the effect of these adjustments on the equity, particularly on profit or loss, in the reporting period.

The effect of adjustments on figures in financial statements as at December 31, 2012 is as follows.

	Equity		Profit (Loss)	
	Absolute value	As percentage of the value in compliance with Russian legislation	Absolute value	As percentage of the value in compliance with Russian legislation
Value in compliance with Russian legislation and requirements of supervisory authority, the Bank of Russia	2 354 847	100,0%	190 294	100,0%
Value in accordance with IFRS	2 354 178	100,0%	173 153	91,0%

The effect of adjustments on figures in financial statements as at December 31, 2011 is as follows.

	Equity		Profit (Loss)	
	Absolute value	As percentage of the value in compliance with Russian legislation	Absolute value	As percentage of the value in compliance with Russian legislation
Value in compliance with Russian legislation and requirements of supervisory authority, the Bank of Russia	1 016 855	100,0%	28 492	100,0%
Value in accordance with IFRS	1 017 038	100,0%	27 640	97,0%

	December 31, 2012		December 31, 2011	
	Equity net of profit / (loss) for the reporting period	Profit / (Loss) for the reporting period	Equity net of profit / (loss) for the reporting period	Profit / (Loss) for the reporting period
Value in compliance with Russian legislation and requirements of supervisory authority, the Bank of Russia	2 354 847	190 294	1 016 855	28 492
Impairment of interest bearing assets	-	(20 099)	-	-
Deferred taxes	93	4 363	(49)	142
Depreciation of property and equipment	-	(1 647)	-	-
Commission income and expense	(45)	(1 132)	(50)	5
Operating income and expense	(717)	1 374	283	(1 000)
Other	-	-	(1)	1
Value in accordance with IFRS	2 354 178	173 153	1 017 038	27 640

In compliance with legislation of the Russian Federation, accumulated retained earnings as per accounting reports of the Bank prepared in accordance with Russian Accounting Standards may be distributed to its shareholders as dividends. As at December 31, 2012, retained earnings of previous years and unused profit for the reporting period amount to RUB 233,373 thousand (2011: RUB 44,504 thousand).

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## 24 Analysis by segment

The Bank does not make disclosures in accordance with IFRS 8 Operating Segments while its debt and equity securities are not publicly traded in money markets and Bank is not issuing such financial instruments in a public securities market.

## 25 Risk Management

The Bank manages the following financial risks:

- Credit risk
- Liquidity risk
- Geographical risk
- Market risk
  - Interest rate risk
  - Currency risk
  - Equity risk
- Operational risk
- Legal risk

The principal task of financial risk management is to establish and to ensure further adherence to risk limits. The assessment of assumes risk also form the basis for optimal allocation of capital, taking into account risks, formation of pricing for transactions and measurement of performance. Operational and legal risk management shall ensure proper adherence to internal regulations and procedures to minimize operational and legal risks.

The priority is to ensure the maximum soundness of assets and capital through minimization of exposure to risks that may result in unexpected losses. All risks that may adversely affect the Bank's meeting its objectives are recognised and measured on a regular basis. This approach applies to all risks assumed by the Bank in the course of its business (credit risk, liquidity risk, operational risk, market risk, legal risk, country risk, reputational risk, strategy risk).

The Bank's risks are mainly concentrated in transactions that make a major contribution to its financial result, namely: lending to legal entities, trade financing of export-import operations, and transactions in the securities and currency markets. With high growth rates, the Banks traditionally follows solidity and farseeing principles. The complete independence in risk assessment and management is based on the Bank's corporate structure where Risk Management Department is separated from business departments that initiate risk-taking and reports directly to President of the Bank.

The key strategic objective of the Bank is to ensure high sustainability and maintain its profit at the level allowing development of the Bank and to withdraw from activities with high risk.

### - Credit risk

The Bank is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole when due. The Bank manages credit risk by setting exposure limits for individual borrowers and groups of related borrowers. Credit risk is monitored on a regular basis, with review of exposure limits at least once a year. Exposure limits in relation to products and borrowers are approved by the Bank Board. Risks related with borrowers, including banks and brokers, are also restricted by limits that cover balance sheet and off-balance-sheet risks, and daily settlement risk limits for deliveries in relation to trade instruments such as forward exchange contracts. Actual adherence to the established limits on accepted risks is monitored on a day-to-day basis.

The Bank's risk management system includes:

- diversification of the Bank's loan portfolio and investments;
- preliminary analysis of a borrower's creditworthiness (the Bank validates the borrower's credit history, examine the borrower's reputation, analyses financing and operating activities, explores whether the borrower is able to redeem a debt, analyses security for credit and other possible factors);
- creation of provisions for the Bank's credit risk on the basis of the preliminary analysis;
- control over loans provided earlier;
- setting the maximum credit risk;
- setting limits to powers of the Bank's collective bodies and officials;
- delineation of responsibilities between employees, etc.

To manage credit risk, the Bank has established the Credit Committee which is responsible for consideration and approval credit limits for borrowers. Meetings of the Credit Committee are regular.

The Bank closely monitors the concentration of large credit risk exposure and compliance with prudential requirements of the Bank of Russia, analysis and forecast of credit risks that are presently treated as acceptable.

The monitoring system for loan and equal indebtedness permits early detection of distressed asset and immediate measures to mitigate credit risks.

The Bank monitors credit risk concentration by industries and geographic regions. Credit risk concentration related with loans is analyzed in Note 14.

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#### – Liquidity risk

Liquidity risk is defined as the risk of mismatch between the maturities of assets and liabilities.

The liquidity is assessed depending on:

- the amount of assets available to the Bank and possible term of disposal of these assets without significant loss for the Bank;
- outstanding liabilities, time to their maturity and time-history of the amount of liabilities.

A position is treated as a risk position when liquid assets of the Bank and expected financial resources are not sufficient for the Bank to perform its obligations within a certain period of time.

Instant (quick) liquidity is the ratio of claims to obligations of the Bank to be settled throughout the current day. Short-term, medium-term and long-term liquidity is the ratio of claims to obligations of the Bank to be settled within established periods of time.

Liquidity risk is regulated by controlling shortage/excess of monetary resources, allocation and re-allocation of monetary resources by instruments and their investment terms, liquidity and rate of return, particularly appropriation of funds for lending.

The system of liquidity analysis is based on maturity gap between claims (assets) and obligations (liabilities) of the Bank which requires daily measurement of liquidity excess (shortage) indices and coefficients in accordance with instructions of the Bank of Russia.

The Board of the Bank set limits on liquidity excess/shortage by the term of obtaining and repayment of funds that allows efficient allocation of the Bank's assets by maturity with low risk. The Bank's liquidity analysis involves adherence to these limits, analysis of their absolute values and dynamics, and also comparison of these values with the limits set in the Bank.

Liquidity risk management includes the following:

- forecasting of payment flows by main currencies and determination of required amount of liquid assets;
- monitoring and forecasting of liquidity ratios;
- maintenance of diversified resource sources;
- planning of loan indebtedness repayment depending on availability of funds and maintenance of liquidity risk at acceptable level;
- planning for recovery of required liquidity position under unfavourable or critical circumstances;
- re-allocation of assets by maturity (provision of short-term, medium-term and long-term loans, redefinition of open foreign-currency position transferable to the next day).

The Bank's liquidity management requires the determination of what amount of liquid assets is necessary to settle liabilities at their maturity, access to various sources of financing, plans of action in case of problems with financing and monitoring whether balance sheet liquidity ratios comply with requirements of legislation of the Russian Federation.

The Bank measures liquidity ratio on a daily basis in compliance with requirements of the Bank of Russia. During the reporting year, the Bank did not commit any non-compliance with the established liquidity requirements.

The table below shows liabilities as at December 31, 2012 broken down by contractual time to maturity. The presented amounts reflect contractual undiscounted cash flows, and also total financial leasing liabilities (before future payments), prices specified in currency forward contract for cash purchase of financial assets, contractual amounts redeemable in exchange swaps the settlement under which is made on a gross basis. These undiscounted cash flows differ from figures in the balance sheet while the latter is based on discounted cash flows.

As a rule, the difference from the carrying amount is increased potential costs for borrowings in accordance with terms and conditions of contracts in force at the settlement date.

When the amount payable is not fixed, the amount in the table is calculated depending on conditions existing at the end of the reporting period.

Currency payments are restated with spot foreign exchange rate effective at the end of the reporting period.

The analysis of financial liabilities by maturity as at December 31, 2012 is given in the table below:

	At call and within one month	1 to 3 months	3 to 12 months	After 12 months	Total
<b>LIABILITIES</b>					
Due to financial institutions	3 667 707	2 922 293	1 769 993	-	8 359 993
Customer accounts other than individual accounts	1 927 235	12 845	15 334	-	1 955 414
Individual accounts	67	-	-	-	67
Other liabilities and provisions	1 412	95	854	308	2 669
Subordinated loans	1 125	1 320	2 445	1 524 560	1 529 450
<b>Total potential future payments on financial liabilities</b>	<b>5 597 545</b>	<b>2 936 554</b>	<b>1 788 626</b>	<b>1 524 868</b>	<b>11 847 593</b>

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The analysis of financial liabilities by maturity as at December 31, 2011 is given in the table below:

	At call and within one month	1 to 3 months	3 to 12 months	After 12 months	Total
<b>LIABILITIES</b>					
Due to financial institutions	1 900 598	1 726 604	982 306	-	4 609 508
Customer accounts	775 542	-	-	-	775 542
Other liabilities and provisions	496	-	40	5	541
Subordinated loans	843	121	-	1 609 805	1 610 769
<b>Total potential future payments on financial liabilities</b>	<b>2 677 479</b>	<b>1 726 725</b>	<b>982 346</b>	<b>1 609 810</b>	<b>6 996 360</b>

#### - Geographical risk

Assets and liabilities are (normally) classified by the country of residence of counterparty.

The geographical analysis of assets and liabilities of the Bank as at December 31, 2012 is given below:

	Russia	OECD	Southeast Asia	Other countries	Total
<b>ASSETS</b>					
Cash and cash equivalents	43 527	460 176	145 316	-	649 019
Mandatory cash balances with the Bank of Russia	375 260	-	-	-	375 260
Due from financial institutions	3 495 379	-	5 177 013	244 255	8 916 647
Loans and receivables	3 534 556	-	-	316 050	3 850 605
Held-to-maturity financial assets	507 435	-	-	-	507 435
Deferred tax asset	4 456	-	-	-	4 456
Property and equipment and intangible assets	3 018	-	-	-	3 018
Other assets	21 618	-	227	-	21 845
<b>Total assets</b>	<b>7 985 249</b>	<b>460 176</b>	<b>5 322 556</b>	<b>560 305</b>	<b>14 328 286</b>
<b>LIABILITIES</b>					
Due to financial institutions	1 387 516	25 083	6 911 018	952	8 324 569
Customer accounts other than individual accounts	1 954 291	-	-	-	1 954 291
Individual accounts	67	-	-	-	67
Other liabilities and provisions	2 669	-	-	-	2 669
Subordinated loans	-	-	1 519 359	-	1 519 359
<b>Total liabilities</b>	<b>3 344 543</b>	<b>25 083</b>	<b>8 430 377</b>	<b>952</b>	<b>11 800 955</b>
<b>Net balance</b>	<b>4 640 706</b>	<b>435 093</b>	<b>(3 107 821)</b>	<b>559 353</b>	<b>2 527 331</b>

The geographical analysis of assets and liabilities of the Bank as at December 31, 2011 is given below:

	Russia	OECD	Southeast Asia	Other countries	Total
<b>ASSETS</b>					
Cash and cash equivalents	24 529	470 774	137 744	-	633 047
Mandatory cash balances with the Bank of Russia	173 206	-	-	-	173 206
Due from financial institutions	1 644 630	-	3 302 826	253 947	5 206 403
Loans and receivables	982 775	-	-	421 601	1 404 376
Held-to-maturity financial assets	453 975	153 115	-	-	607 090
Deferred tax asset	93	-	-	-	93
Property and equipment and intangible assets	3 170	-	-	-	3 170
Other assets	14 025	-	2	-	14 027
<b>Total assets</b>	<b>3 296 403</b>	<b>623 889</b>	<b>3 440 572</b>	<b>680 548</b>	<b>8 041 412</b>
<b>LIABILITIES</b>					
Due to financial institutions	4 609 508	-	-	-	4 609 508
Customer accounts	775 542	-	-	-	775 542
Other liabilities and provisions	915	-	-	-	915
Subordinated loans	-	-	1 610 769	-	1 610 769
<b>Total liabilities</b>	<b>5 385 965</b>	<b>-</b>	<b>1 610 769</b>	<b>-</b>	<b>6 996 734</b>
<b>Net balance</b>	<b>(2 089 562)</b>	<b>623 889</b>	<b>1 829 803</b>	<b>680 548</b>	<b>1 044 678</b>

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#### – Market risk

The Bank is exposed to market risk that is the risk of financial losses or decline in the value of assets arising from adverse movements in market prices (foreign exchange rates, prices of precious metals, interest rates). The Bank sets limits on the level of accepted risk and controls adherence to these limits on a daily basis. But this approach cannot entirely prevent from losses which are over the limits in cases of more considerable changes in the market.

Рыночный риск подразделяется на:

- interest rate risk
- equity risk
- currency risk

The Bank manages market risk in accordance with the market risk management policy. The main aim of the market risk management is to optimize the risk/reward ratio, minimize losses in case of unfavourable events and to reduce the difference between the financial performance and its expected performance.

The Bank assesses market risk both by components and comprehensively and determines market risk concentration and diversification result of diversification.

#### – Interest rate risk

The Bank takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk primarily as a result of lending at fixed interest rates, in amounts and for terms which differ from those for borrowings at fixed interest rates.

To manage interest rate risk, the Bank mainly applies the following methods:

- maturity-matching of assets and liabilities;
- gap analysis.

The analysis of the Bank's risk resulting from fluctuations in interest rates as at December 31, 2012 is given below. The table displays assets and liabilities which are exposed to interest rate risk and classified to different time categories by contractual dates of interest rate revision.

	At call and within one month	1 to 3 months	3 to 12 months	After 12 months	Indefinite term / No interest rate risk	Total
<b>ASSETS</b>						
Cash and cash equivalents	605 866	-	-	-	43 153	649 019
Mandatory cash balances with the Bank of Russia	-	-	-	-	375 260	375 260
Due from financial institutions	3 301 921	5 068 164	111 565	434 997	-	8 916 647
Loans and receivables	-	-	1 195 468	2 655 138	-	3 850 606
Held-to-maturity financial assets	-	457 685	49 750	-	-	507 435
Deferred tax asset	-	-	-	-	4 456	4 456
Property and equipment and intangible assets	-	-	-	-	3 018	3 018
Other assets	-	-	-	-	21 845	21 845
<b>Total assets</b>	<b>3 907 787</b>	<b>5 525 849</b>	<b>1 356 783</b>	<b>3 090 135</b>	<b>447 732</b>	<b>14 328 286</b>
<b>Accrued total assets</b>	<b>3 907 787</b>	<b>9 433 636</b>	<b>10 790 419</b>	<b>13 880 554</b>	<b>14 328 286</b>	
<b>LIABILITIES</b>						
Due to financial institutions	3 659 074	2 905 576	1 759 919	-	-	8 324 569
Customer accounts other than individual accounts	1 926 387	12 718	15 186	-	-	1 954 291
Individual accounts	67	-	-	-	-	67
Other liabilities and provisions	-	15	854	308	1 492	2 669
Subordinated loans	911 832	607 527	-	-	-	1 519 359
<b>Total liabilities</b>	<b>6 497 360</b>	<b>3 525 836</b>	<b>1 775 959</b>	<b>308</b>	<b>1 492</b>	<b>11 800 955</b>
<b>Accrued total liabilities</b>	<b>6 497 360</b>	<b>10 023 196</b>	<b>11 799 155</b>	<b>11 799 463</b>	<b>11 800 955</b>	
Marginal gap	(2 589 573)	2 000 013	(419 176)	3 089 827	446 240	
<b>Accrued cumulative gap</b>	<b>0,60</b>	<b>0,94</b>	<b>0,91</b>	<b>1,18</b>	<b>1,21</b>	
Interest rate sensitivity	(24 817)	16 667	(1 572)			(9 722)

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The analysis of the Bank's risk resulting from fluctuations in interest rates as at December 31, 2011 is given below.

	At call and within one month	1 to 3 months	3 to 12 months	After 12 months	Indefinite term / No interest rate risk	Total
<b>ASSETS</b>						
Cash and cash equivalents	608 568	-	-	-	24 479	633 047
Mandatory cash balances with the Bank of Russia	-	-	-	-	173 206	173 206
Due from financial institutions	1 267 295	589 991	2 692 012	657 105	-	5 206 403
Loans and receivables	452 034	291 620	660 722	-	-	1 404 376
Held-to-maturity financial assets	-	-	99 459	507 631	-	607 090
Deferred tax asset	-	-	-	-	93	93
Property and equipment and intangible assets	-	-	-	-	3 170	3 170
Other assets	56	-	44	-	13 927	14 027
<b>Total assets</b>	<b>2 327 953</b>	<b>881 611</b>	<b>3 452 237</b>	<b>1 164 736</b>	<b>214 875</b>	<b>8 041 412</b>
<b>Accrued total assets</b>	<b>2 327 953</b>	<b>3 209 564</b>	<b>6 661 801</b>	<b>7 826 537</b>	<b>8 041 412</b>	
<b>LIABILITIES</b>						
Due to financial institutions	1 900 598	1 726 604	982 306	-	-	4 609 508
Customer accounts	775 542	-	-	-	-	775 542
Other liabilities and provisions	496	-	40	5	374	915
Subordinated loans	966 726	644 043	-	-	-	1 610 769
<b>Total liabilities</b>	<b>3 643 362</b>	<b>2 370 647</b>	<b>982 346</b>	<b>5</b>	<b>374</b>	<b>6 996 734</b>
<b>Accrued total liabilities</b>	<b>3 643 362</b>	<b>6 014 009</b>	<b>6 996 355</b>	<b>6 996 360</b>	<b>6 996 734</b>	
Marginal gap	(1 315 409)	(1 489 036)	2 469 891	1 164 731	214 501	
<b>Accrued cumulative gap</b>	<b>0,64</b>	<b>0,53</b>	<b>0,95</b>	<b>1,12</b>	<b>1,15</b>	
Interest rate sensitivity	(12 606)	(12 409)	9 262			(15 753)

Sensitivity to fluctuations in interest rates is the effect of a parallel shift in all yield curves of 100 basis points to the amount of net interest income for a year.

#### - Currency risk

The Bank is exposed to currency risk that is the risk of losses arising from adverse changes in exchange rates on open foreign currency positions.\*

The Bank sets limits on the level of accepted risk by currency and comprehensively both for the end of each day and throughout the day and controls adherence to these limits on a daily basis.

The tables below provides general analysis of the Bank's currency risk as at the reporting date, December 31, 2012:

	RUB	USD	EUR	CNY	Total
<b>ASSETS</b>					
Cash and cash equivalents	25 027	507 524	2 618	113 850	649 019
Mandatory cash balances with the Bank of Russia	375 260	-	-	-	375 260
Due from financial institutions	2 915 777	4 452 419	-	1 548 451	8 916 647
Loans and receivables	387 881	2 633 750	275 757	553 218	3 850 606
Held-to-maturity financial assets	507 435	-	-	-	507 435
Deferred tax asset	4 456	-	-	-	4 456
Property and equipment and intangible assets	3 018	-	-	-	3 018
Other assets	21 822	23	-	-	21 845
<b>Total assets</b>	<b>4 240 676</b>	<b>7 593 716</b>	<b>278 375</b>	<b>2 215 519</b>	<b>14 328 286</b>
<b>LIABILITIES</b>					
Due to financial institutions	634 947	5 243 600	276 969	2 169 053	8 324 569
Customer accounts other than individual accounts					
- current accounts, demand deposits	510 132	797 183	140	80 812	1 388 267
- term deposits	550 838	15 186	-	-	566 024
Individual accounts					
- current accounts, demand deposits	67	-	-	-	67
Interest payable	-	-	-	-	-
Other liabilities and provisions	841	1 171	657	-	2 669
Subordinated loans	-	1 519 359	-	-	1 519 359
<b>Total liabilities</b>	<b>1 696 825</b>	<b>7 576 499</b>	<b>277 766</b>	<b>2 249 865</b>	<b>11 800 955</b>
<b>Net balance</b>	<b>2 543 851</b>	<b>17 217</b>	<b>609</b>	<b>(34 346)</b>	<b>2 527 331</b>

The tables below provides general analysis of the Bank's currency risk as at the reporting date, December 31, 2011:

	RUB	USD	EUR	CNY	Total
<b>ASSETS</b>					
Cash and cash equivalents	13 150	490 226	1 398	128 273	633 047
Mandatory cash balances with the Bank of Russia	173 206	-	-	-	173 206
Due from financial institutions	867 539	3 151 237	-	1 187 627	5 206 403
Loans and receivables	-	1 065 615	-	338 761	1 404 376
Held-to-maturity financial assets	607 090	-	-	-	607 090
Deferred tax asset	93	-	-	-	93
Property and equipment and intangible assets	3 170	-	-	-	3 170
Other assets	13 980	44	-	3	14 027
<b>Total assets</b>	<b>1 678 228</b>	<b>4 707 122</b>	<b>1 398</b>	<b>1 654 664</b>	<b>8 041 412</b>
<b>LIABILITIES</b>					
Due to financial institutions	186 240	3 086 948	534	1 335 785	4 609 508
Customer accounts	411 938	286 612	-	76 992	775 542
Other liabilities and provisions	850	48	7	-	915
Subordinated loans	-	1 610 769	-	-	1 610 769
<b>Total liabilities</b>	<b>599 038</b>	<b>4 984 377</b>	<b>541</b>	<b>1 412 778</b>	<b>6 996 734</b>
<b>Net balance</b>	<b>1 079 190</b>	<b>(277 255)</b>	<b>857</b>	<b>241 886</b>	<b>1 044 678</b>

#### - Equity risk

During the reporting period, the Bank did not conduct transactions with assets that are subject to equity risk.

The Bank assumes equity risk arising from changes in fair value of securities held by the Bank and their quoted market prices. To minimize equity risk, the Bank monitors its liquidity, sets limits on transactions with securities and controls adherence to these limits.

#### - Operational risk

Operational risk is the risk of losses resulting from inadequacy of internal processes and procedures for banking operations and other transactions to the type and range of the Bank's business and (or) applicable legislation, breaches of them by the Bank's employees and (or) other persons (due to their incompetence, unintended or intended act or omission), disproportionate (insufficient) functionality (characteristics) of information, technological and other systems used by the Bank and (or) their functional failures, and also from external events.

The Bank's operational risk management involves several stages: identification, assessment, monitoring, control and/or minimization of operational risk.

To minimize operational risks, the Bank regularly reviews information security, improves internal normative documents regulating procedures of transactions, optimizes informational flows and internal document workflow.

The Bank identifies operational risk on a regular basis. To that effect, the Bank maintains an analytic database of operating losses incurred broken down by activities of the Bank to record types and amounts of losses, and also circumstances under which these losses have been occurred. The Bank also maintains an external database of operational risks that presents realized facts of operational risk in the external environment of the Bank.

#### - Legal risk

Legal risk is the risk that the Bank may incur losses due to its incompliance with laws and regulations, and concluded contracts, legal errors committed in operating activity, imperfect legal system (inconsistent legislation of the Russian Federation, lack of legal norms to regulate some issues which arise in the course of business of the Bank), violation by counterparties of laws and regulations and terms and conditions of concluded contracts.

The Bank maintains continued ongoing monitoring of changes in Russian and international legislation and timely amends internal instructions and regulations and thus reduces this risk.

#### 26 Capital management

The Bank's capital management is aimed at the following: (i) adherence to capital requirements set by the Bank of Russia and (ii) ensuring the Bank's ability to operate as a going concern. The Bank also monitors the capital ratio in accordance with Basel framework to maintain it of 8 percent or greater.

During periods ended December 31, 2012 and December 31, 2011, the Bank complied with capital requirements set by the Bank of Russia.

The Bank's adequacy ratios calculated in accordance with Capital Accord (adopted in July 1988, revised in November 2005) as established by International Convergence of Capital Measurement and Capital Standards, usually called Basel I, and November 2005 update incorporating the calculation of market risks are as follows:

	December 31, 2012	December 31, 2011
Capital adequacy (Tier 1)	17.9%	13.1%
Total capital (Tier 1 and Tier 2)	26.8%	19.7%

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During 2012 and 2011, the Bank complied with all external capital requirements.

## 27 Contingent liabilities

### Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received. Based on own assessment and recommendations of internal and external advisors, the management believes that the Bank will not incur any material losses resulting from legal proceedings on such claims and, for this reason, has not created any related provisions.

### Tax legislation

The Russian tax legislation primarily considers tax effects of transactions according on the assumption of its legal form and accounting treatment under the Russian accounting rules and regulations. Accordingly, the Bank can structure its transactions so as to take advantage of opportunities of Russian tax legislation to reduce the overall effective tax rate. The Bank's management is confident that this restructuring of taxable income and deductible expenses is unlikely to result in additional tax liabilities. For this reason, no provision for a potential tax liability arising from these transactions has been created by the Bank.

### Operating lease commitments

Where the Bank is the lessee, the minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2012	December 31, 2011
Within one year	32 207	32 374
In the second to fifth years inclusive	51 624	86 594
After five years	-	-
<b>Total operating lease commitments</b>	<b>83 831</b>	<b>118 968</b>

Operating leases include premises lease agreements, i.e. the principal place of location of the Bank. The rent under these agreements is a rent per square meter multiplied by the area of the premises leased.

### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, i.e. irrevocable undertaking by the Bank to make a payment in the event that a customer fails to perform its obligations to third parties, are exposed to the same risk as loans. Documentary credits, i.e. written undertaking by the Bank on behalf of a customer to pay a specified amount subject to meeting of the stipulated conditions, are secured by goods delivery or cash deposits and therefore exposed to lower risk than direct loans. Credit commitments at a specific rate during a fixed period of time are accounted for as derivative financial instruments unless their maturity exceeds standard lending terms. Outstanding credit related commitments of the Bank are as follows:

The Bank recognizes provisions for credit related commitments if losses on such commitments are highly probable.

	December 31, 2012	December 31, 2011
Guarantees issued	373 738	566 984
Provision for impairment	-	-
<b>Total credit related commitments</b>	<b>373 738</b>	<b>566 984</b>

In addition, as at December 31, 2012, mandatory cash balances with the Bank of Russia amount to RUB 375,260 thousand (2011: RUB 173,205 thousand) and are not intended for financing daily operations of the Bank.

## 28 Fair value of financial instruments

Fair value of an asset is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is given by quoted price in the market for the financial instrument.

The Bank determined the estimated fair value of financial instrument on the basis of available market data (if available) and proper valuation techniques. Professional judgments are however required to interpret market data to determine the estimated fair value. Notwithstanding the Russian Federation is rated investment grade, it continues to display some characteristic of an emerging economy and economic environment continues to limit the level of activity in financial markets. Market quotations may be outdated or reflect low sale cost and, in view of this, misrepresent fair value of financial instruments. Management has used all available market data in measuring the fair value of financial instruments.

### Financial instruments at fair value

Trading securities and other securities changes in fair value of which are recognised in the income statement, available-for-sale financial assets are reported at fair value. The fair value is based on the quoted market prices. Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

### Due from financial institutions

In the Bank's opinion, the fair value of due from financial institutions did not significantly differ from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. Interest for most balances is based on rates similar to market ones.

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#### Loans and receivables

The fair value of floating rate instruments is normally their carrying amount. In case of significant changes in the market environment, the Bank can review interest rates on fixed rate loans to customers and deposits with other banks. As a consequence, interest rates on loans made prior to the reporting date do not significantly differ from effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. If the Bank estimates that rates on loans made in earlier periods significantly differ from effective interest rates for similar instruments at the reporting date, the estimated fair value of such loans shall be measured. The measurement is based on expected cash flows discounted at effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. The discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty.

#### Held-to-maturity financial assets

The fair value of held-to-maturity financial assets is based on market quotations.

The Bank measures the fair value of other financial assets, including trade and business receivables that is equal to the carrying amount taking into account that the indebtedness is short-term.

#### Liabilities at amortised cost

The fair value of liabilities at amortised cost is based on quoted market prices, if available. The estimated fair value of fixed rate instruments with a stated maturity, for which quoted market prices are not available, is based on expected cash flows discounted at interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The fair value of financial instruments is as follows:

	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
<i>Financial assets at amortised cost</i>				
Cash and cash equivalents	649 019	649 019	633 047	633 047
Mandatory cash balances with the Bank of Russia	375 260	375 260	173 206	173 206
Due from financial institutions	8 916 647	8 916 647	5 206 403	5 206 403
Loans and receivables	3 850 606	3 850 606	1 404 376	1 404 376
Held-to-maturity financial assets	507 435	507 435	607 090	607 090
Other assets	21 845	21 845	14 027	14 027
<b>Total financial assets</b>	<b>14 320 812</b>	<b>14 320 812</b>	<b>8 038 149</b>	<b>8 038 149</b>
<b>Financial liabilities</b>				
<i>Financial liabilities at amortised cost</i>				
Due to financial institutions	8 324 569	8 324 569	4 609 508	4 609 508
Customer accounts	1 954 358	1 954 358	775 542	775 542
Other liabilities and provisions	2 669	2 669	915	915
Subordinated loans	1 519 359	1 519 359	1 610 769	1 610 769
<b>Total liabilities</b>	<b>11 800 955</b>	<b>11 800 955</b>	<b>6 996 734</b>	<b>6 996 734</b>

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## 29 Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or to exercise significant influence on the other party in making financial and operating decisions as stated in IAS 24 Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

During the reporting period, the Bank actively worked with its parent company, Industrial and Commercial Bank of China Limited, a shareholder of the Bank, and also with its branches and subsidiaries in the market of interbank lending, trade financing and foreign currency purchase and sale transactions (including CNY/RUB).

As at December 31, 2012, the Bank's related parties include:

### Principal shareholders

Name	Activity	Relations	Until the date in the current period
Industrial and Commercial Bank of China Limited (PRC)	Financing and investing	shareholder, 100%	

### Key managers of the Bank

Name	Activity	Function	Until the date in the current period
Zheng Weidong	President	management	
Lang Weijie	Vice President	management	
Igor G. Tittin	Vice President	management	
Olga N. Kulakova	Chief Accountant	management	until May 13, 2013

### Other related parties of the Bank

Name	Activity	Function	Until the date in the current period
ICBC BEIJING MUNICIPAL BRANCH	Financing and investing	branch and/or subsidiary of the parent company	
ICBC-SHENZHEN	Financing and investing	branch and/or subsidiary of the parent company	
ICBC-ASIA,HONGKONG	Financing and investing	branch and/or subsidiary of the parent company	
ICBC-NEW YORK	Financing and investing	branch and/or subsidiary of the parent company	
ICBC Singapore Branch	Financing and investing	branch and/or subsidiary of the parent company	
ICBC-LONDON	Financing and investing	branch and/or subsidiary of the parent company	
ICBC HEILONGJIANG BRANCH	Financing and investing	branch and/or subsidiary of the parent company	
ICBC SUZHOU BRANCH	Financing and investing	branch and/or subsidiary of the parent company	
ICBC GUANGDONG PROVINCIAL BRANCH	Financing and investing	branch and/or subsidiary of the parent company	
ICBC HONGKONG BR	Financing and investing	branch and/or subsidiary of the parent company	
ICBC FRANKFURT	Financing and investing	branch and/or subsidiary of the parent company	
ICBC SEOUL	Financing and investing	branch and/or subsidiary of the parent company	
ICBC Penh BR	Financing and investing	branch and/or subsidiary of the parent company	

Related party transactions were conducted at market rates, unless otherwise stated. Ending balances, items of income or expenses associated with related party transactions for the year are as follows.

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#### Principal shareholders

Items of assets and liabilities associated with related parties transactions that are principal shareholders for 2012 and 2011 are as follows.

	December 31, 2012		December 31, 2011	
	Characteristics of assets and liabilities (rate, ownership interest)	Carrying amount	Characteristics of assets and liabilities (rate, ownership interest)	Carrying amount
<b>ASSETS</b>				
Cash and cash equivalents	balance of correspondent accounts	23 839	balance of correspondent accounts	101 413
Other assets	other settlements	227		-
<b>Total assets</b>		<b>24 066</b>		<b>101 413</b>
<b>LIABILITIES</b>				
Financial liabilities at fair value through profit or loss		-		-
Due to financial institutions	loans issued and deposits placed by non-resident banks	2 489 103	loans issued and deposits placed by non-resident banks	1 226 736
Subordinated loans		1 519 359		1 610 769
<b>Total liabilities</b>		<b>4 008 462</b>		<b>2 837 505</b>

Items of income and expenses associated with related parties transactions that are principal shareholders for 2012 and 2011 are as follows.

	2012	2011
Interest income	6 226	-
Interest expense	27 421	6 847
Income less expense from foreign currency transactions	(3 488)	(2 826)

#### Key managers of the Bank

The amount of remuneration to key managers for 2012 and 2011 is as follows:

	December 31, 2012	December 31, 2011
Salary and other short-term remunerations	13 897	12 298

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#### Other related parties of the Bank

Items of assets and liabilities associated with related parties transactions that are other related parties for 2012 and 2011 are as follows.

	December 31, 2012		December 31, 2011	
	Characteristics of assets and liabilities (rate, ownership interest)	Carrying amount	Characteristics of assets and liabilities (rate, ownership interest)	Carrying amount
<b>ASSETS</b>				
Cash and cash equivalents	balance of correspondent accounts	580 638	balance of correspondent accounts	507 095
Due from financial institutions	loans issued to and deposits placed with non-resident banks	472 916	other deposits with non-resident banks	23 894
<b>Total assets</b>		<b>1 053 554</b>		<b>530 989</b>
<b>LIABILITIES</b>				
Due to financial institutions	loans issued and deposits placed by non-resident banks	4 458 047	loans issued and deposits placed by non-resident banks	941 987
<b>Total liabilities</b>		<b>4 458 047</b>		<b>941 987</b>

Items of income and expenses associated with related parties transactions that are other related parties for 2012 and 2011 are as follows.

	2012	2011
Interest income	5 528	5 633
Interest expense	84 273	11 950
Income less expense from foreign currency transactions	547	(11 501)
Commission income	319	3
Commission expense	-	90

Contingent liabilities associated with related parties transactions that are other related parties for 2012 and 2011 are as follows.

	December 31, 2012	December 31, 2011
Guarantees issued	63 000	-

### 30 Subsequent events

These financial statements are updated taking into account all information on conditions existing on the reporting date received by the Bank after the reporting date.

As at the date of the annual report, the composition of the Board has changed as follows:  
Olga N. Kulakova acting as Chief Accountant in the reporting year is remove from the Board since May 13, 2013 in connection with her voluntary resignation.

Approved for release by the Bank Board resolution dated June 26, 2013

[	]	President
[	]	Deputy Chief Accountant



Zheng Weidong

Zhang Wenjian