

Established in 1841

SBERBANK

JOINT-STOCK COMMERCIAL
SAVINGS BANK of the Russian Federation
(OPEN JOINT-STOCK COMPANY)

THE CONCEPT OF DEVELOPMENT
2000 - 2005

Moscow
2000

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THE CONCEPT OF SBERBANK DEVELOPMENT TO THE YEAR 2000: IMPLEMENTATION RESULTS

The Savings Bank of the Russian Federation is the oldest bank in the country and the only bank to preserve its structure after the disintegration of the USSR. New economic realities and the market reforms of early 90s called for radical change in the operations of the Bank and for swift response to the changing environment. In the first years of operating in the new environment the key objectives which could be achieved only through a rigid centralisation of Sberbank's management came to be maintaining integrity of the Bank's structure, retaining its positions in the retail market of banking services and private deposits and building up the material base which would ensure necessary conditions for servicing of the clients.

By 1996, hyperinflation stage was over and the economic situation in the country changed significantly. The major challenge was met by Sberbank with success: the Bank preserved its branch network structure and foundations. It established a stable resource base and increased the capacity of its branches and affiliates. A new challenge emerged of effectively managing accumulated resources. The objective set in the Concept of Development up to the year 2000 and approved by the shareholders back in 1996 was to transform the Bank into a universal commercial bank particularly through the development of banking services for the corporate clients while maintaining leadership and specialisation in the market for retail services. The Concept gave priority to engagement of Sberbank in the solution of nation-wide tasks of improving monetary and credit relations, developing domestic economy and participating in large socially important national projects, which tasks have not yet lost their urgency in some instances.

The financial crisis of 1998 proved the correctness of the path defined in the Concept. The Bank has not only proved its reputation of the safest bank of the country incurring minimum losses in the crisis. Moreover, it has provided a significant number of new clients with the access to banking services. Implementing the Concept 2000, Sberbank has materially consolidated its position in the prioritised segments of the market. It maintains its leadership in the market of retail banking services. The share of rouble denominated deposits has reached 87 per cent of the market. In spite of the general fall in real income and the legislative lag the Bank consistently increases lending to individual customers with 20 per cent share of the overall retail loans market. Gaining about 25 per cent of the corporate market the Bank has significantly strengthened its positions servicing over a million legal entities. The Bank continues its active participation in the market for foreign and domestic government debt and corporate securities.

Building up its presence in the priority segments of financial markets, Sberbank aims at the adequate increase of its capital base, diversification of the resource base, improvement of the asset structure and increased return on its operations. At the beginning of the year 2000, equity of the Bank made 29.6 bn roubles. The capital growth is mainly attributed to net profit of the Bank, which only for the year 1999 made 8.4 bn roubles. The funding base structure has undergone considerable changes. Since 1995 the share of the corporate clients in the liabilities has more than quadrupled. The Bank has also qualitatively changed the structure of its assets. The policy of giving priority to investment in the real sector of economy defined by the Concept 2000 materialised in a significant growth of Sberbank's credit portfolio. At the beginning of year 2000, it accounted for 46 per cent of the Bank's assets exceeding the size of

investment in the government securities. The credit portfolio of the Bank accounts for over 30 per cent of the total loans to legal entities. Interbank loans have been significantly reduced and currently serve the purpose of short-term liquidity management. The Bank has been consistently increasing its presence in investment and project financing. As on beginning of year 2000, the long-term investment loans exceeded 10.5 bn roubles and 320 mln US dollars.

The strategy of transforming into a universal commercial bank has demanded a significant widening of the range of services offered both to private and corporate customers. The bank card business has considerably grown (the market share exceeds 20 per cent), and the number of cards issued exceeds 1.5 million. The Bank has also dynamically expanded its own acquiring network. The volume of operations in precious metals has also grown to 20 per cent of the primary market to include financing production of gold and silver, selling of precious metals to individuals, Central Bank of Russia and delivering metals to the world financial markets. The settlement system of Sberbank has been further improved and currently processes over one hundred thousand interregional transfers daily. The treasury operations of the Bank have progressed significantly in the money and equity markets and a dealing-room and a depository were set up at Sberbank.

The system of the Bank management has been radically realigned. An integrated interest rate policy has been introduced with due account of regional specifics. A centralised system of monitoring, controls, accounting and risk management of financial flows and liquidity has been put in place. An up-to-date methodological and regulatory basis, procedures and policy in respect of new lines of business have been developed and are continuously improved. A uniform system of standards and limits provides the necessary level of management decentralisation and a hierarchy of controls and reporting lines. Realignment of the organisational structure of the Bank and streamlining of the branch network is an on-going process.

These measures have ensured leadership of the Bank in most of the market segments and successful competition with large private credit institutions in the domestic market of banking services. Sberbank has come top of the league without any privileges or preferences, but on an equal-for-all regulatory ground, set out by the Central Bank of Russia.

The targets set in 1996 by the Concept 2000 have been achieved, the outlined strategic tasks fulfilled and the necessary foundation for further development set up. Political stabilisation and economic recovery in the country provide the Bank with new potential for growth and for an increased contribution to the economic growth and development of the Russian banking system.

The leading positions of the Bank in the key segments of the financial market, accumulated financial resources, technological and HR potential provide the basis for mid-term planning and require, that Sberbank should set strategic goals and objectives and prioritise directions of development for the forthcoming five years.

ENVIRONMENT FOR COMPILING THE CONCEPT

External factors: Assessment and Impact

Economic and political factors

The economic achievement of Russia in 1999 and in the first months of year 2000 give ground for optimism. For the first time in the years of the reforms a significant rise in GDP has been recorded and the slump in the industrial output of the post-1998 period overcome, with the pre-crisis figure surpassed. Positive trends in the economy create the basis for the expansion of banking operations, when Sberbank can put its accumulated resource to a better use with more opportunities for investment opening and the general demand for high quality banking services growing. The economic growth was determined by the positive effect of the rouble devaluation on the domestic producer and by the world markets, which were favourable for raw materials export. They gave a boost to the growth of exports and import replacing production. The most spectacular growth in output, number of profitable enterprises and investment in fixed assets was evidenced in the export-oriented industries, mining industry, non-ferrous metallurgy, chemical and petrochemical, textile and food industries all of which may become most attractive for the Bank as investment, cash- and goods- flow servicing opportunities.

However, when considering strategic objectives of Sberbank development it should be taken into account that so far the industry has not yet provided pre-conditions for a continuous growth which would be based on renovated fixed assets, present day technologies, expanded range and improved quality of products. In 1999, the growth of investment in fixed assets made a very modest 4.5 per cent on year 1998, actually a 2.5 per cent decrease on 1997 figures. Instability in the world prices for core Russian exports and practically expiring momentum of the rouble devaluation pose a serious threat to the prospects of economic growth in the country and can materially affect the assets of the Bank. Taking into consideration that stability and reliability of Sberbank are important factors of social stability for the state and its people, realistic assessment should be made of risks associated with instability of the national economy and ways of mitigating their possible adverse impact on the Bank. The focus of investment activity on creation, development and support of competitive industrial production will allow Sberbank not only to allocate resources efficiently but also to create a long-term basis for servicing the flows of goods and funds and reduce the risk of possible impact of instability in the world market on the assets of the Bank.

Measures effected by the Government of the Russian Federation and the Bank of Russia to increase budget revenues, improvements in tax collection, growth of gold and currency reserves contribute to slowing down of inflationary processes. Falling inflation rates and high industry demand for investments open unprecedented opportunities to Sberbank of stepping up its financing of the real sector of the Russian economy.

The political situation in the Country after the parliamentary and presidential elections coupled with the general public support for the first measures undertaken by the state authorities gives rise to the prospects of positive changes and trends in the economic reforms in Russia thus opening new opportunities to Sberbank. These first steps aim at the improvement of the investment climate, economic and social stabilisation and resolving the issue of the external debt.

Sberbank's tradition of political neutrality, public trust and transparency coupled with supervision exercised by the state bodies create the basis for closer collaboration with the Government, local administrations and participation in servicing state projects and budgetary flows.

In many regions Sberbank is practically the only bank capable of providing local administrations with complex banking services and of rendering significant financial support in implementing investment and social programs. While the fully functional federal treasury system is in the process of formation, the major part of budget accounts is served by Sberbank. It has the capacity for increasing the volume of pension payments and for expanding considerably in the field of salary payment projects of budget enterprises and organisations. Thanks to its large branch network Sberbank is capable of implementing any country-wide program.

High credit ratings and the credit history of Sberbank in international financial markets and its stable relationships with the largest foreign banks make Sberbank one of the most attractive partners for foreign investors planning to invest into the Russian economy.

Social issues

Established in 1841 as a financial institution for the people in the lowest income bracket, Sberbank has always been and still is the only bank that serves these customers. But nowadays the Bank services all social strata. The social policy of Sberbank rules out closing of loss making branches, or discontinuing low margin operations and services, or applying the concept of interest rate parity to customers with different levels of income and different degree of social protection. Low level of payable demand of the population requires from Sberbank an ever going quest for new banking technologies which would cut unfeasible operational costs while ensuring access of any person to necessary banking services. One such specifically Russian solution is mobile banking outlets which deliver banking services to remote settlements. In its quest of broader range of banking products, new operations and services which would meet the requirements of customers, the Bank is driven by the demand of depositors, individual private enterprises and small businesses for banking services, by the development of private enterprise, growing economic activity of the people and their material and social requirements.

Legal environment

Imperfection of legal base and weak system of checks and controls coupled with poor enforcement of law is a serious obstacle to development of the banking system in Russia. Sberbank operates in the same legal environment as other private banks and must consider high legal risks in its current operations.

The obligation to repay to depositors at sight regardless of the terms and conditions of deposits, stipulated by the Civil Code of the Russian Federation (CCRF), actually equalises any bank deposit to a demand deposit and, therefore, considerably limits the investment opportunities of the Bank. Neither conceptual basis nor mechanism of exercising the state guarantees to depositors are in place. So far Chapter 17 of the CCRF on the right of ownership and other land ownership rights, and the third part of the CCRF regulating legal

relations in the spheres of intellectual property and inheritance have not been effected. Neither a single federal system of registration of legal entities nor a law on registration of legal entities is in place. Some types of contracts generally accepted in the banking practice, such as REPOs or derivatives have been disregarded by the law whereas trust operations are practically paralysed by their current legal treatment. Court practice in certain areas (such as term contracts) practically rules out execution of such contracts. There still remains an extremely controversial legislative base on mortgage lending which considerably impairs the development of banking activity in this direction. The uniform state system of collateralisation is not yet developed. The current system of legal proceedings and enforcement is not always efficient. The system of juridical execution leaves room for ambiguous interpretations. The tax law is lagging behind and legal vacuum in certain areas of taxation issues is a serious obstacle to the development of the banking system. As a result the Bank is compelled to pay taxes on loss-making operations and incur further tax expenses on the investment into the real sector of economy. The practice of local legislations conflicting with federal law is wide-spread. In a large number of regions the rent paid by banks is times higher than the rent paid by enterprises from other industries. In fact, the banks are charged their rent at the same level as the rent paid by casinos. In order to cut expenses and costs of services offered, Sberbank is compelled to refrain from renting in favour of possessing own premises.

The imperfections in certain areas of the normative base are a constraint on the development of banking products and leave out operations with a number of marketable financial instruments. The process of the normative base creation lags behind the market practices and does not encourage development of new products by the Bank. The regulation standards for credit institutions do not take full account of the quality of management, investment policy and practices of private banks. The criteria set for credit risk assessment are not always realistic and sometimes hinder the investment activities of the Bank. Many procedures for promissory note business and for other commercial papers are not sufficiently worked out. Often the Bank is forced to incur additional expenses, engage into non-core activities and hold additional staff for complying with superfluous reporting requirements; in some instances duplication cannot be avoided to comply with the normative and regulatory documents.

Supported by such factors as rich experience, established practices, major shareholding by the government as stipulated by the law «On the Central Bank of the Russian Federation» and the Statutes, Sberbank possesses the right for legislative initiative. It can also make proposals on adjustments to the normative base. Active participation of Sberbank in this area may not only reduce its legal risks but also legal risks of all credit organisations boosting broader participation of bank capital in the development of the Russian economy.

Information Technology and Staff

Breath-taking development of information technologies radically changes banking industry world-wide. An increasing number of banks explore the opportunities of the remote account management and stock market operations using the Internet technologies. The banking development in new directions is so rapid that a delay in decision making on exploring new services can result in a significant loss of market share for the Bank.

The progress of IT- or e-based banking services in Russia is impeded by the underdeveloped telecommunications infrastructure and the virtually non-existent federal legislative base in the

areas of electronic settlements and e-commerce, specifics in national regulations on using the information safety mechanisms and lack of trust centres (certification centres) infrastructure.

Low level of average per capita income will hold back the development of the Internet operations by private customers. It is reasonable to assume that the Internet opportunities for legal entities will be substantially higher in the coming years. Therefore, the risk of technological uncompetitiveness in the areas of e-settlement and investment activity poses a serious threat for the Bank. Along with this risk there exists the problem of optimisation of costs associated with the development of this type of business.

It should be noted that in the case of the favourable scenario of the Russian economy development, the profit margins of market instruments will decrease which will require from all banks development of costs optimisation and operating costs reduction together with the volume growth and quality improvements in services and operations. The extensive branch network of the Bank and unification of the banking product and technology will allow the Bank to consolidate development and implementation costs of new high-tech banking products with the shortening of the pay-back period.

The common problem of the banking community is absence of specialised regional higher education institutions for training highly qualified specialists in banking. After the crisis, however, the opportunities for head-hunting and recruiting specialists with experience from other private banks have significantly expanded.

State of the Key Markets

Fund raising

Analysis shows that the share of savings with the banking sector is no more than 20-30 per cent of the total savings in the country, which opens the prospects for a significant expansion of the deposit base using the retail savings of public at large. Actually, there is competition among banks only in the short money segment leaving the long term savings resource untapped. Political and economic instability of the last decade, low confidence level of the rouble among people, considerable number of bankruptcy cases of large financial institutions and banks slow down the inflow of household funds in the national economy. Along with political and economic stabilisation in Russia the opportunities for mobilising such funds will grow. The banks capable of guaranteeing deposits and providing the whole range of high quality banking services will gain a competitive advantage. Sberbank being the leader in the market for retail services, may not only sell banking products but also handle the products of non-state pension funds, mutual funds and other financial institutions in the regions.

The potential of the Bank in the market for corporate funds is not yet exhausted. The ability to service the largest enterprises of the country with the developed regional structure in all areas of the Russian Federation fosters loyalty of the majority of the largest corporate clients to the Bank. The large branch network will also allow servicing of the small and intermediate businesses. The comparative disadvantages of the Bank at present are slow payments to a number of regions, insufficient quality of customer service and insufficient diversification of the product range.

The situation in the international capital markets, the credit rating and the IAS-based accounts of the Bank make it possible for the Bank to plan substantial long-term international borrowing. Unconditional fulfilment by the Bank of its commitments to its non-resident counterparties during the crisis is seen as an additional advantage of Sberbank and is appreciated by prospective international creditors facilitating fund raising internationally.

Placement of Funds

The 1998 crisis resulted in drastic contraction of the financial markets where investment of funds could be feasible. The volumes of traded Russian financial instruments (government bonds, corporate securities, money market instruments) fell dramatically and have not fully recovered yet.

At the same time, there is evidence of industrial growth in a number of industries which increases the need for borrowed funds of the real sector of the Russian economy. Currently, there is a wide range of attractive investable projects and creditworthy borrowers. Considering Sberbank's lending capacity to satisfy the needs of corporate clients, the Bank may significantly increase its credit portfolio. At the same time the demand of the real sector of the Russian economy for finance is not always supported by the ability of the borrowers to provide sufficient security and warrant repayment. Poor level of repayment discipline and high credit risks must be considered by the Bank in determining the optimum growth rates for the credit portfolio.

The shortage of financial instruments for managing short-term liquidity calls for new types of highly liquid instruments. High price volatility and low margins in the world financial markets together with high costs of legal support of international operations do not allow to consider international placement of funds as an important source of short-term liquidity. High potential of the Russian equity and capital markets can be realised only under the conditions of political and economic stability, requiring very conservative approach of the Bank to determining exposures to this segment of the market. In the current short-term market, a highly liquid assets portfolio is possible only when based on the optimum balance of low-risk credit products, state and corporate securities and precious metals with due regard to the development forecasts for particular segments of the markets.

Services

Growing requirements of the economic entities and the reduction in the number of the credit institutions create a favourable environment for the Bank in the market of services. The current demand for high-quality banking products considerably exceeds the supply thus giving the Bank a unique opportunity to expand both volume and range of the services provided. At the same time, certain social stereotypes reflect the lack of culture of using banking services which necessitates cultivation of such taste for high-quality banking products along with the development of the Russian non-cash settlements market by the Bank itself.

Internal Factors: Assessment and Impact

Funding

Despite significant changes in the structure of liabilities the largest share of funding base is still comprised of retail deposits. Unconditional commitment of the Bank to its obligations to depositors at the times of the crisis, competitive interest rates and extensive experience in working with the retail customer allow the Bank to consider deposits as a relatively stable source of funding for its operations. The share of demand deposits has fallen significantly, whereas the volume of time deposits which have proven to be the most reliable source of funding at the times of the crisis has grown. At the same time, there has been an increase in the share of socially-focused deposits in the total volume of retail deposits which has resulted in the increased cost of retail funds.

High rates of growth in the segment of corporate client base on the whole contributed to a cheaper resource base of the Bank, but decreased duration of funding. As a result there still exists a maturity mismatch of assets and liabilities in the structure of the Bank's balance sheet.

There is no long-term foreign debt in the liabilities structure because such funds are more expensive in the foreign markets than the current cost of the Bank's liabilities.

Placement of Funds

Sberbank is actively present in virtually all segments of the Russian financial market. However, the limited range of available financial instruments cannot but result in insufficient diversification of the asset portfolio of the Bank.

Substantial investment in foreign currency denominated state securities has created a sustainable long foreign currency position and increased currency risk which requires a more balanced structure by currency which would facilitate accelerated growth rate of interest income as the major component of the income structure of Sberbank.

Considerable superiority of Sberbank over other private banks in equity provides a unique possibility to provide loans in volumes which would meet the requirements of the largest Russian enterprises fostering loyalty to Sberbank among large clients. At the same time, the inflow of a number of large clients to Sberbank increases the share of large loans in the asset structure increasing the overall exposure of the Bank.

Services

Although Sberbank is the leader in the retail services market, it fails to make the most of cross-selling of services to all categories of the population. The competitive advantages of the Bank in the market for corporate services (the proprietary settlement system, ramified branch network) have not been taken full advantage of either. The strategy of working with certain groups of clients has not been developed. Lack of harmonisation of the provided services, disbalance in the sales of standard and individualised types of services, insufficient flexibility of the tariff policy and poor development of marketing prevent the Bank from capitalising on opportunities and call for an urgent revision of the policy. The volumes of the services provided do not match the position of the Bank in the banking industry of the country and should be substantially increased.

With its large growth potential the Bank is capable of a significant share increase in this segment of the market without additional costs and within short time.

Marketing and Advertising Policy

Sberbank possesses unique capacity for simultaneous country-wide promotion of a range of services at low cost due to the consolidation of expenses on technological renovation, promotion and advertising. This advantage is poorly capitalised on. Systemic approach to the demands and requirements of clients is not developed whereas tested programs roll-out practice is not in place either, nor uniform marketing service.

Currently, Sberbank's PR efforts are focused on disproving biased information or misinformation concerning the Bank rather than on image making or building up preferences of existing and potential clients. An increased information flow should be initiated and the electronic media should be made more use of.

Risk Management

The uniform system of financial flows and liquidity management of Sberbank has proved its efficiency. Regional banks experienced practically no liquidity difficulties even at the peak of the August 1998 crisis. The current risk management system provides for the solutions in the interest and exchange rate and pricing policies as well as credit risk management. At the same time, risk management is exercised by various collective bodies and there is awareness of the necessity to integrate management of all risks in a common block as a single function. The risk management system must be continuously improved on the basis of technologies used in modern banking. Wider application should be made of the methods of mathematical modelling and compliance-control system.

Branch Network

The wide branch network provides opportunities for bundled uniform standard servicing of regional subsidiaries and units of large companies, holdings and industrial-financial groups. The presence of Sberbank in all parts of Russia in different economic and time zones allows efficient resource management. The common network provides unique conditions for exchange of tested experience, roll-out of uniform management structures, products and technologies.

At the same time, a four-level management hierarchy of the Bank does not always provide for the necessary timeliness of operation. Besides, there is an objective difference in the economic potential of branches, divisions and regional banks. The experience of the last years proves the positive effect of the current branch and regional offices consolidation through their merger. The existing strong parallelism of regional banks network and administrative division into regions and other administrative constituent territorial entities within the Russian Federation does not agree with efficient servicing by Sberbank of inter-regional flows of goods and funds within larger economic zones nor with participation in their bigger zonal economic programs and projects.

Banking Technologies

Information technologies of the Bank ensure successful solution of current tasks. At the same time, taking into account new challenges facing the Bank, it is necessary to further develop and constantly upgrade core banking technologies. The regions differ greatly by development of telecommunication infrastructure, regional communication systems and levels of human resources. These differences complicate implementation of uniform policy of banking technology increasing costs and causing additional expenditure on creation of technological infrastructure and proprietary satellite communication system.

The expected development of Internet-technologies may have a relatively negative impact on the competitive advantages of Sberbank provided by proprietary telecommunications infrastructure and pose a real threat to its technological competitiveness, which requires adequate response from the Bank. The combination of the «Client-Bank» system based on the Internet technologies together with the proprietary secure settlement system providing the necessary efficiency of payments and settlement will allow the Bank to comply with the standards of the information security using Internet facilities for settlement. This may ensure leadership of the Bank in the given IT environment.

Personnel Management, Material Base

Established ties with profiled educational institutions, the Bank's scholarship system for higher education institutions, the Academy of Sberbank and the existing programs of personnel training allow the Bank to make selection of personnel and to conduct targeted staff training. At the same time, the personnel qualification is insufficient in a number of regions and in certain lines of business. There are no systems encouraging the career building of a younger professionals. The system of the staff qualification assessment needs improvement as well. The systems of moral and material incentives and personnel motivation are not sufficiently effective and can result in loss of promising talent to the competitors or in excessive expenses on personnel training.

The material and technical base of the Bank is not always up to the present-day level so that its optimisation and enhancement remains high on the agenda. Further material build-up in the form of modern offices and IT complexes for providing to the clients mass scale services in comfortable environment remains a priority.

MISSION

Sberbank is the leader of the Russian banking system, basis for its stability and reliability. The Bank's presence in all sectors of banking services makes the Bank a good alternative to any other Russian bank and ensures functioning of the country's banking system under any circumstances.

Sberbank is the bank of all-nation scale, an envoy of the Russian banking system on the international market. The Bank contributes to economic policy development and influences macroeconomic processes in the country participating in implementation of economically

effective development programmes of the government. The Bank's vast network and up-to-date technologies ensure accessibility of the Bank anywhere in the country.

Sberbank is a universal commercial bank. The Bank seeks to meet requirements and satisfy the needs of all clients in a broad spectrum of quality banking services. The Bank undertakes to efficiently place public and corporate funds to the benefit of depositors, clients and shareholders.

Sberbank is a socially important bank. Being the only banking institution providing banking services on the entire territory of Russia, the Bank actively participates in implementation of social programmes, supports development of national science and culture.

The Bank's mission is to meet requirements in banking services of high quality and reliability of each client, including private, corporate and government entities, on the entire territory of Russia, ensuring stable functioning of the Russian banking system, public savings and their investment into the real sector of economy contributing to the development of the Russian economy.

The Bank's motto is to be the "home bank" for private depositor, respected by corporate client, a reliable supporter and ally to the state, a recognised authority on the international level.

MAIN STRATEGIC GOALS AND OBJECTIVES

The strategic goal of the Bank is to reach a qualitatively new level of servicing clients, retain the positions of modern first-class competitive bank, biggest in Eastern Europe. This envisages creation of the system which is resistant to possible economic turmoil in Russia and abroad, through optimal balance of three main directions of activities: servicing individuals, corporations and government.

To achieve this goal it is necessary:

- To implement new ideology of servicing clients, combining standard techniques and individualised approach to each client; to ensure implementation of effective methods of servicing clients and enhanced quality of servicing.
- To retain the leading role on the retail market of the country; to increase the share of retail loans to 30 per cent, ensuring no less than two-fold increase of retail lending.
- To enhance work with corporate clients; to establish and maintain long-term relationship with maximum number of the first-class clients; to increase the share of corporate funds in the liabilities structure up to 25 per cent and the share of loans and debt instruments of corporate clients in net assets up to 45 per cent.
- To provide maximum assistance to the government in carrying out government investment programmes and programmes of supporting national exports.
- To ensure balanced structure of assets and liabilities taking advantage of the extensive client base, to implement modern methods of asset and liability management; to diversify the Bank's resources base, including international funding facilities.
- To increase the share of non-interest income in the structure of the Bank's total income by marketing fee generating services to clients.

- To ensure that the share of commission income in net operating income is not less than 15 per cent.
- To achieve equity growth which will ensure enhanced investments in the Russian economy. To ensure that the profit to capital ratio of not less than 20 per cent.
- To set up in the Bank the risk management system with full functionality.
- To create flexible, management system adequate to the rapidly changing environment based on economic management levers and optimal system of authority distribution. To raise manageability of the Bank by broadening autonomy of the regional banks and perfecting decision-making procedures.
- To optimise the Bank branch network taking into account both economic and social factors.

KEY FACTORS OF SUCCESS AND COMPETITIVE ADVANTAGES

The key factor of Sberbank's success in achieving the declared aims is qualitative change in the system of relationship with clients. At the same time one of the key factors of success will be timeliness of payments processing within the settlement system of the Bank.

Serious improvement of the risk management system is in the prospect. Flexibility of management of the Bank is a must to ensure swift response to varying market conditions, streamline branch network with due regard to economic and social factors and accelerate development of modern information technologies. The achievement of stated objectives is impossible without qualitative improvement of professional skills and professionalism of the staff, improvement of the system of incentives and motivation of the staff.

The Bank will more effectively use existing competitive advantages, which include trust of the clients, more than a half-century long track-record, rich traditions and experience in servicing individuals. Significant resource base and capital of the Bank allow for big and long-term loans and investments, and pole position among the Russian banks in raising funds on the international financial market. Ramified branch network provides accessibility of the Bank to the clients, facilitating manoeuvrability of resource base, complex servicing of multi-branch clients in many regions. Unique competitive advantages are provided by the proprietary settlement system which ensures interregional settlements in real time mode.

PHILOSOPHY OF THE BANK

Aspiring to a maximum transparency, the Bank considers it important to make public the following principles of corporate policy and strictly adhere in its activities to the following:

- The Bank aspires to the best standards of servicing clients, protecting interests of each client.
- The Bank complies with laws, ethical standards and code of honour in business, unconditionally executes its obligations and values its reputation.
- The Bank adheres to the principle of neutrality towards financial-industrial groups, political parties and associations and carries out its activity in the interests of depositors, clients and shareholders.
- The Bank does not finance ecologically harmful and socially hazardous productions, projects and programs.

- The Bank takes into account the social importance of its activity and considers the social factor alongside with the economic one.
- The Bank develops new operations and lines of activity, professing the principle of reasonable conservatism.
- The Bank values its employees, creates conditions under which each Bank's employee can completely realise its abilities. The Bank cares for its veterans.
- The Bank honours long standing traditions of the Russian business and promotes their revival.

MARKETING

The stated goals and objectives demand from Sberbank acceptance of the marketing policy which is in line with preferences and requirements of targeted groups of current and potential clients. An active and addressed sale of products and services calls for certain priorities in the product policy as well as optimisation of the forms and methods of sales. The offer should be made in convenient form, be accessible and attractive. Quality should meet clients' requirements, price should correspond to market level and ensure necessary return.

The Bank's Clients

Sberbank has its clients among all groups of the population of the country, enterprises of any form of ownership in all branches of national economy, credit and other financial institutions, institutes of state authority. The Bank remains socially focused and takes it into account when servicing clients.

With each client Sberbank aspires to establish long-term partnership. For this purpose the Bank forecasts development of requirements of clients, emergence of new directions of banking business, carries out marketing researches, develops and offers a complete spectrum of bank products and services.

Policy and Structure of Sales of Banking Products and Services

The basic directions of sales policy in regard of banking products and services will be:

A. Meeting requirements of mass clientele in saving, depositing and borrowing funds, in execution of settlements, in conducting business. Providing the standard set of competitive products and services intended for various regional, branch and social groups of clients.

The increasing efficiency of sales of mass services and products presupposes:

- Standardisation and unification of the offered products, including complex of organisational, information, financial and legal procedures integrated by uniform procedures of client's service, aimed at reduction of labour costs and improved quality of servicing:
- Management of product lines, including drawing of the list of core services and products of a universal bank and replacement of inefficient products and services without their stable market:
- Implementation of standard tariff policy of mass sales of bank products and services.

B. Creation of the system of personalised service of clients including a full spectrum of bank products and services meeting international standards.

This approach envisages that:

- the client is offered specially developed individualised schemes and technologies ensuring development and optimisation of business of the client and insurance of his risks;
- appointment of a personalised manager with the necessary power of authority in relation to each client; clients enjoy the advantage of technological and information facilities of the Bank and wide spectrum of consultation services;
- flexible tariff policy of individual servicing is carried out.

Each of the proposed directions envisages high quality of products and services, their constant monitoring, improving level of servicing by optimising bank procedures as well as improving of servicing culture, system development of new bank products and services for maximum satisfaction of clients' requirements.

The Bank will aspire to integrate separate banking operations and to offer complex solutions to its clients which take into account the full spectrum of individual requirements. Boosting cross-selling of bundled bank products will allow to increase volumes of commission income of the Bank by increasing sales. The decreasing costs of bundled products for the client in comparison with a retail price of separate products and services will promote integration of the client in a more close and diversified co-operation with the Bank.

The evolution of the system of sales will be carried out by incessant promotion of standard packages of bank products and services in mass demand by duplicating new products and technologies developed within the framework of individual service, and by escalating offer of complex packages of products and services.

For implementation of the proposed policy of sales it will be necessary to introduce necessary changes in the structure and the system of the Bank's management, to set up special marketing structural divisions and to create institute of personalised managers. In large industrial centres the network of specialised branches focused on complex servicing of legal entities and individuals will develop. Servicing of key corporate clients using "Client-Bank" system and Internet technologies will become mandatory in all regions.

Pricing policy

The bank implements interest and tariff policy proceeding from profitability of operations and evaluation of market conditions. The significant volumes of products sold and services provided reduce the costs of separate operations and provide the most competitive prices for clients of the Bank.

The price policy of the Bank reflects both regional specifics and features of operations carried out for major categories of clients. When rendering bundled services the Bank will take into account the aggregate effectiveness of servicing client on the basis of consolidated financial result. The Bank pursues socially-focused interest rate policy, primarily on the market of household deposits.

Advertising Policy

The bank will develop systemic approach to advertising policy and will make it an effective instrument of customer base build-up. Each competitive advantage of the Bank, each new product offered for sale should be made familiar and understandable to clients, to be easily comparable and favourably different from the offers of the competitors.

Implementing principle of transparency, the Bank will strengthen co-operation with mass media in dissemination of reliable and accurate information on the Bank. Volume of information provided in Internet will increase essentially. Clients will be better informed of the standards of corporate service, terms and conditions of products and services offered, technological opportunities of the Bank. Clients' seminars and conferences will be practised, as well as targeted advertising focused on specific groups of clients. System of addressed advertising will develop.

MAIN DIRECTIONS OF SBERBANK'S ACTIVITY

Raising Funds

Stabilisation of the political situation, and positive trends in the economy of Russia lay the basis for increased investments in the real sector of economy and require accelerated growth of Sberbank's resource base. The basic sources of funds for the Bank are:

- Savings of the population - the main and most stable investment resource.
- Corporate funds - most dynamically growing component of the Bank's liabilities.
- Funds raised on the international financial markets - the long-term liabilities for increased investment in project financing.

The main tasks of the Bank in the sphere of raising funds for the period till 2005 will be:

- Maintaining of the leading market position in raising savings of individuals, encouraging savings and investment activity of the population by granting to the Bank's depositors an option of effective forms of savings relevant to clients' requirements of liquidity, expected return and reliability ensuring growth and accrual of invested funds. Maintaining priority pricing in terms of interest rate on the deposits for the socially least protected groups of the population.
- Market share retention and possible share growth in the market of corporate banking services, formation of clients' long-term preferences to use services of the Bank.
- Assistance in attracting foreign investments in the economy of Russia, diversification of the Bank's resources base, including external borrowings.

For the purpose of creating resource base for expansion of active operations, investment in the real sector of economy and lowering interest rate risk the Bank will single out the following priorities of formation of the resource base: lengthening of maturities, reduction of total cost of funds, optimisation of funding structure by "price - term - risk of revaluation or early withdrawal" parameter.

Individuals' Deposits and Bank Card Accounts

The consequences of social, political and economic instability and inflationary expectations typical for the post-crisis period severely restrict opportunities and options of saving products. High public confidence profile of Sberbank combined with accessibility and traditionality of savings products gradually overcome the general disposition of the population towards

savings in cash form. As the inflation rates are subsiding, production rates rising, arrears in wages and pensions falling and public tax rates decreasing there will be more opportunities in raising private customers funds by the Bank.

The policy of the Bank in the area of funds raising will be aimed at maintaining the leading position in the market of private customers deposits. Public savings will continue to form the core of the resource base. The Bank will offer new financial products for private customers developed on the basis of the macroeconomics parameters analysis, regular monitoring of regional deposit and service markets, the demand for certain categories of deposits. Deposits offered by the Bank will meet the requirements of all social and age groups — working citizens and the retired, youth and the middle aged. These deposits will be directed towards the socially unprotected population strata as well as towards customers in the middle and upper income brackets.

Sberbank's interest rate policy in respect of retail customers' demand deposits will be aimed at offering such interest rates which would take into account market conditions and reserve requirements of the Central Bank of Russia. This policy will provide depositors with accumulation and increase of their deposits. An increase in the share of the long term deposits is planned as a priority objective of the interest rate policy. The goal of involving the «mattress» money of the population into economic circulation requires to increase the attractiveness not only of rouble accounts but also of foreign currency deposits. Realisation of such interest rate policy will allow the Bank to reduce interest rate and currency risks. While optimising the maturity ladder of deposits, the Bank will take into account the risk of unconditional early withdrawals as envisaged by the Civil Code.

The long-term experience of operating in the market of retail deposits, wide branch network ensuring accessibility of banking services, behaviour stereotypes and saving motives of different groups of customers have historically established the core of the customer base of the Bank as comprised of retirement age citizens. Considering its social mission, Sberbank will maintain the priority of deposit pricing for this group of its clients.

The Bank considers the economically active group of citizens and youth as the target groups of potential clients. The Bank will continue to explore and carry out measures aimed at attracting and servicing these target groups as well as encouraging their saving activity. The Bank will offer the package of deposit, credit and insurance products. The Bank will develop products that would satisfy the needs of depositors in their housing projects, big purchases, education expenses, tourism and entertainment.

Engagement and retaining of this customer group and creation of a long-term mutually beneficial «Bank-client» partnership will be facilitated by the development of support programs for retail customer operations in financial markets, trust fund management, financial consulting, brokerage and agency services, usage of up-dated technologies, including Internet. Alongside with roll-out of the competitive standard banking products, designed for public at large, there will be individualised servicing offered to clients within large income brackets.

Sberbank will increase issuance of the international payment cards, designed for the middle and upper class customers. The Bank will also increase issuance of international debit cards and the microprocessor AS SBERCARD cards for wage, pensions and social payments schemes. The service quality improvements, opportunities of Internet technologies and mobile telecommunications use and development of acquiring business will turn bank cards

into a mass product. This will result in a significant increase of funds flow through bank card accounts and growth in the card accounts balances. The Bank is planning balance growth on bank card accounts to 3-5 per cent of the total funds of private customers with the Bank. The most preferred direction for the Bank is servicing wage payment schemes of enterprises, universities, institutions and others.

Corporate Funds on the Settlement and Current Accounts and in Deposits

To improve the structure of liabilities and provide competitive pricing for investment into the real sector of economy, the Bank sets maintaining and increasing its share of banking services market of corporate clients as its prime objective. There are plans to increase balances in corporate settlement and current accounts and in corporate deposits to no less than 25 per cent of the liabilities of the Bank. This will, in turn, reduce the interest rate risk and increase the share of non-interest income of the Bank.

The goal will be achieved through long-term relationships and mutually beneficial collaboration with clients. The Bank is also planning to design and roll-out the standard banking product portfolio for individual enterprises and small business. This portfolio is to be available in all regions of Russia.

For the middle- and large-size companies the Bank will develop a packaged service system which would take into account requirements of the clients and offer the whole range of banking services accepted in international banking practice. Servicing of this category of clients will develop on the basis of flexible technologies that would adapt technical opportunities of the Bank to the requirements of the client. The Bank will pay especially close attention to the service quality, timeliness of operations and development of the «Bank-Client» system. In determining the product range, interest rate and tariff policies, regional specifics will be considered.

The Bank will follow the principle of full high-quality service range provision at minimum prices in its relations with the budget organisations and budgets of different levels. The Bank will explore and introduce special service terms designed for insurance companies, non-state pension funds and regional stock exchanges.

The development of the long-term partnership with clients associated with the bundled nature of services provided will reduce the risk of instability of the balances in the accounts of corporate clients held with the Bank. The risks will become easier to calculate and to manage.

Sberbank Debt Issuance

The Bank will continue the policy of fund-raising from private customers and legal entities by means of debt instruments and bank certificates. The Bank expects to maintain debt share at 6-7 per cent of the total liabilities.

The share of debt instruments is planned to be maintained at a constant level to diversify the resource base. The Bank will increase the attractiveness of these instruments as means of saving and settlement. Sberbank will continue consolidation of data bases that would provide for issuance and accounting of promissory notes, certificates of deposits and other securities

by all branches of the Bank. Sberbank will improve the procedure for its own promissory note issuance. The Bank will also promote the secondary market development and improve liquidity of promissory notes through the wider range of operations with such instruments. There will be renewed issuance of the certificates of deposit for legal entities and savings certificates for private customers. The Bank envisages to issue own bonds designed for different groups of clients.

Borrowing in the Domestic Interbank Market

The leading position in the Russian banking system together with high liquidity and solvency give Sberbank a competitive advantage in its operations in the interbank market, enhancing capacity of fund raising for short-term liquidity purposes, lowering expenses on current payments and ensuring more efficient use of balances on accounts at the Bank.

The Bank will develop the range of settlement, lending and brokerage services offered to commercial banks that have correspondent accounts in the Bank and are serviced by its settlement system and the depository. Simultaneously the quality of the service will be raised. Sberbank considers its operations in the interbank market not only as fund raising exercise and potential source of commission and arbitrage income but also as an important contribution to the development of the Russian banking system, providing stability to the banking sector and to the infrastructure for the middle and small credit organisations. Middle and long-term borrowing from commercial banks is not seen by the Bank as a source of funding of significance.

Long-term International Borrowing

Syndicated loans from foreign banks and experience of joint investment projects gained in the process will be taken further advantage of. Volumes of such operations will grow. Capitalising on its business connections with non-resident banks, foreign investors and high performance ratios testifying to the Bank's reliability under international standards, Sberbank is stepping up its operations in the international markets of fund raising. The Bank will contribute its utmost effort in order to overcome foreign investors cautiousness regarding investment in Russia. For the purpose of general risk reduction, the spectrum of long-term borrowing instruments will be widened. Prospective investors will be offered a range of projects and programs for mutually advantageous project and investment financing. The programs for various types of fund investment in collaboration with the European Bank for Reconstruction and Development will be further developed. Collaboration with exporting agencies of the countries exporting their production to Russia will also be promoted.

Currently, the volume of external financing is constrained by the country risk rating of Russia. Further recovery of Russian economy and political stabilisation will improve Russian rating and the rating of the Bank. This will lead to potential volume increase of funds raised on terms and conditions more favourable for the Bank.

Placement of Funds

In order to achieve its fundamental strategic aims, the Bank will maintain the optimum balance of the three basic activity directions in the area of placement of funds.

- Private customers lending is a promising market segment for funds placement.
- Loans, project financing and placement in corporate debt instruments is another direction which will promote the development of the national economy, support domestic producers of goods and services.
- Investment in state securities, financing of and participation in implementation of state and regional projects is the major form of supporting state economic programs.

The major tasks for the Bank in the area of investment to the year 2005 will be:

- Increase of volume of financing private customers for the purpose of personal consumption growth, solving housing and social problems of individual customers which will boost the demand for goods and services.
- Increase of investment in the real sector of economy mainly through accelerated growth of financing corporate clients in roubles and foreign currency.
- Continuous optimisation of the state securities portfolio structure for the purpose of maximising return, liquidity and reduction of currency and market risks.

As part of the strategy in the area of risk management when building up assets, the Bank will aim at maintaining adequate liquidity level, balanced structure of assets and liabilities by maturity and currency and ensuring sufficient level of diversification by region, industry, client and volume of investment. The development of asset operations of the Bank will be supported by the analysis of various market segments efficiency.

Liquidity Management Instruments

Growing balances in the settlement and current accounts of legal entities and intensification of Sberbank's activity in the market of settlement services require an increased short-term liquidity. While considering liquidity maintenance as one of the key priorities the Bank estimates the minimum level of highly liquid assets at 5 per cent of the total net assets. The general liquidity level with three months horizon must be at 20 per cent of highly liquid assets to ensure stability of the Bank's operations in any market conditions. With the development of financial markets and general market liquidity improvement, the marginal share of the immediate liquidity assets in the balance structure may be diminished.

The major directions of the highly liquid assets structure optimisation will be:

- minimisation of non-earning cash balances and balances of correspondent account with the Central Bank of Russia;
- increasing return on the funds in the accounts with correspondent banks and interbank deposits;
- creation of highly liquid marketable securities portfolios of the prime rate Russian and foreign issuers, building up highly liquid trading portfolios of securities issued by first-rate domestic and international issuers ensuring returns over the rates of money market; investment in short-term financial instruments of international financial markets with fixed return and risk parameters.

Lending

The major task for the Bank regarding lending operations to the year 2005 will be expansion of the high quality credit portfolio with high return on the basis of credit risk minimisation and diversification. The Bank will continue lending to all the major groups of clients: general public, corporate clients, federal structures and the executive bodies of the subjects of the Russian Federation and credit-financial organisations.

The diversified client base will predetermine a complex credit portfolio structure of the Bank and will primarily impact the product range. The selected direction aimed at complex servicing will ensure a very wide range of services, banking products and instruments for all targeted consumer groups.

The Bank will follow an interest rate policy based on economic efficiency of lending operations, maintenance of the necessary interest margin and considerations of the state of the market.

The lending products of the Bank will be made more competitive through higher flexibility of terms of lending, expanded product range and considerations of the individual client requirements. Loan accessibility will be provided to a maximum number of creditable borrowers supported by an efficient advertising campaign. When extending loans special attention will be paid to consulting and cross-selling of additional services to the clients of the Bank.

Retail Lending

With the economic stabilisation in the country and general growth of public payable demand the share of household loans in the credit portfolio of the Bank is planned to be raised by increasing volumes of loans and services which would satisfy the growing public requirements. The Bank is planning to raise its share in the market for household lending up to 30 per cent.

The credit portfolio growth will be promoted through increasing volume of the consumer loans for immediate needs as well as loans for purchasing, building and reconstruction of housing. Overdraft credits on bank card accounts will be further developed.

Operations of financing the state housing certificate owners will continue as part of the presidential program "State housing certificates". Considering the fact that the volume of subsidies offered through this program does not cover the cost of the housing acquisition, the provision of financing to cover the remaining cost will allow this category of people to buy the desired housing in the desirable region.

New products and banking services will be promoted with regard to the borrowing needs of various age and social population groups including education loans, consumer loans to young families, consumer loans to cover immediate consumer needs against pledge of gold bars and precious metal coins, mortgage loans for housing acquisition in the housing projects financed by the Bank; general purpose loans to employees from financially stable enterprises and organisations against corporate guarantees.

As part of realisation of the federal and sub-federal programs of the Russian Federation constituent entities, the Bank will collaborate with the local authorities to increase mortgage lending to households.

Considering the general rise in the small business activity, special attention will be paid to financing of private entrepreneurs.

Corporate lending

Growing demand of the real sector of the economy and improving investment climate will allow to enhance the range and volume of operations in the market for corporate lending. The lending policy of the Bank in this particular market segment will prioritise development of relationships with large enterprises from the real economy sector and the structures of federal importance, oil and power supplying enterprises, exporters and importers, technical and defence industry enterprises, construction firms, trading companies and intermediaries, service companies, most attractive investable enterprises in the production, transport and communication industries including establishment of relationships with efficient middle and small-size companies and enterprises from the agricultural industry that have stable turnover on their accounts with the Bank.

Business efficiency of the borrower, feasibility of the financed project as well as stable turnover on the accounts with the Bank will remain the determining factors for lending.

There will be developed individual schemes for large enterprises and groups of related borrowers with large branch networks which will take into account the multi-aspect nature of the client-Bank relationship.

Lending to the corporate clients will be carried out along the following main directions: short-term commercial lending, investment and project financing. Besides, overdraft and promissory notes financing will be further developed to take into account specifics of funds flow over the accounts of the borrowers and their requirements in optimisation of settlements with their counterparties and expenses on servicing their loans. New kinds of loan products with flexible instruments of risk minimisation customised to specifics and conditions of the borrower will also be developed.

Necessity to optimise assets structure, reduce interest rate, currency and credit risks will require from the Bank an increase of short-term lending in roubles and in foreign currency in the corporate credit portfolio. Significant potential of the trade finance market stimulates dynamic increase of hard currency financing of clients engaged in foreign trade operations.

The short-term financing of corporate clients in roubles and foreign currency for up to one year will be focused on meeting the requirements of the clients in working capital. The target groups in the given category will be clients with the highest velocity of funds turnover represented by the enterprises of light and food industries, municipal services, trade and trade-intermediary enterprises. The size of the loans will be determined on the basis of the borrower's solvency, turnover on the accounts, branch and regional specifics of the business. The reduction of credit risks will be achieved by loan portfolio diversification, increased

lending to effectively operating medium and small enterprises, improved quality of security cover.

Dynamic development of trade finance will provide necessary volumes of short-term lending in foreign currency. Pre-export financing will be developed with the focus, primarily, on the medium and large corporate clients and their Russian intermediaries. These financing operations will be developed with the account taken of the developments in the foreign exchange, financial and commodity markets and prospective upgrading of Russia's country rating. It will essentially increase possibilities of the Bank in application of non-financing mechanisms, such as forfeiting, documentary operations and guarantees. The priority direction in the guarantee business of the Bank will be rendering services to the participants of foreign trade (exporters and importers), enterprises with the good track-record of domestic operations. In conditions of stabilising economy in Russia and rising international rating most promising is the business of issuing payment guarantees, guarantees of execution of the contractual obligations (performance bonds), tender and customs guarantees.

Sberbank will develop products which take into account specifics of various branches of national economy. Pre-financing of precious metals production against the borrower's obligation of future delivery of precious metals used as an additional guarantee along with the standard forms of security will be further developed. Thus, the practice of additional services to the borrowers in the form of purchasing precious metals from mining enterprises both for the subsequent resale, and for building up the Bank's precious metals investment portfolio will be further perfected.

The number of branches participating in the EBRD program of micro credits and financing small business will be increased. In view of the gained experience of co-operation with EBRD the Bank will develop the programs of micro-credits and financing small business using its own resources.

Investment financing will become one of the basic instruments for gaining access to the most attractive segment of the market represented by big and creditworthy domestic clients and, consequently, for establishing and maintaining the customer base of the Bank. It will serve as the additional catalyst of further development of all types of lending operations and cross-selling of accompanying services to the clients. The increasing volumes of long-term financing products, investment and project financing will be subject to strict compliance with the liquidity ratios established by the Central Bank of Russia and demand of the real sector of economy.

In the perspective there emerges the possibility of expansion of investment financing and accepting for servicing of a wider circle of the clients, including the enterprises of medium and small business and enterprises which are engaged in housing construction and construction of office, trade and hotel premises. Financing investment projects for renovation of production base of the manufacturing enterprises and of the largest and most reliable mining enterprises with a good perspective will be further developed, including those enterprises which are developing new deposits.

Along with the overall stabilisation and improvement of investment climate in the country, and increasing size of the projects for implementation, project finance will be an ever growing business. Consolidation of project finance management at the Head-office of the Bank will be

combined with parallel development of this business by Sberbank branches located in the regions of Russia which are most dynamic in economic terms.

Besides, in the process of developing new segments of the market the Bank will design new credit products focused on bundled servicing of corporate clients at various branches with high investment potential. The Bank will consider participation in creating the system to support national exports, Russian equipment manufacturers and to expand export financing.

For the purposes of the credit portfolio credit risk diversification and for minimisation and distribution of risk within separate projects, short-term and long-term syndication will be promoted, including syndication within the framework of the programs of co-operation with international financial institutions. Sberbank also has on its agenda participation in syndicates not only as a creditor, but also as an arranger and agent, with the view of developing this direction into an independent business of the Bank.

Financing Federal Structures of the Russian Federation and Executive Bodies of Constituent Entities

Issuing Loans to Federal Structures and Executive Bodies of the Russian Federation Constituent Entities will remain an important direction of Sberbank activities. The operations will be executed within the risk limits, established on the regional administrations and on a single borrower of the federal level, taking into account their credit history, state of their budgets, and their compliance to the Budget Code.

Sberbank will support commercially implemented federal programs and projects which have a guaranteed source of repayment. At the regional level, the activity of the Bank will be focused on participating in investment, social and other programs implemented by regional bodies subject to adequate assessment of risks and cost-effectiveness of the projects proposed.

Interbank Loans

Sberbank will support sustainable development of the Russian interbank market, remaining at the same time one of its key participants. Issuing loans to Russian banks will be enhanced in line with the improvement of the Russian banking system. Interbank loans will be used mainly as a vehicle of optimum liquidity management, taking into account risks and costs, interbank loans are not considered by the Bank as an instrument of placing its own funds.

To work with a wide range of Russian counterparties, a list of acceptable cover will be expanded to the maximum possible degree, as well as the range of securities eligible for REPO transactions; exchange rate and deposit "swap" operations will be envisaged.

Securities

Trading Portfolio

The trading portfolio of securities is created as an effective instrument of decreasing cost of maintaining short-term liquidity, a necessary prerequisite for the development of client

operations. Proceeds from arbitrage operations with the trading securities portfolio are not considered by the Bank as a source of income of any significance in overall financial results. The practice of opening low-value trading limits for asset portfolios in new segments of the market and new banking instruments will be continued with the view of improving techniques of operations and better understanding specifics of the market in question, so that the quality of executing client orders could be perfected.

The main segments of the market, where Sberbank will continue building up its trading portfolio of securities will be the market of State and corporate securities, and the market of eurobonds of the Russian issuers. Limits are envisaged on forming low-value trading portfolios of the international stock market instruments of potential interest to the Bank's clients.

Investment Portfolio

Sberbank considers investment in securities as one of its main assets, as a vehicle of effective placing of its own funds and the funds of its clients. Sberbank makes the following estimates of its operations in different sectors of the securities market:

State Securities

Significant changes of market parameters after the crisis of 1998 and GKO-OFZ novation have decreased the capacity of this market segment, reduced trading volumes, increased duration and decreased return on the investment portfolio of the State securities held by Sberbank. The current parameters of the portfolio meet the requirements and interests of the Bank. There are no plans to dispose of the investment portfolio before maturity; additional investments are planned with prioritised investment in securities with shorter maturities.

Investment portfolios of state securities denominated in foreign currency (domestic hard currency state bonds (OVGVZs) and Russian Eurobonds) formed in the previous years, are a substantial source of income of Sberbank providing the required level of return on investments. Their management will be reduced to operations aimed at improving the quality of the portfolios and optimisation of their structure. There are no plans of any increase of the investment portfolios of securities denominated in foreign currency. Replacement of certain foreign-currency denominated securities, whose market value exceeds their book value, for Russian Eurobonds with shorter days to maturity is possible.

The volume of the investment portfolio of securities will not exceed 20 to 25 per cent of the total market volume.

Experience gained in operations with state securities sold to individuals and legal entities testifies to the perspectiveness of these operations. The volume of possible investments of the Bank will be determined depending on the plans of the Government for the issuing of the given type of securities.

Securities of the Russian Federation Constituent Entities and Local Authorities

The Bank does not plan to considerably increase the portfolio of sub-federal and municipal securities. The possibilities of new investments in the given segment of the market will be considered taking into account the credit history of the issuers, their financial capacity and their ability to meet obligations duly and timely.

Corporate securities

Gradual revival of the domestic market of corporate securities makes it possible to expect further growth of its investment attractiveness. The Bank intends to build up investment portfolios of corporate issues of stock, which could be further increased given favourable market trends. Corporate debt instruments and promissory notes of industrial enterprises may be of particular interest to the Bank from investment perspective. Preference will be given to debt instruments of large issuers, representing the most investment attractive branches of economy. No appreciable investment in securities of foreign issuers is envisaged by Sberbank.

Banking Services

The main prerequisite of increasing the client base of the Bank is the development of the whole range of banking products and services aimed at satisfying the needs of its clients to the maximum possible degree. The Bank considers this direction of its business as the main source of sustainable growth of non-interest component of its income, additional source of stability in case of considerable volatility in the market interest rates.

Sberbank sets the following targets in the sphere of developing banking services aiming at:

- increasing Sberbank's share in the market of servicing transit flows, including social transfers and transfers of salaries and wages; increasing participation in servicing retail turnover of goods and services; increasing the share in the market of executing retail payments in favour of enterprises and organisations (standing orders); increasing the role of the Bank on the market of bank cards and currency exchange operations;
- increasing the role of the Bank in the market of corporate payments in roubles and foreign currency; servicing cash flows of state and government bodies and budget organisations;
- considerable strengthening of Sberbank's positions in the market of services rendered to enterprises and organisations engaged in foreign economic activity;
- participation in the market of trust operations, servicing of sell/purchase transactions in respect of different types of property, broker and depository operations,

The top-priority in further development of services will be growth of volume with simultaneous reduction of cost and better quality of standardised and tailored services.

Cash services

By developing retail cash and settlement services Sberbank has gained leadership in this sector of the market based on competitive pricing, quality of services and wide range of products.

With the increasing competition in this sector retaining by Sberbank of its leadership and further development of cash services will be dependent primarily on improvement of service quality, implementation of flexible tariff policy and reduction of costs both for itself and for the client. To increase the value per executed payment and reduce associated costs accordingly, the Bank will expand from servicing municipal payments to servicing household payments to retail trade enterprises, organisations and enterprises rendering utility, transport, legal, educational, tourist, telecommunication, insurance, medical and other services. Non-cash transfers to the accounts and processing standing order of the customers will be actively developed.

The Bank envisages considerable volumes growth of individual transfers in roubles and hard currency. The volumes of property-related transactions of physical persons and consultation services provided by Sberbank will increase as well as providing safe-deposit boxes to individuals.

Corporate clients will be offered the service of personalised managers. The service of the atomated "client - bank" system offered to clients will be significantly increased, cash collection and payment documents collection services will be further developed.

Settlement system

The development of the settlement system of Sberbank will be aimed at preservation and strengthening of its market position in the segment of settlements for individuals and legal entities by providing higher quality of cash service and by offering funds transfer services to the clients of other private banks.

Acceleration of roubles and hard currency payments will be achieved by upgrading internal IT systems of the Bank, by development of the telecommunications infrastructure and optimisation of settlement flows. The wide correspondent network of "NOSTRO" accounts of the Bank supported by the established system of country risk assessment and establishment of limits on correspondent banks ensures timely and reliable client payment in any region of the world. The "NOSTRO" accounts system will be streamlined to reduce settlements costs, provide additional services and direct bank-to-bank relationships with the banks servicing financial flows of their foreign counterparties. Special attention will be paid to establishment of long-term partnerships with correspondent banks, negotiating mutually advantageous terms of maintaining accounts, rendering services and effecting payments. "LORO" accounts will be opened and maintained for credit financial institutions with good business record. The Bank will undertake the functions of the paying agent for payment systems and trading sites.

The Bank will continue its centralisation policy when opening and maintaining "NOSTRO" accounts in foreign banks ensuring uniform standard of settlement deadlines and quality of services at all its branches. The volume and range of documentary services will grow considerably. In separate cases regional banks of Sberbank will be granted the right of independent management of NOSTRO accounts.

Bank card business

Sberbank's program of the bank card development is aimed at substantial growth in all areas of card business, enhancement of card products in order to meet international quality standards. The proprietary payment system of Sberbank will be further developed integrating a uniform set of card products, issued by the Bank, and integrated cards acceptance network with proprietary ATM and terminals network as its backbone. Significant proliferation is envisaged of bank cards including individual and corporate cards .

Simultaneously with the program of developing international bank cards business the Bank will consecutively develop the program of proprietary microprocessor cards AS SBERCARD which do not depend on availability of telecommunication infrastructure in various regions.

The following key directions of developing card business have been singled out by Sberbank:

- The international cards VISA, Eurocard/MasterCard - with Classic and Gold cards intended for middle class and well-off clients; international debit cards Sberbank - Cirrus/Maestro, Sberbank - Visa Electron intended for the employees salary payments and for pensioners and youth for transfer of pensions, payments of social allowances, grants and scholarships.

- Microprocessor cards AS SBERCARD intended for payment of wages, Internet-banking and e-commerce.

- Facilitating acceptance of international bank cards and AS SBERCARD by trade and public service outlets as means of payment (acquiring).

- Providing settlement of bank card transactions to highly reliable middle and small private banks (processing), that will contribute to the overall development of card business in Russia. The attractiveness of bank cards will be enhanced with further development of overdraft credits on card accounts.

Documentary Business And Currency Control Agency

Servicing exporters and importers is considered a priority direction of banking services to be expanded primarily through providing documentary operations via the branches of Sberbank. The Bank aims at increasing its share in total volume of export-import transactions to 30 per cent.

The Bank is planning to optimise procedures for documentary operations, reduce the time of the documentation handling and to improve quality of servicing the clients, facilitating significant increase in the volumes of opened and advised documentary letters of credit. More active use of documentary operations is envisaged as the vehicle of financing, which reduces risks of foreign trade operations of the clients and ensures growth of the Bank revenue.

Measures taken by the Government of the Russian Federation and the Central Bank of Russia to strengthen foreign trade discipline require that the Bank should expand functions of the currency controlling agent in the sphere of foreign trade activities. In this connection, after preparatory work the Bank plans to increase the number of branches authorised to fulfil functions of the currency controlling agent.

Consultative services on preparation of documents and contracts, performance of functions of the paying agent and other banking services within foreign trade servicing framework will be further developed.

Foreign exchange and conversion. Precious metals operations

Sberbank will strive for an increase of its share in the total volume of foreign exchange operations to 25 per cent, and for further increase in the market of handling checks of foreign issuers. From its head office Sberbank will carry out the balanced policy of setting currency exchange rates while taking into account specifics of the regional currency exchange markets, and continuing optimisation of its foreign currency exchange outlets network.

Consolidation of Sberbank's positions in the market of banking business is envisaged along with maintaining its role of the major supplier of banknotes to other commercial banks in the majority of regions. The key factors of success here will be further development of banknotes delivery and banknotes export operations and a flexible tariff policy.

The bank will continue with providing the full range of conversion services on competitive terms. Sberbank's experience in developing financial markets will allow it to reduce the risks of the client, conducting operations with the partners from the countries of the CIS, Baltics and Eastern Europe.

Clients will be able to take advantage of Sberbank's experience gained in the emerging markets to minimise their risks when doing business with counterparties from the CIS countries and Eastern Europe.

Operations with Securities and Depository Services

The objective of Sberbank on this segment of the market is to increase substantially the range of services rendered to the clients and to have a three-fold growth of the turnover of clients' operations with securities.

Combining facilities of regional exchanges and trading sites with the Head-office centralisation of operations on trading floors of all-Russian importance and international markets will ensure competitive pricing. Through its ramified network the Bank will provide the clients with individual and institutional forms of investment. Each potential investor will have an opportunity to make direct investment in securities, open an account and to conclude with the Bank an agreement on broker service in any segment of the equity market or to entrust the Bank with securities portfolio management. Institutional investments will be serviced by the Bank through various vehicles (indices) targeting high return sectors of equity market, or mutual funds managed by Sberbank (GFBM), or targeted subscriptions to derivative instruments, linked to stock exchange or a single issuer.

Sberbank will set up an infrastructure which would allow its customers to monitor their investment, to receive complete and accurate information (including real-time data) essential for analysis to support investment decisions.

The legal entities can receive from the Bank a complete package of consulting services necessary for investment activity, services of issue arranger, adviser, paying agent and underwriter of corporate debt instruments.

Servicing operations with securities requires considerable development of depository services. For the Russian and foreign investors, both individual and legal entities, the Bank will provide a reliable and timely access to a maximum wide range of the equity market instruments, including securities of the regional issuers (sub-federal issues).

The development of depository operations of the Bank will go in line with realisation of a complete set of depository services and maximal use of competitive advantages of the Bank depository.

PERFORMANCE TARGETS AND CAPITAL

Within the outlined Strategy Sberbank will strive for sustainable financial performance aiming at profit to capital ratio of not less than 20 per cent which would ensure sustainable returns to the shareholders, commensurate to the market conditions at the modest investment risk.

Increased financing of the real sector of economy and loans to individuals will ensure sufficient interest spread to Sberbank. Guided by the principle of prudential conservatism, the Bank does not envisage high-risk investments, and therefore, does not expect any spectacular interest spread increase.

Development of services and implementation of comprehensive approach to servicing clients by achieving strategic goals will ensure accelerated growth of non-interest income in Sberbank's net income from operations.

Special attention will be paid to optimisation of non-interest expenses through further reorganisation of the branch network and application of modern banking technologies. Enhancing its risk management system and improving asset quality the Bank will decrease the risk of possible losses.

Growing profits will become the main source of capital increase for Sberbank. The Bank considers increasing its capital as a necessary condition of meeting the growing demand of Russian enterprises for loans of considerable volumes and long maturities. Capital increase is also necessary for introducing up-to-date information technologies and improvement of the material and technical base of the Bank.

To increase its cost-effectiveness and decrease the level of aggregate risks, special attention will be paid to reducing immobilised capital.

Given stabilisation and further development of the domestic securities market and aiming at decreasing the general level of risk, optimisation of asset/liability management and priority interests of its shareholders and clients, Sberbank will consider the possibility of increasing its statutory capital, either through additional issue of shares or convertible bonds, subordinated

loan, or some other instrument depending on the economic situation and state of financial markets.

Market Capitalisation, Shareholders

Growing market price and increased attractiveness of Sberbank's shares will be ensured by high performance results and upgraded rating, transparency of its financial information, implementation of reasonable and stable dividend policy and listing on the largest trading sites.

The key shareholder role of the Central Bank of Russia is defined by the Law. However Sberbank will welcome among its shareholders individuals and legal entities, both residents and non-residents, including investors and other participants of the securities market who are engaged in short-term transactions with Sberbank shares. Among its shareholders the Bank would welcome strategic partners in various sectors of the market and those clients who consider buying shares as part of their long-term co-operation with the Bank as its shareholders. Participation of the Bank's employees in its share capital is regarded as one of incentives for the staff, enhancing their involvement and responsibility for financial and economic performance of the Bank.

In relations with its shareholders, the Bank intends to pursue the policy of openness and strictly adhere to the following principles of corporate governance: respecting and ensuring equal rights of all its shareholders, caring for their interests, timely providing the relevant information, active communication policy, increasing the transparency and accessibility of information on the basis of improved quality of reporting and accounting.

Operations against the pledge of liquid assets will be promoted, aimed at medium and small banks and financial institutions. The volume of operations on regional currency exchanges will be increased, and flexibility of exchange rates controls for buying/selling and conversion of foreign currency by the branches will be improved with specifics of the regional markets taken into consideration.

Sberbank envisages to expand the number of branches authorised to carry out retail purchase/sale operations with measured gold bars and precious metal coins, thus increasing the volume of these operations. Special attention will be paid by Sberbank to perfection of unallocated metal accounts, facilitating development of long-term relationships with the investors including both individuals and legal entities, authorised banks and other enterprises using precious metals in their production.

ORGANISATION AND MANAGEMENT SYSTEM

The declared strategic objectives and tasks require adjustments to be made in organisation and management structure of the control system. The Bank will try to achieve the optimum balance of functions and power division between structural components of the management system to ensure achievement of the goals at minimal cost and acceptable level of risk.

While maintaining integrity of the centralised management of strategic development, structure policy and risk management, the Bank will widen powers delegated to its branches and divisions directly servicing the clients. Organisational structure and branch network will be streamlined with regard to regional specifics and requirements of the clients.

Organisational Structure

An increased range of products, services spectrum and the growing volume of operations as well as changing principles of servicing clients make it necessary to single out a number of functions and to create new structural divisions. The territorial banks will receive more independence in establishing structural divisions for business directions with a significant development potential in the given region. The system of marketing will be created with the focus on the analysis of the regional market, needs and requirements of the clients, development and perfection of banking products and services.

The most important direction in structural reorganisation of Sberbank will be improvement of inter-departmental co-operation in offering various kinds of products and services to the client. One of possible vehicles for this will be creation of the institute of personalised managers, that will provide for cross-selling of banking products.

The Head-office will focus on improving management efficiency, perfecting structural policy and risks control system and intrabank financial flows. Alongside with implementation of large projects and servicing the enterprises and organisations of federal level, the Head-office of the Bank will step up its role in inter-departmental co-ordination in servicing the big-size clients with regional branches and affiliated structures.

Significant demand from the clients and the potential for increased volume of operations, which envisage centralised execution, require setting up a number of new structural divisions at the Head-office supporting territorial banks in their servicing of clients. A separate division of the Head-office will actively undertake the methodological and practical assistance on the issues of servicing corporate clients and budget organisations.

To enhance efficiency of management the following functions will be singled out: strategic planning, budgeting, risk management, asset and liability management, tax planning. Greater scope of powers delegated to branches will step up the importance of Head-office controlling and supervisory function and the function of internal audit. For risks minimisation the work will be continued on structural separation of such functions as executing operations, their registration and accounting, establishment of limits and controls.

Practice of focused project groups for solution of specific problems of developing new business for the Bank will be further developed.

The Bank does not exclude the possibility of setting up subsidiaries and affiliated companies to meet requirements of the clients and to develop specific business lines outside traditional banking, which will be conducted only on the principle of economic feasibility. The Bank does not plan significant investments in subsidiaries and affiliates, and the system of the existing ones will be streamlined.

Branch network

The ramified branch network of Sberbank requires preservation of the four-level structure including the Head-office, regional banks, branches, sub-branches and agencies.

Optimisation of Sberbank's branch network will be continued, integration of territorial banks based on transition from existing administrative - territorial division parallelism to division in line with the larger economic-geographical zones will be further developed. Integration of the territorial banks allows to strengthen their investment potential, to bring the level of development of regional banks in line with the economic potential of regions. New opportunities will be provided for improved functioning of the settlement system of the Bank, introduction of modern technologies and automation, increase of the management efficiency of branches and sub-branches, asset and liability management, and for human resources management.

Integration of territorial banks will result in growing involvement in important regional investment projects and programs of economic development and, as a consequence, creation of new jobs in the real sector of economy. The conditions for more effective service of large regional clients will be provided. Implementation of research and evaluation of the regional markets, defining interest rates and tariff policy with regard to economic and social conditions of the regional development, determination of strategic directions of developing operations in the region will be an integral function of regional banks.

The Bank will review differentiated normatives of administrative costs, number of sub-branches and the number of clients per branch. The policy of streamlining administrative and managerial staff of branches will be continued through their mergers and integration without reducing the number of outlets to service the clients.

The Bank will continue with optimisation of costs in relation to the branch network (introduction of the standards of service, replacement of unprofitable sub-branches and agencies by mobile service outlets, change of the operation hours of sub-branch etc.). The optimisation of the branch and agencies network will be conducted taking in view both economic and social factors, including parameters of density and number of population in the region, number of clients serviced per sub-branch of the Bank, needs of the clients to access separate bank products and services.

Focusing on requirements of the client requires expansion of possible spectrum of the organisational forms on the “branch - sub-branch” level. Alongside with branches and sub-branches, which will offer the standardised set of services to their clients, there will be specialised branches focusing on complex and tailored servicing of clients and development of specific lines of business.

Management System

Changes in the system of management will be aimed at increasing independence of structural divisions, their initiative and responsibility with the aim of reducing bureaucratisation, execution time for standard operations, increasing quality of clients' service.

Regional banks with stable financial performance, qualified personnel and necessary level of bank technologies will be granted wider powers and wider opportunities of developing active operations on the assets side of the balance sheet with more flexibility of interest rate and tariff policy. The responsibility of top management for financial performance of their divisions will also increase.

Strategic Management

The Concept defines the basic directions of the development of Sberbank for the coming five years and will be further developed and detailed in the system business-planning. The Bank will carry out an on-going monitoring of the Concept implementation, and annually submit for consideration of Supervisory Board of the Bank intermediate results of its fulfilment. On the basis of the Concept the Board of the Bank will determine regional policy of the Bank and ensure development and control over business-strategies execution in relation to key directions of activities. Some strategic programs and decisions involving significant costs may require an independent expert assessment by authoritative independent auditor or consultant. The possible changes of external and internal factors of activity of the Bank will be taken into account in annual business-plans.

Risk Management

Development of active operations, delegating greater autonomy to divisions in sale of products and services requires from the Bank implementation of a rigidly centralised policy of risk management.

The main bodies of risk management will be appropriate Committees of Sberbank and regional banks, with competence over limits and interest rate policy, approval of decisions on operations with high level of risk. Loyal to the principle of collective approval of the decisions on risk-bearing operations, the Bank will strengthen personal responsibility of higher management and staff of divisions performing active operations.

The Bank will continue the process of standardisation of active operations, establishment and accounting for risk limits, centralisation of the system of assessment and accounting for regional and branch risks. The centralised control system of market risks of the Bank will be improved, including management of interest rate and price risk, foreign exchange risk, liquidity management and management of other kinds of risks.

Accounting and Management Accounting

Further development of accounting system and preparation of accounts will be aimed at ensuring transparency for shareholders and clients of the Bank, timely presentation and application of international accounting standards.

The Bank will set up a uniform system of management information system adequate to Sberbank's new philosophy of strategic planning and requirements of division by division accountability for implementation of business - plans.

Management of Banking Technologies, Information Systems, Material and Technical Base

The Bank will follow a uniform policy in respect of bank technologies, automation, information security and development of the material and technical base. When solving key problems of business development, enhancement of banking technologies will be in the focus of attention. When taking decisions on development, procurement and introduction of new technological solutions and installation of hard- and software, the Bank will rely on its own financial resources and will be guided by the economic expediency of the investment.

Growing competition in the market of banking services, frequent changes of legislative and regulatory base, significant region-to-region differences in the composition of the client base, differing opportunities for expanding business, the level of material and technical resource base and availability of present-day telecommunication systems pose enhanced requirements to flexibility of technologies to be installed, their adaptability to new banking products, effectiveness of their use in all regional banks.

Development of Automated Systems of Sberbank, Telecommunications Infrastructure and Communication Systems

To further improve the quality of operations and streamline the expenses on automation Sberbank has envisaged stage-by-stage development of an integrated (uniform) banking system ensuring straight through processing of data, integration of information flows of business-systems, centralisation of information storage and processing systems. This task will be solved by consecutive deployment of the corporate intranet using the uniform IT solutions, executed in multilevel architecture “client-server” at various levels of Sberbank's organisational structure.

The Bank is planning to provide its clients with a competitive bundled services on the basis of internet-technologies, including mobile banking and settlement solutions for e-commerce systems. Solutions to be introduced will ensure interactive access of clients to their accounts, specialised financial information bases, trade floors and financial markets, Internet portals will be set up for more effective client-to-client connection of Sberbank corporate clients.

Special attention will be given to creation of the atomated system of management of the Bank, that will provide for solving problems in risk management, management of loan and securities portfolios, as well as in the field of strategic and business planning, marketing, monitoring control of activities of territorial banks.

The development of bank technologies and atomated systems will require updating of telecommunications channels. The satellite communication system will be further developed, to reach down to the level of branches. Its reliability and throughput will be radically increased.

The main condition of creation and introduction of IT systems at the Bank will be security of intrabank and client information, with due regard to the fact, that requirements to information safety will become more rigid when introducing intranet/ internet technologies.

Provision of Banking Premises

Priority development of activities immediately relating to servicing clients, necessity of introducing up-to-date banking technologies and IT facilities pose more demanding and rigorous requirements to the standards of office premises.

The Bank does not envisage in its plans full provision of own premises and re-equipment of every of its buildings. Construction, re-building or acquiring of buildings and premises will be driven exclusively by the requirements of providing high level of services to clients. It will be also driven by the considerations of ensuring safety of valuables, security of clients and employees, information security, introduction and development of automation systems and telecommunications which make it possible to use new banking technologies and by considerations of compliance to requirements of the Central Bank of Russia to banking institutions.

The resource base will be developed with regard to development prospects of branches of the Bank from the point of view of priority directions of business. New premises will be

constructed or acquired only when it is required by technological necessity of business development, or is more cost-effective, than lease.

In developing its technical base the Bank will rely only on its own funding, strengthening control over feasibility and efficiency of investment. The Bank will strive for uniform requirements and standards, company style in design and refurbishing its premises and offices.

Personnel Management

Human Resources development is considered by the Bank a key condition for achieving its strategic goals. Intensifying activities of the Bank's employees, company-wide development of new products and technologies, delegating more powers and responsibility to the professionals and middle level managers calls for setting new goals and priorities in the system of personnel management. The main task of Sberbank's overall personnel policy for the coming years will be further improvement of professional skills of the Bank's staff, creation of teams of professionals capable of ensuring success in achieving goals set by the strategic development of the Bank. Priorities in the personnel policies of the Bank include higher effectiveness of the system of selection, training and job assignment of the staff, further development of the employees motivation system and corporate culture.

The established system of selection of the most promising graduates of the leading higher and secondary educational institutions, providing them target grants of Sberbank will be combined with the practice of recruiting top-level professionals with experience gained in other credit and financial institutions. The standard practice will be an open competition for filling vacancies in management posts and separate categories of employees.

The Academy of Sberbank will continue to perfect the internal system of personnel training and retraining, including on-site training and advanced traineeship at the Head-office, in the regional banks, other Russian and foreign partner-banks and specialised training centres. Special attention will be paid to training personalised managers for corporate clients, managers for sales and promotion of Sberbank products and services, experts in marketing, banking technologies, tax and financial advisers. To progress with a number of banking operations, centralised training of employees will be conducted in currency regulation, documentary business, trade finance, trust management of assets, broker and agency operations and others.

Optimum balance should be established of material and non-material incentives to motivate employees, to get higher level of commitment and involvement in increasing productivity and raising quality of performance, to foster initiative and search of new technological solutions. The system will be significantly changed of building management reserve, especially for top-level management positions, career planning of promising young specialists, upgrading of professional skills. The system of management rotation and horizontal transfer of most experienced professionals will be introduced. The Bank will strive for environment which would encourage realisation of creative potential of its employees, provide for professional upgrade opportunity and transparency of performance assessment and growth perspectives.

The Bank considers greater self reliance and expanded responsibility of specialists as an essential component in the system of personnel motivation. Standardised requirements to professional training in prioritised business lines will be developed; the current system of personnel certification will be expanded to cover the staff executing risk bearing operations.

For retaining employees with high growth potential the Bank will offer competitive remuneration consistent with that in leading private banks and financial companies and introduce performance related payment schemes.

Corporate culture of Sberbank will develop towards fostering the shared feeling of involvement and joint contribution to high performance results of the Bank, towards bringing up team spirit of like-minded professionals aiming at achievement of the strategic goals.

BUSINESS PARTNERSHIPS

Sberbank of Russia as a joint-stock bank with a controlling stock in the state ownership, considers the development of relationships with the state institutions at the federal level to be an issue of exceptional significance. The Bank will continue its close co-operation with the bodies of the legislative power and the Government of Russia in drafting laws and other documents aimed at the development of the banking system and improvement of the investment climate in the Russian Federation. The Bank will also continue to develop long-term business relations with the Central Bank of Russia, Ministry of Finance and other federal ministries and departments on practical issues of perfecting payment system and monetary policy; it will participate in the programs of state securities issuance, financing of the real sector of economy programs and of the most important federal programs.

The Bank will continue its co-operation with the regional authorities on economic, financial and social issues, including financing to cover liquidity gaps of the local budgets, participation in the regional investment programs, development of mortgage lending to households, providing facilities for servicing budget fund flows, tax and municipal payments.

Importance of Sberbank to the banking system of Russia determines development of its business ties with the main infrastructure institutions of the financial market such as securities and currency exchanges, registrars and commercial systems. The Bank will develop collaboration and co-operation with other largest banks with a high state shareholding, large banks and investment companies which are the leading participants in stock and currency exchanges. The Bank will take an active part in the public associations and associations of market participants, contributing to solving the most important strategic and current issues in the development of the banking system.

The Bank will strengthen its business relationship with major enterprises which are the clients of the Bank and those with which the Bank has mutual interests in fulfilment of certain programs. The growing volumes of lending will determine qualitatively new partnerships with the largest insurance institutions. Assessment of reliability of clients, credit standing of borrowers, liquidity of collateral, feasibility of investment projects to be financed, envisages establishment of long-term partnership of the Bank with the leading Russian appraisal agencies, and, on a number of issues with the international rating agencies, real-estate companies, law firms and specialised institutions.

Together with the Central Bank of Russia and Ministry of Finance the Bank will continue with its participation in the joint programs with the international financial institutions. Development of Sberbank's investment financing system and project finance business will be carried out on the basis of close partnership with the International Bank for Reconstruction and Development on large federal programs and projects and with the European Bank for

Reconstruction and Development on joint financing of enterprises. The leading position of the Bank in the Russian market of bank cards determines the importance of developing business partnership with the international payment systems such as VISA, Europay and others.

Sberbank envisages significant expansion of mutually advantageous co-operation in the field of trade and project finance with national export agencies, first of all with due regard of the leading trade partners of Russia and interests of the largest clients of the Bank. Partnership with the Russian banks abroad, large foreign banks, investment and venture funds will considerably increase in the area of joint implementation of mutually advantageous projects.

Partnerships of Sberbank with the World Savings Banks Institute, savings banks and their associations in other countries will be strengthened. Sberbank's participation in the activity of ISMA, ISDA, SWIFT and Clearstream will be further developed.

The Bank will also strengthen its contacts with DSGV and with the most prominent higher and secondary educational institutions, both in Russia and abroad, and scientific centres in the field of personnel training and enhancement of the staff's professional skill.