



Established in 1841

Annual Report 2003



Statement of the Chairman of the Board & CEO of Sberbank



The year 2003 was not an easy one for the banking sector in Russia, once again putting it to the test. The macro-economic stabilisation and rapid growth of the economy were accompanied by the sovereign credit rating raised to investment grade and by the dramatic growth of cross-border financing, which became accessible to Russian companies in absence of mechanisms which would create even playing-field for domestic and foreign banks in conducting business and providing loans in Russia.

All this resulted in rapid growth of liquidity in the banking system, fall of interest rates on the financial markets and decreased return on assets. Competition intensified in all segments

of the banking industry, practically over each customer, borrower or depositor.

In this changing environment and growing competition Sberbank has shown substantial growth of sales of all banking services and products maintaining its leadership in all major segments of the financial market.

Sberbank's assets reached 1.5 trillion rubles, its loan portfolio grew 1.5 times to 792.4 billion rubles, deposits from individuals made 978.6 billion rubles. Symbolic for 2003 was a rapid increase of retail loans and loans to small businesses. Sberbank made the sustainable growth here a priority of its credit policy. Over the year gross retail loans increased 2.3 times to 124.3 billion rubles, whereas the number of private borrowers grew to 3.5 million. Small businesses were granted loans totalling 348.9 billion rubles and 69.1 billion US dollars.

Financial results of the Bank have been no less spectacular. Gross profit under Russian Accounting Rules grew on the previous year and made 38.8 billion rubles, with net profit at 33.7 billion rubles. These strong performance figures under Russian accounting standards provided for record-high dividend payouts for 2003. Strong market performance of the stock was a substantial addition to the dividends. Sberbank's market capitalisation reached 5.1 billion US dollars



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increasing nearly 1.4 times.

At the same time specifics of recognising some of the operations according to IFRS made the performance figures look more modest and show net profit of 13.9 billion rubles. The Bank was well aware that the results of some transactions when recognised in IFRS reports would be less than in the accounts according to Russian Accounting Rules, but only the latter would be applied by the Bank when proposing dividends and by the Bank's regulator when setting ratios.

These figures show that the Bank is gaining a stronger foothold, that it stays efficient and reliable for the customers and shareholders and its team stays professional. The trademark of a true professional is not only practical experience and proficiency in applying the relevant skills, but also an unfailing commitment to further growth and measuring up to new challenges in addition to the ability to adapt to the ever changing environment. In other words, a professional's mind must have a creative turn to generate fresh ideas and find unique solutions. Our staff have put these qualities to active use over this challenging year.

The debut 1 billion dollars international placement of 3-year floating rate notes on extremely advantageous terms properly crowned the 2003 efforts and set a benchmark for Central and East European banks.

Our success was also recognised internationally. Rating agencies FitchRatings and Moody's Investors Service have assigned Sberbank sovereign-high investment ratings, the highest for Russian banks. FitchRatings rated Sberbank at BB+ (long term, at the sovereign ceiling), and B (short term).

«The Banker» (July 2004) ranked Sberbank 152nd in the world by Tier 1 capital. In October 2003, Moody's Investors Service rated our eurobonds at Baa3, at the sovereign ceiling, and foreign currency deposits at Ba1/NP, at the highest possible level for Russian credit institutions.

Morgan Stanley Capital International Inc. has included Sberbank's shares in its calculation of MSCI Global stock index.

It is my sincere hope that Sberbank and its staff will show the character and the best qualities of the leader and will upkeep and enrich the unfading traditions of Russian entrepreneurship, fair play and solid reputation of the people's bank. I am confident that treating each and every customer with understanding and consideration will pay us a thousand-fold, resulting in further growth of our Bank and - generally - of the banking sector of Russia.

In conclusion, I wish to thank our customers and shareholders for so many years of mutually beneficial co-operation, and our staff for their dedication and devotion.

Andrei I. Kazmin





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Organisation



SUPERVISORY BOARD OF SBERBANK

Chairman of the Supervisory Board

- | | |
|------------------------------|--|
| 1. Sergei M. IGNATIEV | Chairman of the Central Bank of the Russian Federation |
|------------------------------|--|

Deputy Chairmen of the Supervisory Board

- | | |
|-------------------------------|---|
| 2. Alexei L. KUDRIN | Minister of Finance of the Russian Federation |
| 3. Georgy I. LUNTOVSKY | Deputy Chairman of the Central Bank of the Russian Federation |

Members of the Supervisory Board

- | | |
|--------------------------------|--|
| 4. Alla K. ALESHKINA | First Deputy Chairman of the Board of Sberbank |
| 5. Arkady V. DVORKOVICH | Head of the Expert Department of the Administration of the President of the Russian Federation |
| 6. Boris G. FYODOROV | Doctor of Sciences, Economics |
| 7. Nadezhda Yu. IVANOVA | Director, Consolidated Economic Department of the Central Bank of the Russian Federation |
| 8. Andrei I. KAZMIN | Chairman of the Board and CEO of Sberbank |



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- | | |
|----------------------------------|---|
| 9. Vadim G. KLEINER | Head of Analytical Department of «Hermitage Capital Management» |
| 10. Evgeny A. KOROLEV | Deputy Chairman of the Board of Sberbank |
| 11. Tatyana V. PARAMONOVA | First Deputy Chairman of the Central Bank of the Russian Federation |
| 12. Galina A. RYBAKOVA | Director of the Branch Network Management Department of Sberbank |
| 13. Konstantin B. SHOR | Head of the Central Bank Moscow Branch |
| 14. Valery V. TKACHENKO | Chief Auditor of the Central Bank of the Russian Federation |
| 15. Alexei V. ULYUKAEV | First Deputy Chairman of the Central Bank of the Russian Federation |
| 16. Oleg V. VYUGIN | Head of the Federal Financial Markets Service |
| 17. Bella I. ZLATKIS | Deputy Chairman of the Board of Sberbank |

Elected by the Annual General Shareholders Meeting on 27 June 2003
Powers of the members valid until 18 June 2004



CHAIRMAN OF THE BOARD AND DEPUTY CHAIRMEN OF THE BOARD OF SBERBANK



Andrei I. KAZMIN
Chairman of the Board
and Chief Executive Officer



Alla K. ALESHKINA
First Deputy Chairman
of the Board



Alexander V. BRINZA
Deputy Chairman of the Board



Alexander N. GOVORUNOV
Deputy Chairman of the Board



Evgeny A. KOROLEV
Deputy Chairman of the Board



Andrei F. MANOILO
Deputy Chairman of the Board,
Director of the Supervisory &
Auditing Department



Vladimir A. NIKONOV
Deputy Chairman of the Board,
Chairman of the Srednerussky
Head Office



Andrei E. POGODIN
Deputy Chairman of the Board



Alexander K. SOLOVYEV
Deputy Chairman of the Board,
Chairman of the Tsentralno-
Chernozemny Head Office



Alexander V. ZAKHAROV
Deputy Chairman of the Board



Bella I. ZLATKIS
Deputy Chairman of the Board



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MEMBERS OF THE BOARD OF SBERBANK



Irina N. BOKHAN
Director of the Credit Department



Viktor V. GAVRILOV
Chairman of the Severo-Kavkazsky Head Office



Andrei V. KRUZHALOV
Director of the Accounting Department



Nikolai I. KULESHOV
Director of the Corporate Banking Department



Vladimir F. PESOTSKI
Chairman of the Altaisky Head Office



Galina A. RYBAKOVA
Director of the Branch Network Management Department



Viktor V. SHCHURENKOV
Chairman of the Povolzhsky Head Office



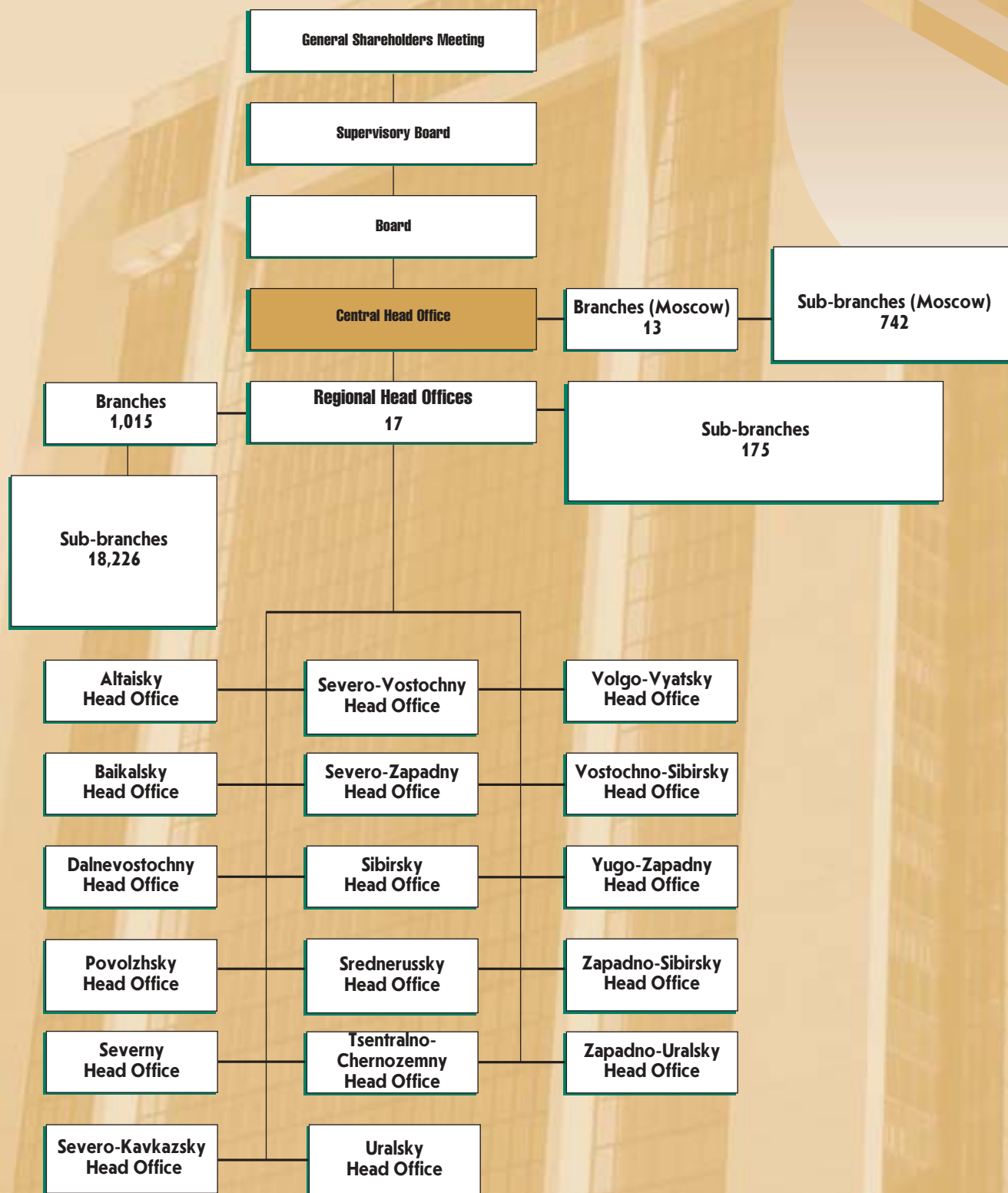
Vladimir B. SUNDEEV
Director of the Operations Department

Positions are given as of
19 May 2004



ORGANIZATION CHART OF SBERBANK

(as of 1 January 2004)



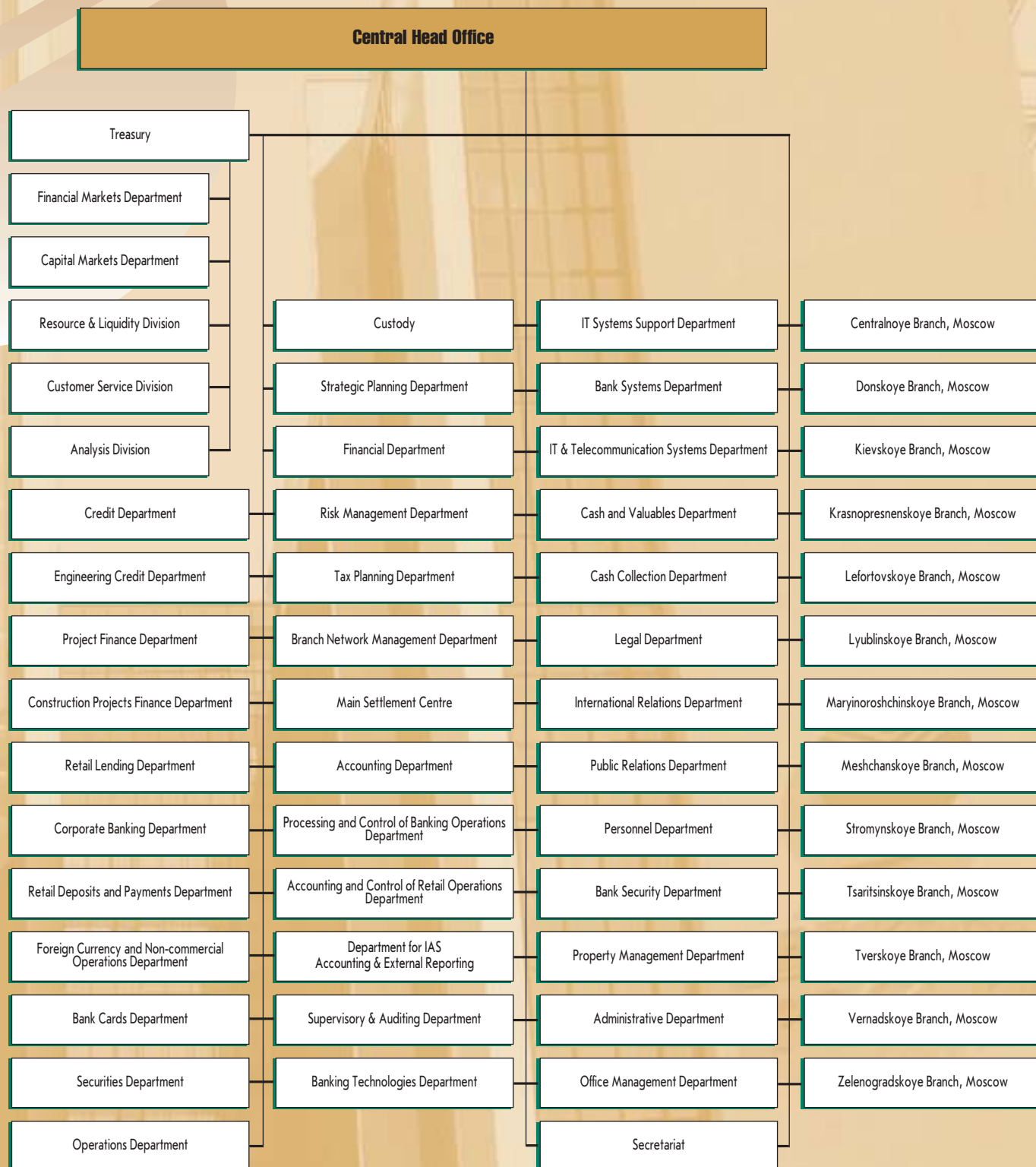


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ORGANIZATION CHART OF SBERBANK'S CENTRAL HEAD OFFICE

(as of 1 January 2004)







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Sberbank Today



SBERBANK HIGHLIGHTS

- The largest bank in Central and Eastern Europe by assets and Tier 1 capital (The Banker, April 2004), recording market capitalisation in excess of USD5.1bn (as of 31 December 2003).
- The bank ranking 152nd by Tier 1 capital among the top 1,000 banks of the world (The Banker, July 2004).
- The leader in the Russian banking sector, with the following market shares (as of 31 December 2003): 63% of deposits, 48% of retail lending, 30% of corporate lending, 27% of aggregate assets of the Russian banking sector.
- The major lender to the Russian economy. Loans granted by Sberbank to companies of various legal forms in different economy sectors exceed RUB 700bn.
- The major provider of long-term loans to the economy sector: over RUB 150bn of long-term loans for investment projects.
- The lender to over 90,000 small businesses.
- The issuer of more than RUB 21bn in loans to unincorporated individual entrepreneurs.
- Over RUB 124.3bn in retail loans to 3.5 million individuals.
- Total volume of gross loans to individuals (including unincorporated entrepreneurs) is RUB 145.6bn or 17% of the gross credit portfolio of the Bank.
- The bank servicing the accounts of more than 1.35 million corporates of various legal forms in different economy sectors that constitute in total 16.5% of all enterprises and organisations registered in Russia.
- Over 2.5 million payments from individuals to corporates processed on a daily basis.
- Every eighth salary and every fourth pension payment in the country is made through Sberbank.
- The issuer of over 6.9 million bank cards, operator of 3,200 ATMs and 6,300 outlets.
- One of the biggest taxpayers that paid RUB 21.4bn in taxes to budget and off-budget state funds in 2003.
- The issuer of 3 year floating rate notes for USD 1bn at LIBOR 3M +1.75% p.a. (October 2003).
- The first borrower in Russia to enjoy the Baa2 (update in October 2004) investment grade rating from Moody's international rating agency. FitchRatings raised the Bank's long-term rating to BB+ in 2003.
- The investor-attractive establishment showing a 14.6-fold rise in market capitalisation over three years.



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SBERBANK RATINGS



1999

The Banker

July 2000
388th in the world

Fitch Ratings

CCC long-term
CC short-term



2000

The Banker

July 2001
301st in the world

Fitch Ratings

B long-term
B short-term



2001

The Banker

July 2002
191st in the world

Fitch Ratings

B+ long-term
B short-term

The biggest bank in
Central and Eastern
Europe by equity



2002

The Banker

July 2003
155th in the world

The biggest bank in
Central and Eastern
Europe by assets, Tier 1
capital and deposit base

Fitch Ratings

BB+ long-term
B short-term

The biggest bank in
Central and Eastern
Europe by deposit base



2003

Forbes

April 2004
381st on the list of 2000
world's biggest
companies

The Banker,

April 2004
152nd by Tier 1 capital
among 1,000 biggest
banks of the world.
1st on the list of biggest
banks in Central and
Eastern Europe

The Bank of the Year
2004 in Russia
(September 2004)

Moody's Investors Service

Sberbank has been
assigned a senior debt
rating debt rating of
Baa2 (October 2004)
which is above the
Russian sovereign debt
rating. The outlook for
Sberbank's Ba1 long-
term currency deposit
rating has been
upgraded from «Stable»
to «Positive»

Fitch Ratings

BB+ long-term
B short-term
Floating Rate Notes
issue rating BB+



MARKET POSITION AND COMPETITIVE STRENGTHS

As of 31 December 2003, 1,668 banks and non-banking credit organisations were registered in Russia. The Russian banking market remains highly fragmented. Most large Russian banks are concentrated in Moscow and large regional banks conduct most of their business in the central cities of their regions. Outside Moscow and regional centres, Sberbank is often the only local provider of banking services. The range of products and services offered by Russian banks to their clients is expanding. However, few banks provide comprehensive packages of products and services tailored to the needs of various client groups.

Sberbank is the largest deposit taker in Russia, with market share ranging from 54.1% in Moscow to 73.9% in the south of Russia, and it is also the largest lender in Russia, with a 33.8% market share in ruble loans and 23.4% market share in foreign currency loans. Sberbank provides 48.3% of all loans made to individuals in Russia, and its market share of loans to legal entities ranges from 22.0% in the north of Russia to 38.5% in the south of Russia. It provides 56.1% and 12.1% respectively of all ruble and foreign currency retail loans.

Sberbank's retail customer base is the largest in Russia, and individuals come into contact with its offices and services on a regular basis. Over 12% of all employed individuals receive his or her salary and every one in four pensioners receives his or her pension through Sberbank. Half of the rent and utility payments in Russia are made through Sberbank.

Sberbank is well-positioned to capitalise on the opportunities in the Russian banking market because of a number of competitive advantages, including brand recognition and reputation, a large funding base, a national banking network and experienced management.

■ **Brand Recognition and Reputation.** Sberbank has long been present in the Russian banking market and, as of 31 December 2003, had over 250 million bank accounts belonging to individual customers, an average of 2 accounts for every adult Russian. Its longstanding market presence ensures that most Russians recognise the Sberbank brand. Sberbank also has a reputation as a stable and reliable bank.

■ **Large Funding Base.** Sberbank's retail deposit business provides it with a stable source of funding. According to its own calculations based on the Central Bank data, as of 31 December 2003, its retail deposits were 25 times greater than those of its closest competitor.

■ **National Banking Network.** Sberbank has a well-developed branch network that engages in retail as well as commercial banking. Sberbank's national banking network surpasses the combined networks of all other Russian banks. Sberbank has a substantial presence in all regions of Russia and is often the only local bank that can offer a full range of banking products and services. Its branches are connected through a proprietary settlement system that is second only to the CBR's in terms of the volume of payments. In 2003 its settlement system processed over 386 million transactions.

■ **Experienced Management.** Sberbank's senior management team, headed by its Chairman of the Board and Chief Executive Officer Andrei I. Kazmin, a former Deputy Minister of Finance of the Russian Federation has extensive and rich experience in all aspects of the banking business.



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BUSINESS STRATEGY

Sberbank's mission is to provide high-quality, reliable banking services to all clients (individuals, companies and government bodies of Russia), to prudently manage individual savings and to facilitate investment into the Russian economy. Sberbank is a universal commercial bank and its strategic objective is to achieve a new level of quality in client service thereby strengthening its leading position in the Russian banking market. Achieving this strategic objective will enable Sberbank to retain its position as a modern, first-class bank and the largest bank in Eastern Europe.

Sberbank's management has identified the following initiatives as essential to meeting its strategic objective.

Retail Market

Sberbank is the undisputed leader in the Russian retail banking market and its retail clients are the main and the most stable source of its funding. Sberbank intends to maintain this leadership in the retail market by increasing the number and improving the quality of products and services offered to retail clients. Sberbank considers improvement in the quality of its retail banking services a priority, especially in the light of increasing competition in the retail banking market and rising consumer demand for banking products and technologies.

Some of the initiatives that Sberbank intends to launch in the retail banking market include the following:

Sberbank will increasingly focus on cross-selling opportunities to existing retail customers. This is expected to increase sales of fee-based services and deposit products, and to also result in an overall increase in the use of banking services by retail customers.

Given the rapid growth in income and purchasing power of the private customers, Sberbank intends to increase significantly the sales of retail credit products, including those targeted at specific groups such as students, young families, businessmen, private entrepreneurs and employees of financially stable enterprises. It plans to significantly increase lending to consumer groups for acquiring durable goods and housing.

Sberbank also anticipates a substantial increase in the demand for technologically enhanced retail banking products. Sberbank is planning to actively promote electronic banking products such as plastic cards and Mobile Bank service providing real time account information/management via the Internet or the mobile phone network.

In various regions outside Moscow, Sberbank plans to increase the marketing of investment products offered by non-state pension funds, mutual funds, other financial institutions and insurance companies.

Reaching these strategic goals on the retail market will strengthen long-term client relationships, ensure the necessary increase in Sberbank's funding base, promote risk diversification and increase fee-based revenues, leading to optimisation of its operating expenses.



Banking Services to Corporate Clients

Sberbank intends to expand its presence on the corporate banking market by better leveraging its competitive advantages and developing long-term working relationships with its corporate clients. In this market segment Sberbank is targeting both large companies and SMEs. Cooperation with large corporate clients enables Sberbank to reduce its total cost of funding, to extend large loans at low risk and to sell significant volumes of fee-based products. The SME market is very important for Sberbank as it is one of the fastest growing and most profitable areas of Sberbank's activities. Sberbank intends to grow its SMEs loan portfolio in order to increase its credit portfolio risk diversification.

The three main competitive advantages that Sberbank intends to exploit in this market are:

Sberbank's nation-wide branch network. This network makes Sberbank's products and services accessible to clients throughout Russia and provides Sberbank with a tremendous competitive edge in reaching its clients at the local level.

Economies of scale and scope. Sberbank's size and market penetration allow it to lower the costs of its services.

Sberbank's proprietary settlement system. The ability to provide real time settlement of transactions between different regions also provides a unique competitive advantage for Sberbank, as it attracts corporate customers who require speed and reliability in transaction processing.

In order to develop long-term relationships with large corporate clients, Sberbank intends to develop and implement packages of banking products and services tailored to the needs of each such client. This will enable Sberbank to increase the amount of business with current clients and obtain new business from Russia's largest enterprises.

In SMEs servicing, Sberbank intends further to strengthen the competitive positions it has gained in this segment. Sberbank currently offers SMEs a comprehensive package of standard banking products and services, supplemented by specialised services designed on the basis of Sberbank's knowledge of the requirements of specific industries. Sberbank's extensive branch network allows it to offer large volumes of banking products and services to SME clients across Russia.

Banking Services to the Public Sector

The size and scale of Sberbank's branch network and its long history as a service provider to the Government make it the provider of choice of comprehensive banking products and services to state authorities and public enterprises. Sberbank intends to maintain relationships with this client group through:

Expanding its involvement in governmental economic development programmes on a nation-wide, regional and industry sector scale; and



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Offering the government and the public enterprises improved capabilities of its branch network, further technological advances and an increased funding base, as well as new high-quality banking products.

In order to accomplish its strategic objectives in the face of increased competition in the banking markets, Sberbank intends to invest further in its human resources as well as in its technological base and branch network.

Employee Development

Sberbank considers employee development fundamental to accomplishing its strategic objectives. Some of Sberbank's current initiatives in this area include:

- Agreements with the best Russian colleges and universities;

- Establishment of scholarships for the most talented students in economics;

- Creation of its own personnel re-training and certification system; and

- Regularly sending its most promising employees for training with the world's largest banks and for MBA studies.

This enables Sberbank regularly to hire the best graduates, to ensure the continuous improvement of the skills of its employees, and to develop an effective source of future senior managers. By supplementing personnel management with a wide use of financial and non-financial incentives, Sberbank intends to continue achieving the highest level of professional conduct and motivation of its employees.

Information Systems and Information Technologies

Sberbank's ability to execute its strategic plan relies on the implementation of innovative technological solutions, which drive the automation of banking processes. Sberbank plans to fully integrate the flow of information through its business systems and to centralise its data storage and processing systems, providing fault-free data processing. Sberbank's comprehensive automation program has been audited by an international auditing firm, which confirmed that the proposed technological solutions comply with leading international banking standards.

Branch Network

Since 2002, Sberbank has been paying special attention to the strategy of its branch network development. This strategy, a follow-up to the drastic modernisation of loss-making units in 2000-2001, is primarily aimed at expanding the Bank's presence in such highly competitive sectors as major cities and regional centres and increasing the number of units that offer full banking service. Other initiatives include:

- Opening more specialised units and units with a separate VIP zone;

- Opening self-service zones in the branches;

- Replacing loss-making units with mobile cash service units; and

- Optimising location and service hours.

This helped to raise the efficiency of Sberbank's operations and maximise its branch network capacity. As stated above, Sberbank's branch network is the key competitive advantage for reaching its strategic goals.





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2003 Performance



2003 KEY PERFORMANCE RESULTS

The Bank continued its policy of raising the standards of service for all groups of customers and improving its banking products delivery systems. Despite decreasing profitability on banking operations in major financial markets and growing competition in the banking sector, the Bank scored good results in 2003:

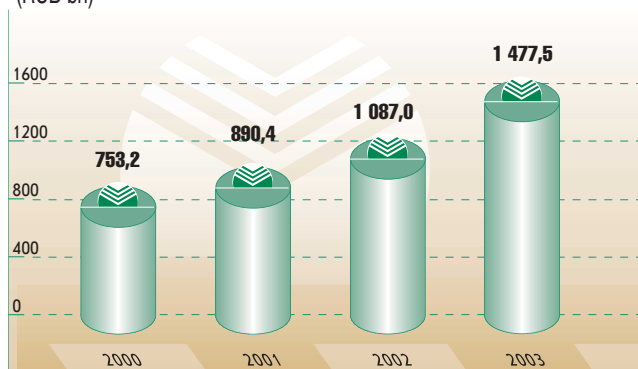
- Assets grew by RUB 390.5bn (35.9% growth) and reached RUB 1,478bn.
- Net profit reached RUB 13.9bn. ROA was 1.1%.
- Shareholders equity grew by 9.5% to RUB 134.9bn, driven exclusively by net profit.
- Capital adequacy (measured according to Basel) was 13.75%.

The Bank's good performance earned higher credit ratings from FitchRatings and a credit rating of the investment grade from Moody's. This helped Sberbank to make a major breakthrough onto global capital markets, placing unsecured floating rate notes on the best-ever terms for Russian borrowers.

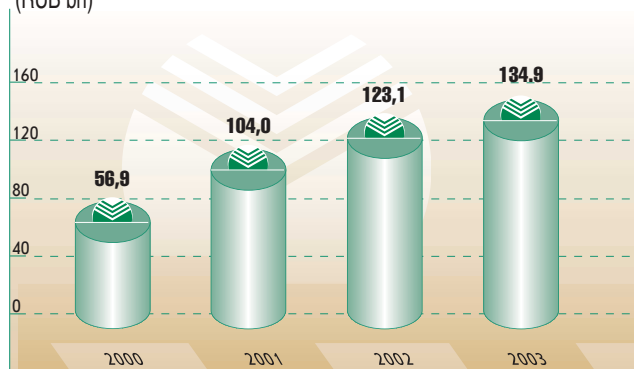
High financial results boosted Sberbank's market share price. The ordinaries rose by 36.7% and preferred stock by 57.7%, driving market capitalisation from USD 3.7bn to 5.1bn. The Bank ranks 1st amongst Russian banks and 8th amongst Russian companies by market capitalisation.

In year under review, the Bank retained leadership in the major segments of the

Assets Trend
(RUB bn)



Shareholders' Equity Trend
(RUB bn)





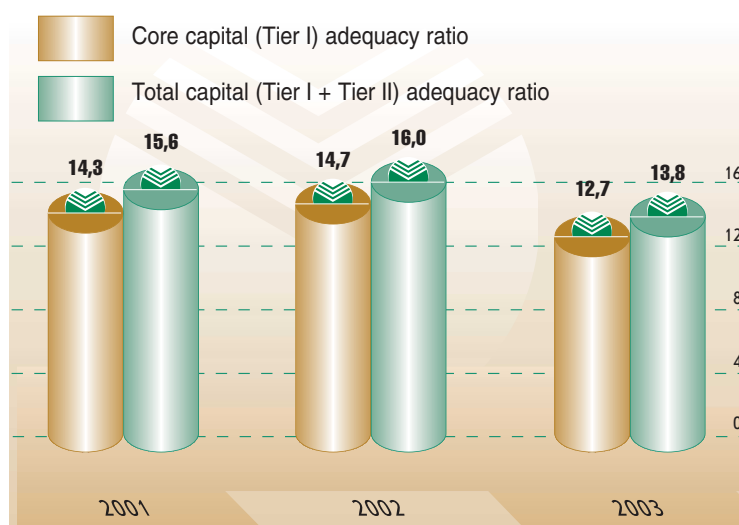
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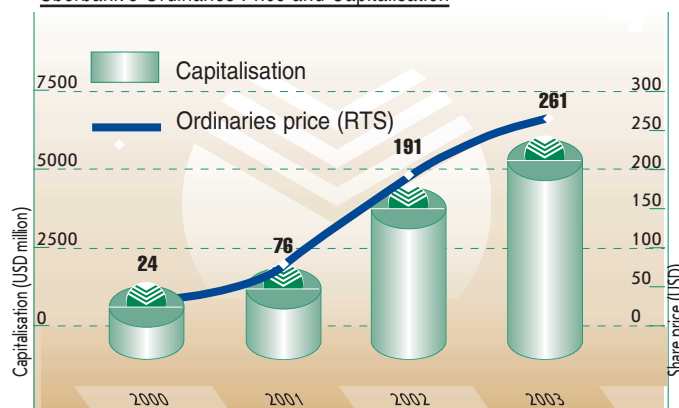
national banking sector successfully coming close to the goals set out in its Concept of Development to Year 2005:

- The Bank's share in the aggregate Russian banking assets was 26.9%.
- The Bank continued to lead on the retail market, accounting for 62.7% share of the market of retail deposits. To achieve a Concept target, the Bank raised the share of long-term deposits in the overall retail deposits portfolio from 44.7 to 55.8%.
- The Bank continued to develop retail lending operations achieving a 2.3-time increase over year under review which is much higher than the Concept target. Accordingly, the Bank's share of this market rose from 46.1 to 48.3%.
- The Bank retained leadership in corporate banking. The share of corporate funds in aggregate raised funds (including funds from banks, own debt instruments and other borrowed funds) was 25.8%.
- The Bank's loans to Russian companies make about a third (30.4%) of the total financing provided by the banking sector to corporates. Corporate loans (net amount) make 44.1% in the assets of the Bank (surpassing the Concept target).
- The Bank accounts for nearly a third of the domestic market of bank cards by the number of issued cards and transaction turnover. The balances of card accounts grew by 0.8 p.p. over the year totalling 3.5% of retail deposits, meeting the respective Concept target.
- Proactive customer policies have driven the rate of fee income growth (30.4%). The share of fee income in net operating income reached 22.5%.

Capital Adequacy Trend (according to Basel)



Sberbank's Ordinaries Price and Capitalisation





BANKING SERVICES AND ACTIVITIES

RETAIL SERVICES

Sberbank's core retail services include deposits and lending, transactions in securities and other ancillary services.

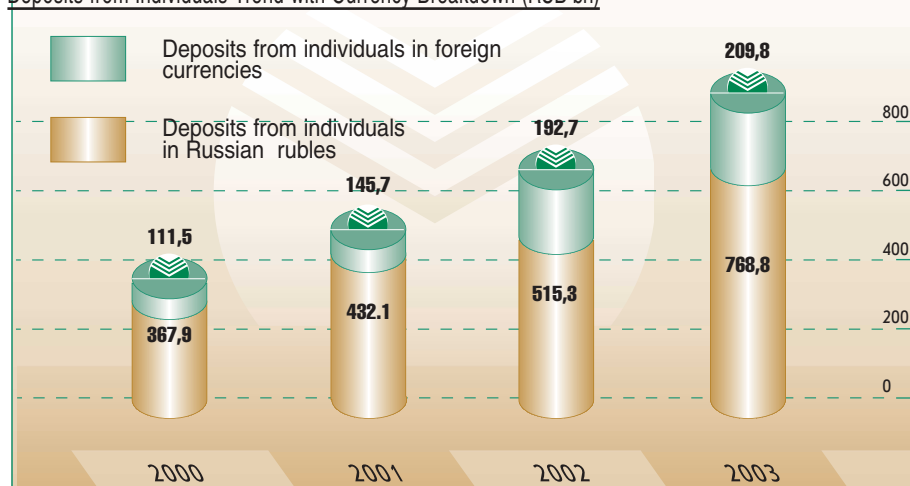
Deposits. Sberbank is the leading Russian provider of bank deposit services and offers a variety of interest-bearing bank accounts designed for different groups of retail customers, including high-income earners, working individuals, pensioners and youths. As of 31 December 2003 Sberbank had 250.7 million bank accounts belonging to individual customers (up by 3% from 2002).

Sberbank's deposit accounts include current and term accounts and are denominated in rubles, U.S. dollars and euro. The terms of accounts vary from on-call to five years and envisage single or numerous prolongation, depending on the type of the account. Sberbank's Board approves interest rates for all types of individual accounts. Sberbank believes that the variety of deposit accounts that it offers to individuals is optimal for the current retail deposit market and that its interest rates are competitive with those offered by other banks.

In 2003, the balances of retail accounts grew by 38.2% making RUB 978.6bn. The feature of 2003 was the higher rate of growth of ruble balances (49.2%) against account balances in foreign currency (8.9%), stimulated by a steady appreciation of the ruble against dollar since late 2002. As a result, the share of ruble deposits in total retail deposits has grown from 72.8% to 78.6%. As euro gained strength against dollar, the share of euro-denominated deposits has almost doubled over the year (2.7% vs. 1.5%).

To offer more attractive and profitable terms on retail deposits and make its products available for more customers, Sberbank came out with better terms on the most sought-for deposits in foreign currency and raised interest rates on euro

Deposits from Individuals Trend with Currency Breakdown (RUB bn)





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term deposits to make them equal to dollar deposit rates.

Sberbank monitors the products and services offered in the regional deposit markets, analyses the demand for deposits on certain terms and evaluates macroeconomic parameters and trends that may affect retail deposits. The range of Sberbank's retail deposit services is widening, allowing it to maintain and strengthen its leading market position.

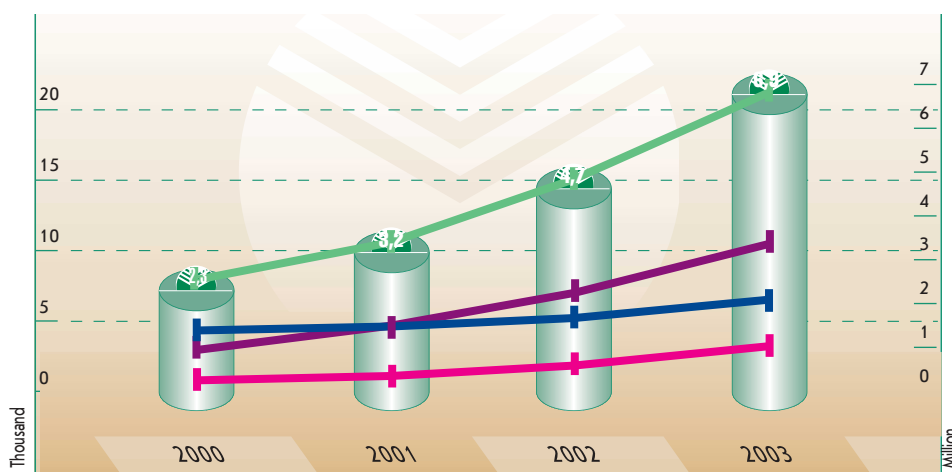
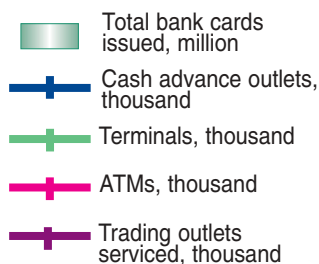
As before, the Bank continued to keep focus on long-term products, thereby fostering long-term lending and raising long-term liquidity. Deposits with contractual maturity exceeding 12 months grew 1.7 times, and the share of long-term deposits in the overall retail deposit base increased from 44.7 to 55.8%.

Remaining the largest operator in mass retail banking segment, in 2003 the Bank focussed on improving the quality of service and the time of execution. For that purpose, the Bank improved the technology of both retail and corporate customers servicing, crediting more salaries and pensions by electronic lists and developing consultancy services. Corporate customers were given an instrument for managing financial flows of their regional units from the corporate centre and monitoring of each and every settlement transaction.

Bank cards. Sberbank continues to expand its card operations that represent a most attractive and rapidly developing banking segment in Russia. Over the year in review, the Bank issued 1.6 million VISA and MasterCard cards (totalling 4.15 million). Sberbank was the first Russian bank to issue international micro-chip MasterCards. The Bank continued to improve the technology of settlements on its local micro-chip SBERCARDs. The Bank issued 36% more SBERCARDs in 2003 (over 2.7 million in total).

The Bank offered new services to cardholders in 2003. MegaFon and BeeLine clients can now use Sberbank ATMs to credit their mobile phone accounts. The Bank launched an automated pilot system accepting customers applications for bank cards via Internet, holders of Sberbank-issued international cards can now make transfers from their accounts. Mobile Bank, a very popular Sberbank service, helps cardholders to monitor card account status on mobile phone.

Card Issuance and Development
of Card Servicing Infrastructure





Money transfers. Sberbank provides a number of ancillary services to its account holders. Individuals can have their salaries credited directly to their accounts with Sberbank. Sberbank serves as pension agent for a number of government entities and pensioners may arrange for their pensions to be credited directly into their accounts with Sberbank. Individuals may also make single or regular rent, utility and tax payments directly from their accounts with Sberbank. Sberbank provides ruble transfer services to individuals all over Russia, and, through its correspondent bank network, over most of the former Soviet Union. It also provides foreign currency transfer services to individuals to and from Russia through its international correspondent banking network.

Retail lending. Active development of retail lending is regarded as one of the priorities. Over 2003, retail loans (gross amount) grew more than 2.3 times to RUB 124.3bn (71bn growth). The share of loans in foreign currency has grown from 3.7 to 5.3 % in the aggregate of retail loans over the year. The rapid growth of retail lending helped Sberbank to raise the share of retail loans in its assets by 3.5 p.p. to 8.4 %. Over the last year, the Bank provided RUB 111.5bn and USD 227.4mn worth of retail loans.

Rapid growth of retail lending changed the structure of Sberbank's loan portfolio customer-wise. As of 31 December 2003, the share of retail loans in the Bank's gross loan portfolio grew from 9.4 to 14.5%.

Priority to Retail Loans

During a meeting on 4 March 2004 with the Russian President Vladimir V. Putin, the head of Sberbank Andrei I. Kazmin informed about the Bank's corporate and retail operations and its new services and products. 'Retail loans are a priority for us,' said Andrei I. Kazmin. 'We expect our lending operations to grow as much as three or even four times once some legal issues are settled'.





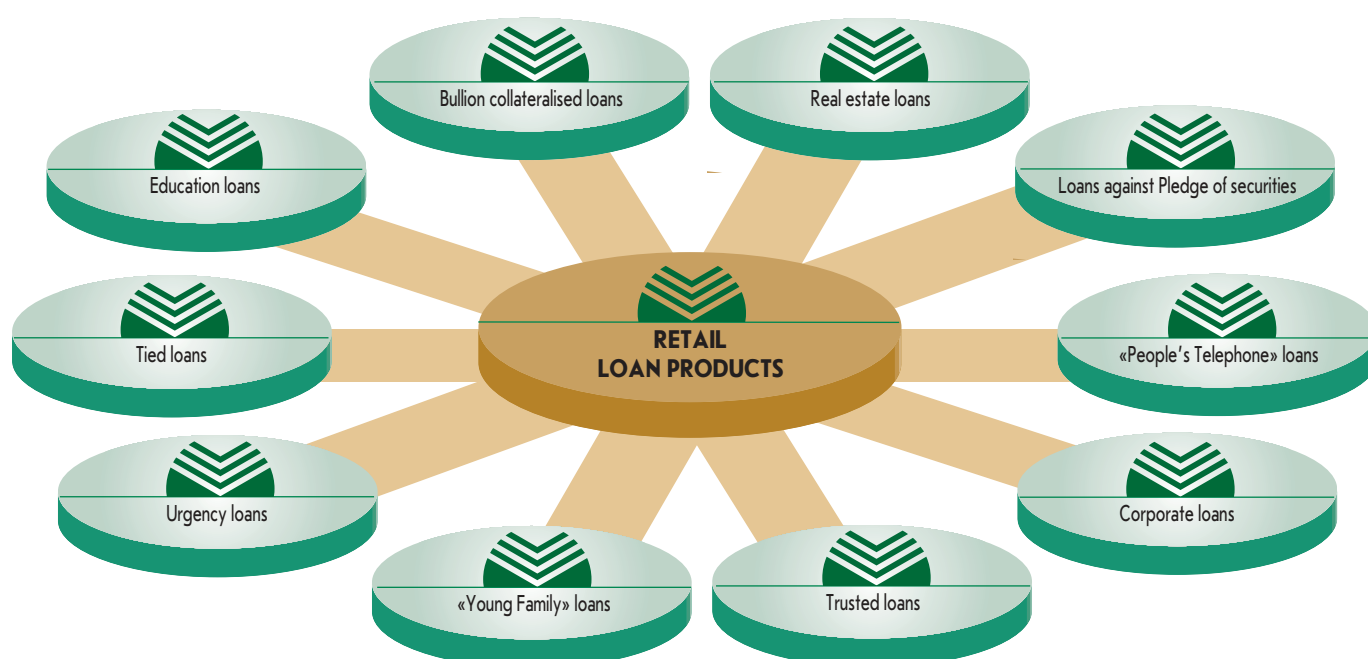
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Good performance in this sector was due to the changes in the delivery of credit products. The Bank opened new outlets for servicing retail customers, provided mobile points of service to bring services to large enterprises and companies on site (including trading companies), held presentations of credit products, extended authority of its business units in making independent lending decisions, improved loan processing procedures, cut the decision making time on loan application.

The retail lending market was rapidly developing with a wide range of credit products designed to meet practically any requirements of the retail customer. The Bank regularly reviewed such terms as rates, maturities and loan amount so as to make them more customer attractive.

Recognising the housing problem as one of national importance, Sberbank has made considerable changes to its internal regulations on lending for the purpose. The fifteen years' experience in long-term lending helped the Bank to work out the best business practices for operating in a complicated environment and under deficient and contradictory laws. Over 2003, the balances of long-term special-purpose loans made for acquisition, construction and renovation of housing have grown more than 2.5 times. Sberbank developed co-operation with federal and local executive authorities, doubling the number of regional programmes for housing improvement from 9 to 18.





Other Services to Individuals. Sberbank buys, sells and exchanges all major foreign currencies for individuals. It also exchanges and purchases foreign payment instruments, sells American Express and Thomas Cook travellers checks and cashes Visa, American Express, Thomas Cook, Citicorp and eurocheck travellers checks. Individuals may buy or sell precious metal coins and precious metals in physical or book-entry form or store them with Sberbank or rent safe-deposit boxes to store valuables. Sberbank's depositary services for individuals include opening securities accounts, known as «depo» accounts, securities custody operations, keeping record of pledged securities and coupon payments.

Sberbank provides brokerage services to retail customers on all major Russian stock markets. Individuals may invest in promissory notes and savings certificates.

SERVICES FOR LEGAL ENTITIES

Sberbank provides banking services to limited liability companies, joint-stock companies and companies partly or wholly owned by state, regional or municipal authorities (together, «**companies**»), as well as to federal, regional and municipal authorities («**government bodies**» and, together with companies, «**legal entities**»). As of 31 December 2003, Sberbank had 675,000 legal entities as clients, including

The dynamics of the major retail banking services offered by Sberbank

Service	Volume	Growth
764 million retail payments accepted	RUB 294bn	x 1.4
Over 6 million retail transfers	RUB 67bn	x 1.5
99,000 Sberbank settlement cheques issued	RUB 1.9bn	x 2
Transfers to retail accounts, total	RUB 1,000bn	x 1.4
including		
salaries for 8.3 million employees	RUB 348.8bn	x 1.4
allowances for 711,000 students	RUB 4.9bn	x 2.7
pensions for 11.5 million pensioners	RUB 286.5bn	x 1.3
Retail sales of bullion coins	455,700 coins	x 1.4
Bullion coins purchased	18,400 coins	x 18
Foreign cash bought	USD 4.0bn	x 2.9
Foreign cash sold	USD 4.9bn	x 1.5
Custody's customer base	Over 29,000 deposit accounts	x 1.8



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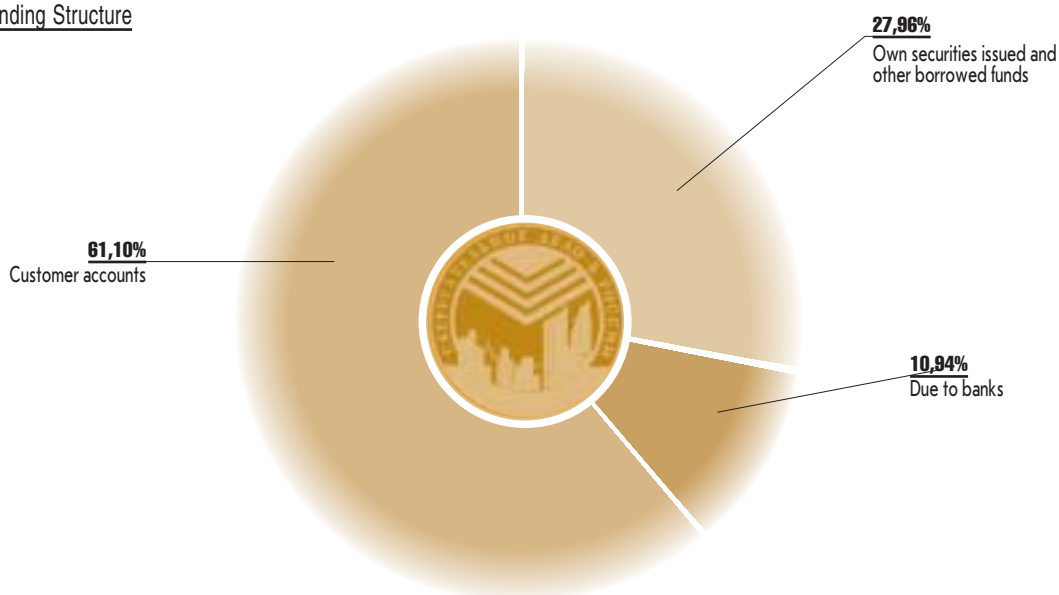
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natural monopolies such as RAO UES and Gazprom, large enterprises in the oil industry such as TNK-BP, Rosneft, Transneft and other enterprises operating in various sectors of the Russian economy, such as the Russian Aluminum group, Svyazinvest, Severstal, Space Communications.

Sberbank's services to legal entities include payment and account services, lending, transactions in securities, foreign trade and exchange operations, cash handling services, operations with precious metals and coins and depositary services. Sberbank is committed to increasing the range and the volume of its services to legal entities and to developing long-term relationships with them. Sberbank strives to anticipate the needs of its clients and new directions in the banking business.

Sberbank's activity in the corporate banking sector and global interbank and capital markets contributed to corporate funds growth by 41.1% to RUB 346.3bn (comprising customer accounts worth RUB 211.6bn, interbank placements of RUB 37.9bn and own securities issued and other borrowed funds of RUB 96.8bn). The increment in corporate accounts was largely due to the inflow to settlement and current accounts. Corporate and retail customers are offered ample opportunities to invest in precious metals on unallocated gold, silver, platinum and palladium accounts. Of all funds raised over the year 25.8% was raised from corporates.

Corporate Sector Funding Structure





Payment and Account Services. Sberbank provides payment services to and on behalf of legal entities through its branches and its correspondent banking network. Companies operating nation-wide receive banking services throughout Sberbank's branch network. Sberbank's proprietary settlement system services clients' cash flows and allows settlement of transactions between Sberbank's branches on clients' behalf in real time. Legal entities may conduct banking operations and obtain account information through Sberbank's proprietary electronic «Client-Sberbank» system.

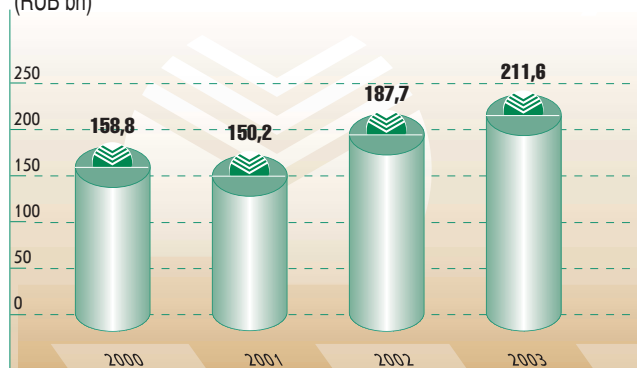
Funds in current accounts of legal entities held in Sberbank increased by 24.6% in 2003. As of 31 December 2003, 82.6% of deposits from legal entities were in rubles and 17.4% in foreign currencies. Sberbank assists legal entities with opening bank accounts and advises them on various banking operations and the use of various banking products in their business. Sberbank provides legal entities with overdraft facilities, their size based on the volume of financial operations through the relevant account.

Sberbank provides cash collection services to over 22,000 legal entities. It has 774 cash collection offices, many of which are open six or seven days a week and work extended business hours to minimise the time between collecting cash and credits to the customer's account with Sberbank.

Sberbank's corporate cards include Visa Business and Eurocard/Master Card. Legal entities may also be issued bank cards that operate within Russia using advanced microchip technology.

Sberbank is highly experienced in projects for salary pay-outs on bank cards, with many joint stock companies, federal ministries and departments and government bodies. By 2004, Sberbank issued 5.3 million cards for individuals employed by over 30,800 companies (3.7 million cards and 21,200 companies as of 31 December 2003). In year under review, credits to cards accounts opened under salary projects grew by 66% from 2002, exceeding RUB 200bn.

Customer Accounts Trend
(RUB bn)





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Lending. In accordance with the Development Concept to Year 2005, lending is the major channel for funds placement. The Bank continued to increase investments in the real sector and the regional programmes of social relevance. The Bank offers lending services to all corporate customers, whatever their size, to small businesses and individual entrepreneurs.

Loans to legal entities accounted for 83% (RUB 713.3bn) of Sberbank's gross loan portfolio, their growth in 2003 amounted to RUB 210.7bn. In structuring its portfolio of loans to legal entities Sberbank focuses on developing long-term relationships with large companies, increasing its revenues from the sale of credit products to medium-sized companies and actively supporting, and increasing the number of and lending volume to, small businesses.

Over the last year, the Bank issued RUB 1,800.9bn and USD 86.8bn in loans. Corporates received RUB 1,689.4bn and USD 86.6bn (including bank-to-bank loans).

Corporate gross loans outstanding grew 1.42 times from RUB 502.6bn to 713.3bn, whereas interbank loan portfolio (gross) increased from RUB 40.1 to 78.7bn. The Bank remains the leader in the banking system in terms of investments made in economy.

As of 31 December 2003, loans to the top ten corporate borrowers made 20.4% of Sberbank's aggregate loan portfolio, down from 20.7% as of 31st December, 2002. To improve the quality of servicing corporate borrowers, two new lending units, Engineering Credit Department and Retail Lending Department spun off its Credit Department.

Sberbank offers companies a wide range of sophisticated credit products. Its main types of loans to companies are short-term financing (with terms of up to a year and a half), long-term financing and bank guarantees. Sberbank also offers loans tailored to the needs of particular companies. Its credit decisions when considering loans to companies are based on, among other things, the effectiveness of the company's business and the income-generating potential of the project financed. The terms of loans range from several days to 10 years. Sberbank has a common interest rate policy across its banking network, which takes into account regional market specifics and characteristics of different groups of borrowers. Loans to companies are always secured and/or guaranteed. Loans are available in rubles and in foreign currency. As of 31 December 2003, 74.8% of Sberbank's loans to legal entities, by amount, were in rubles and 25.2% in foreign currency.

A tendency persists for growth in corporate loans with longer than one year maturity.

With the growing demand for loans in the real sector, the Bank increased its operations building up relationships with the major enterprises, structures of federal importance, energy companies, exporters, importers and, generally, companies in the most investment-attractive industries.



Loans outstanding rose in all sectors in 2003: in industry they grew by RUB 64.3bn to RUB 343.5bn (their share of corporate portfolio falling from 55.6 to 48.2 %); loans outstanding to agro-business grew by RUB 8.5bn to RUB 31.3bn (their share remaining at 4.4 %); loans outstanding to construction industry grew by RUB 15.4bn to RUB 39.3bn (up from 4.8 to 5.5 %); loans outstanding to trade and services increased by RUB 89.5bn to RUB 209.2bn (up from 23.8 to 29.3 %), loans outstanding to transport and communications increased by RUB 30.8bn to RUB 69.9bn (their share up from 7.8 to 9.8 %).

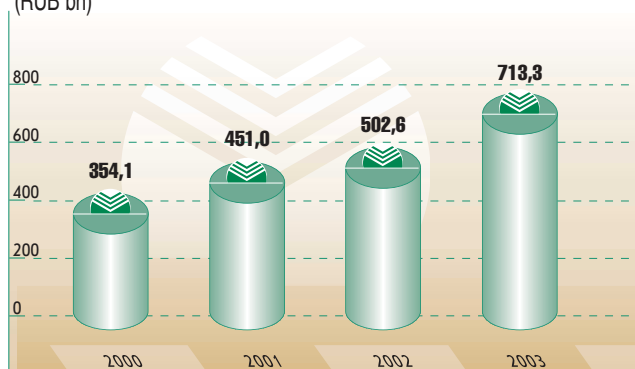
The 2003 changes in the investments made by Sberbank in various industry sectors show that as a bank of national importance, it does not limit itself to lending to high-profit export-oriented companies only, particularly in the energy and metallurgy sector, but that it creates a well-balanced portfolio in all sectors of economy, with a focus on those projects which specifically provide for a changeover from raw material export to sustainable economy growth driven by domestic demand.

In 2003, Sberbank made over 10,600 loans worth RUB 33.1bn within the government programme for agribusiness support subject to partially subsidised interest payments under federal government decrees (6,200 loans for RUB 22.7bn) and local authorities acts (4,400 loans for RUB 10.4bn).

Although the current situation on commodities market is favourable and big corporate customers have lower demand for loans, the Bank has increased lending to big corporates by maintaining the level of financing provided to the existing clients and by attracting new customers.

The domestic lending market grew more competitive in late 2002 and early 2003 with the active penetration of non-resident banks coming out with more attractive interest rates and flexible collateralisation policy. Russian companies, includ-

Loans and Advances to Legal Entities Dynamics
(RUB bn)





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ing Sberbank's borrowers, started replacing straight loans by bond borrowings on domestic and global markets. With these factors in effect, Sberbank set to make its lending products more attractive for the existing and potential borrowers. To raise its competitiveness on the corporate lending market and expand the loan portfolio, the Bank has approved a number of internal procedures liberalising lending procedures.

Small business, an essential factor of modern economy and stimulus to free competition, has traditionally been a Sberbank customer. In 2003, the Bank boosted its lending to small business, issuing approx. 90,000 loans worth RUB 348.9bn and USD 69.1m (cf. RUB 212.9bn and USD 33.1m in 2002). Loans in rubles grew by 63.9% in volume against 2002 and loans in other currencies grew by 2.1 times. In 2003, the Bank made adjustments to its standard mix of products to meet the requirements of SMEs and individual entrepreneurs.

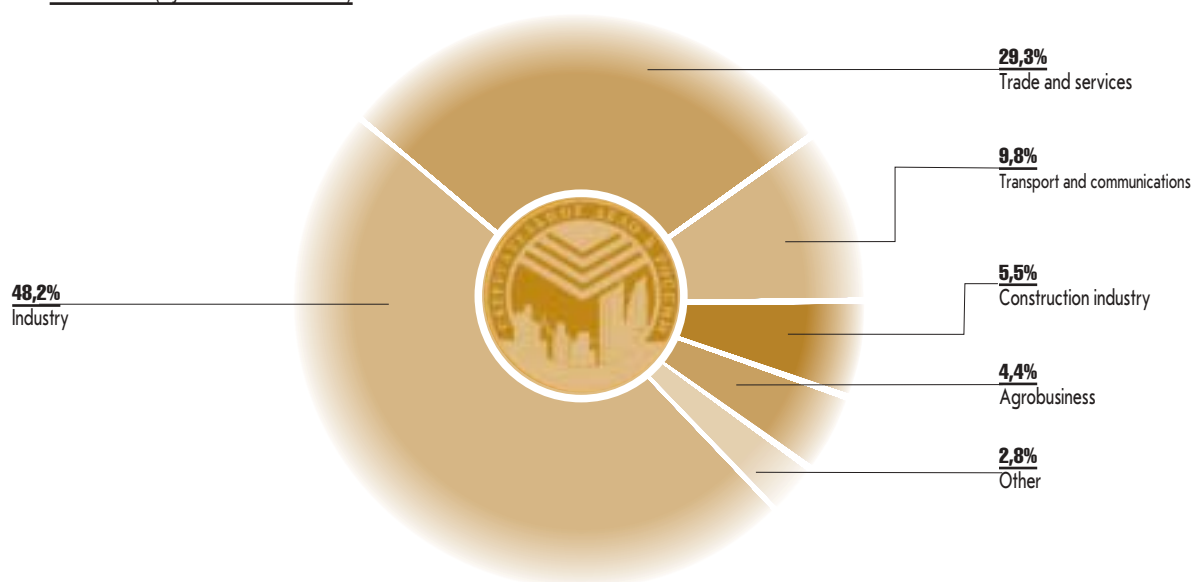
Individual entrepreneurs were given access to:

- acceptance credit in case of appropriate format of settlements;
- bank guarantees;
- loans secured by sub-federal and municipal guarantees acceptable to Sberbank

As of 31 December 2003, the Bank had agreements with 14 federal entities for small business support. The best results were recorded in Voronezh, Nizhny Novgorod, Magadan regions, and the Republic of Udmurtia.

Working with local administrations, the Bank financed target investment programmes to develop local economies, build modern infrastructure, raise investment attractiveness of the regions, and stabilise social environment. In 2003, the executive authorities of 29 federal entities received RUB 21.2bn in loans (up by 34.2 % from 2002). Loans made to federal entities totalled RUB 15.3bn by 31 December 2003.

Loans and Advances to Legal Entities: Structural
Breakdown (by Economic Sectors)





Investment Lending and Construction Financing. The Bank expands long-term lending to various sectors by offering flexible lending terms, wider range of lending products and customised approach.

Loans made by Sberbank in 2003 as investment lending and for project and construction financing purposes grew over 1.5 times in ruble terms exceeding RUB 150bn at 2004 year opening, most of them in rubles.

To widen the product mix and offer loans with longer maturity, the Bank started raising funds on global markets against guarantees from national export credit agencies. In 2003, the Bank approved financing for five investment projects totalling USD 62.5m.

In its lending operations, Sberbank is particularly interested in the rapid development of investment lending and project financing to upgrade, renovate, expand and create new facilities for manufacturing competitive products.

Offering long-term loans in 2003, Sberbank continued to be actively involved in financing the construction of residential housing, shopping facilities, multifunction and office centres and in the development of store chains by lending to construction firms. Such involvement came as a substantial support for construction projects.

The total area of sites where construction is financed by Sberbank has grown 2.6 times on the previous year, reaching approx. 4 million square metres by 31 December 2003, including 2.2 million square metres (55 %) of residential housing.

Interbank Loans granted. Sberbank provides interbank loans to other banks, including the CBR, primarily in order to manage own liquidity. Its interbank gross loan portfolio as of 31 December 2003 was RUB 78.6 billion, RUB 0.2 billion of which was to foreign banks, RUB 4.2 billion to Russian banks and RUB 74.2 billion of which was to the CBR. Interbank loans are mainly limited to short-term placement for liquidity management purpose.

Transactions in Securities. Sberbank offers its corporate customers brokerage services on all of the major Russian stock exchanges. Legal entities may also invest in Sberbank's proprietary bills of exchange and certificates of deposit. Sberbank recently started arranging and underwriting securities offerings, as well as market making, depository and payment agency services and investment advisory and brokerage services in government, municipal and various corporate securities.



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Foreign Trade and Exchange Operations. Sberbank provides legal entities with import letters of credit, stand-by and revolving letters of credit, export and import financing and various ancillary services. It provides overdraft facilities in rubles, which do not require collateral, for companies engaged in export activities. The overdraft limit may be as high as 90% of the foreign currency payments that the client expects to be credited to its account. Sberbank assists its clients with documenting and settling export and import transactions and sells and purchases foreign currency to and from legal entities. Sberbank also sells, exchanges and collects foreign currencies for its clients.

Sberbank also arranges financing from foreign banks for companies to finance imports into Russia. Sberbank cooperates, as a borrower and a guarantor, with export credit agencies and foreign banks that finance trade operations through export agencies. For example, on 5 May 2003 Sberbank entered into a credit guarantee facility agreement with John Deere Credit and the Export-Import Bank of the United States for a total of USD 10 million to finance imports of John Deere equipment into Russia by its clients. On 15 September 2003 Sberbank concluded an individual credit agreement with AKA Ausfuhrkredit-Gesellschaft m.b.H for a total of 2.8 million euro to finance imports of equipment and goods within Gorky Metallurgical Works project for 5.5 years. The project will be financed through Volgo-Vyatsky Head Office of Sberbank.

Operations with Precious Metals. Sberbank sells to and purchases from legal entities precious metals in physical and book-entry forms. Sberbank also provides financing to companies engaged in precious metals mining and jewellery production.

Depository Services. Sberbank's depository services include opening of Safe custody accounts, securities custody operations, keeping record of pledge operations with securities, and coupon payments. Sberbank's depository provides services on government and municipal securities, corporate equity and debt securities and other commercial papers, such as bills of exchange. As of 31 December 2003, Sberbank had 1,816 legal entities as depository clients.

Proprietary Money and Securities Market Operations

An important income generating activity for Sberbank is placement funds in the securities market. Sberbank engages in proprietary securities trading (primarily

Growth Rate of Sberbank Corporate Services

Service	Volume	Growth
Cash collection from corporate customers	RUB 530.9bn	1.5 times
Cash delivered	RUB 151.9bn	1.4 times
Servicing foreign trade operations of customers	USD 22.3bn	1.3 times
Customer payments under export/import operations	USD 18.9bn	1.4 times
Crediting export proceeds to customer accounts	USD 14bn	1.4 times
Foreign trade documentary operations	USD 2.1bn	1.6 times
Gold deliveries under contracts with gold miners	22 tons	7%
Export of gold and bullion trading on foreign markets	USD 6.3bn	2.2 times
Customer base of custody	1.8 thousand accounts	1.2 times
Correspondent accounts with foreign banks	211 banks	+2 accounts

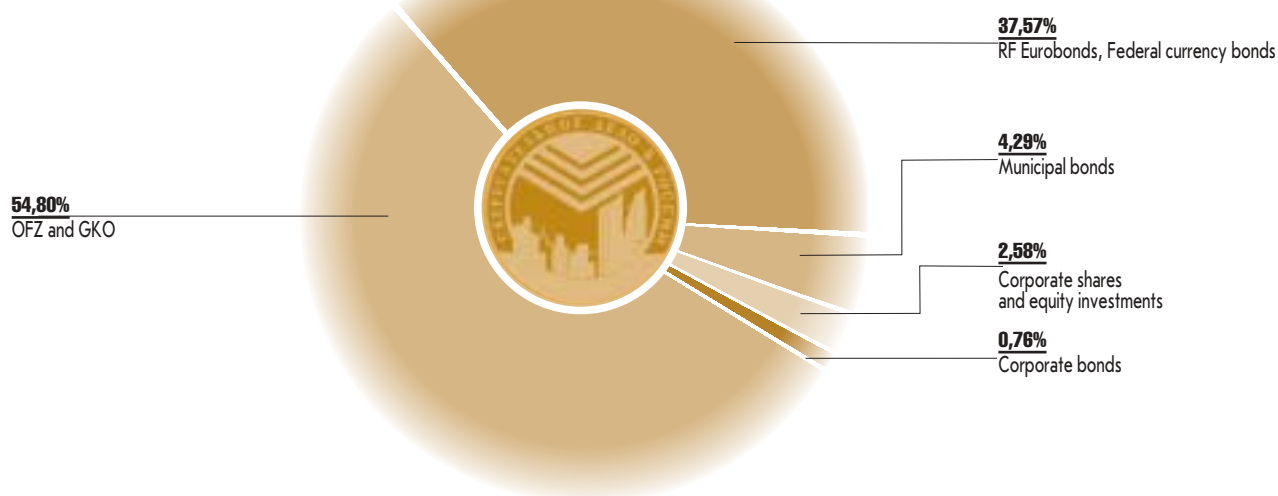


government securities, which constitute 92.4 % of its total securities portfolio). Sberbank is the largest operator in the Russian government securities market. It deals as a market maker and engages in trading operations in government securities on all Russian stock exchanges, participating in government securities auctions conducted by the CBR and in «repo» purchase and sale transactions with the largest Russian and foreign banks.

As a traditional market maker in Russian sovereign bonds in the accounting year Sberbank increased investment in the sovereign ruble and foreign currency denominated securities to RUB 356.1bn, a 14.1% increase. However the share of state securities in assets of the Bank decreased from 28.7% to 24.1%. Somewhat higher rate of growth was shown by investment in GKO-OFZ securities. Their portfolio made RUB 211.3bn. New investments were made primarily in the portfolio of securities available for sale. Investments into municipal bonds increased 2.3 times in 2003, up to RUB 16.6bn, their share in the aggregate portfolio of securities remaining insignificant (4.3 % as of 31.12.2003). The portfolio of corporate securities compiled RUB 12.4bn making 3.3 % of aggregate securities.

Keeping its leading position in the money market Sberbank more than doubled its volume of operations to nearly USD 150bn. Last year Sberbank became the first market maker in the ruble/dollar futures traded on MICEX providing quotations for up to 6 months. Sberbank extensively conducted conversion and deposit transactions in more than 20 currencies remaining one of the few banks capable to provide its customers with the possibility to conduct transactions in any currency of a wide range including currencies of CIS countries, the Baltics, and East European countries. In the accounting year the total volume of conversion and deposit transactions in foreign markets exceeded 80 billion US dollars.

Structural breakdown of
total securities
portfolio





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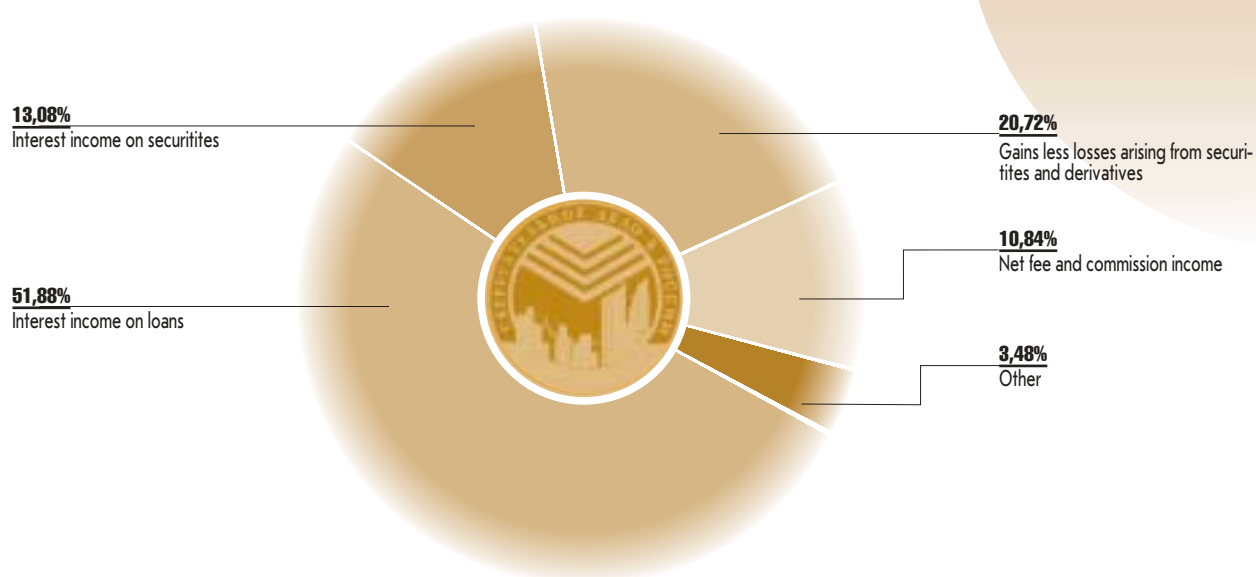
Incomes and Expenses

Special attention to the quality of customer service helped Sberbank to mitigate the consequences of a sharp rates slump on the financial market that contracted the interest margin and return on operations within the banking sector generally. The Bank's revenues in 2003 grew by RUB 21.8bn (up 12.4 %) on previous year, making RUB 197.8bn. Lending operations remained the major source of income, generating 51.9% of total income whereas operations with securities and derivative financial instruments accounted for 20.7% (without interest income on securities). Net fee income was up by RUB 5.0bn (30.4%) making 10.8% of the Bank's income. Year 2003 was marked by the general fall of yield on all financial instruments. The average yield on GKO-OFZs decreased from 13.5% to 7.8% whereas the yield on bonds with maturity up to 12 months decreased 3-fold to their historical low 3.2% p.a. The CBR refinancing rate was cut twice within 2002, and two more times within 2003. Base rate cuts depressed returns on asset operations of banks in Russia. The average return on corporate lending in rubles decreased from 15% to 12% and interest rate on corporate bonds fell nearly two-fold to as low as 8-9% p.a. from 15-17% by 2002 year-end.

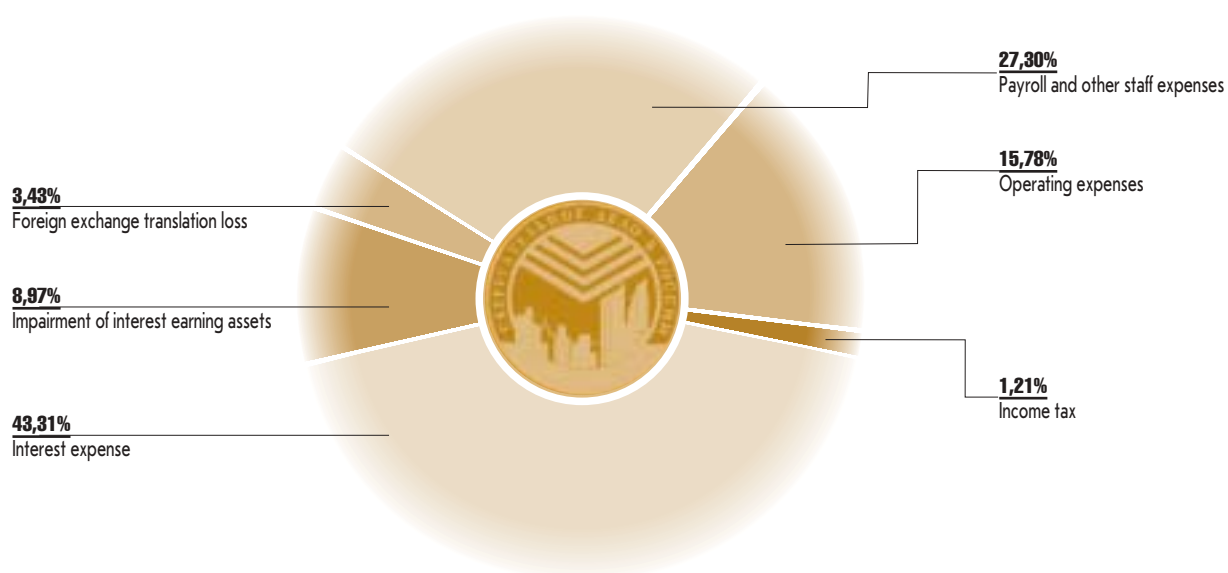
At the same time the decrease in income from operations with securities as recognized in IFRS reports compared with RAR reporting was also due to the difference in their recognition. According to Russian Accounting Rules credit institutions recognize interest income on federal government securities at nominal coupon rate, whereas according to IFRS (International Financing Reporting Standards) such income should be recognized based on effective interest rates. As in 2003 their effective interest rates were below their nominal coupon rates a substantial part of interest income on securities recognized under RAR was reclassified as trading income under IFRS.



Income Structure



Expense Structure





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These factors had their depressing effect on the interest margin and were further aggravated by the fact that interest expense adjustments could not keep up with changes on the income side of asset operations. Throughout 2003 the Bank decreased interest rate on retail deposits three times, but the effect on average interest rate was insignificant as the Bank has been conducting the policy of boosting long-term funding. Thus the effect of decreasing retail deposit interest rate will become noticeable in 2005 only.

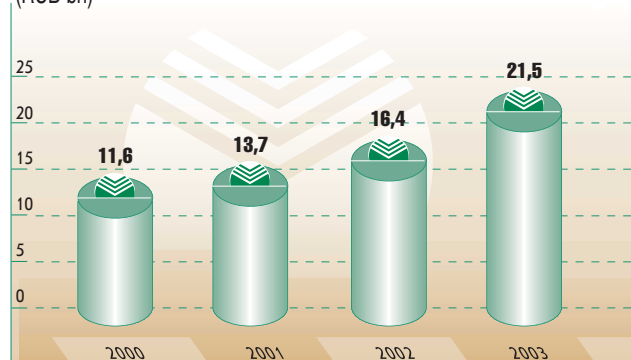
The major expense item remains Interest expense which came up RUB 20.9bn (35.6%) to RUB 79.6bn, which is 43.3% of the aggregate expense of the Bank. Its largest component is the interest expense on retail term deposits which grew by RUB 15.1bn (28.2%) to reach RUB 68.7bn making 37.3% in 2003 aggregate expense of the Bank.

Interest expense on corporate funds in settlement, current and budget accounts and deposits remains low at 2.8%.

Staff costs were RUB 50.2bn and their share in total expense of the Bank decreased by 3.7 p.p. comparing with the previous year to make 27.3% in 2003.

Other operating expenses of the Bank made RUB 29.0bn exceeding those of the previous year by 18.9%. Maintenance expense structure remained practically unchanged: premises maintenance and their repair stood at 13.6%, depreciation of fixed assets was 21.9%.

Fee and Commission Income Growth (Net)
(RUB bn)





INTERNATIONAL RELATIONS

Sberbank has been an active participant in the proceedings of the World Savings Banks Institute (WSBI) and the European Savings Banks Group (ESBG) as the only Russian bank in these two international organisations that bring together over a hundred of savings institutions from 91 countries.

In May 2003, the World Congress of Savings Banks in Madrid re-elected Sberbank's Chairman of the Board and CEO Andrei I. Kazmin Vice President of WSBI, which came as an evidence of trust that the international banking community places in Sberbank.

In November 2003, at its Central Head Office in Moscow Sberbank hosted the meeting of WSBI's Board of Administration, the managing authority of WSBI. It was the first such meeting in the history of WSBI to be held in Russia. At the meeting, WSBI presented its publication on the Russian banking sector and the leading role of Sberbank in it.

Since April 2001, Sberbank has been regularly participating in The Petersburg Dialogue, a Russian-German forum established by the public figures and businessmen from Russia and Germany on the initiative of Russian President Vladimir Putin and German Chancellor Gerhard Schroeder. Andrei I. Kazmin is a member of the Economy and Business Section of The Petersburg Dialogue.

In 2001, Sberbank joined the U.S. - Russia Business Council (USRBC) established in 1993. This non-profit organisation aims at promoting trade and economic relations between Russia and the US and advises the leaders of both countries of any issues that create barriers to the real improvement of business co-operation. Andrei I. Kazmin has been a USRBC Board member since 2002.

Sberbank has been a member of the Russian-American Business Council (RABC), USRBC's Russian partner, since its establishment in January 2001. A RABC member, Sberbank works to eliminate political, legislative and other barriers to normal business of Russian banks and companies in the US and establish beneficial business relations with the representatives of the US business community. Sberbank takes part in working out draft texts of annual reports of the Russian-American Business Dialogue (RABD) that are issued jointly by USRBC and RABC for Presidents of Russia and the US.

On 14 November 2003 Sberbank hosted a meeting of the Board of Administration of the World Savings Banks Institute at its Central Head Office in Moscow. At the meeting, WSBI presented its publication on the Russian banking sector and the leading role of Sberbank in it. The Chairman of the Central Bank of Russia Sergei M. Ignatiev addressed the meeting and spoke on the major aspects of development of the Russian banking sector. Photo showing Dr. Holger Berndt, President of WSBI; Sergei M. Ignatiev, Chairman of the CBR; Andrei I. Kazmin, Chairman of the Board & CEO of Sberbank.





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Sberbank participates in international forums and conferences on economic development, banking reform and improvement of the Russian financial sector. Last year, Sberbank representatives took part in the Russian Economic Forum in London, the Second China - Russia Financial Forum in Beijing, the business summit of the Asia Pacific Economic Co-operation Forum in Bangkok, and a number of other important international meetings.

Since 1994, Sberbank has been actively participating in the International Banking Security Association (IBSA) as a voting member. IBSA is among the most authoritative international non-profit organisations in the banking security sector. Sberbank's co-operation with IBSA is aimed at countering attempted crime and assault including cross-border offences against credit and financial institutions. In May 2003, Sberbank, the only member bank from Russia, hosted the annual meeting of the Association, the first ever to take place in Russia. Speakers at the meeting included Sberbank's Chairman of the Board and CEO Andrei I. Kazmin, chairmen of Sberbank's regional head offices, managers from the Russian Committee for Financial Monitoring and law enforcement officers who discussed Sberbank's security system against money laundering, terrorism financing and criminal attempts in the credit and finance sector. According to foreign experts who attended the meeting, the security system in place at Sberbank fully complies with the international standards and in certain aspects even excels the standards adopted in the developed countries of Europe.

Since 1994, Sberbank has been working closely with the European Bank for Reconstruction and Development (EBRD). This work is conducted in two major fields: small business lending and trade facilitation.

The number of loans issued in 2003 only under the Small Business Development Programme exceeded 6,490 (RUB 1.4bn and USD 0.7m). EBRD and Sberbank signed several agreements under the Trade Facilitation Programme, including the Trade Finance Guarantee Facility for Sberbank customers (The Issuing Bank Agreement) and the Confirming Bank Agreement.

With these agreements, Sberbank can receive confirmations on letters of credit and other trade finance instruments against EBRD guarantees from foreign banks, for a period up to 36 months without making a deposit. It can also receive EBRD guarantees in the format of stand-by letters of credit for Sberbank-confirmed letters of credit issued by foreign banks and other bank members participating in the EBRD programme.

Sberbank develops co-operation with foreign Export Credit Agencies and foreign banks that provide ECA- covered finance. By signing the Co-operation Agreement with US Ex-IM Bank back in 2001, Sberbank gained access to all its programmes designed for Russia. Similar agreements were signed with Hungarian Eximbank and the Israel Foreign Trade Risks Insurance Corporation (IFTRIC).

The Bank has established and develops relations with OeKB (Austria), ECGD (UK), Euler Hermes (Germany), SACE (Italy), CESCE (Spain), Export Development Canada, Atradius (Netherlands), KUKE (Poland), COFACE (France), Finnvera (Finland), EGAP (Czech Republic), EKN (Sweden), ERG (Switzerland), NEXI (Japan), Japan Bank for International Cooperation (JBIC) and others.

On 5 May 2003, Sberbank, Deere Credit, Inc., and US Ex-IM Bank signed a USD 10m Facility Agreement for financing the import of US-manufactured equip-



ment to Russia, for a term of up to 5 years. This facility was used to finance a five-year project of RusAgro Invest worth USD 3m for purchasing agricultural machinery manufactured by John Deere.

On 15 September 2003, Sberbank and AKA Ausfuhrkredit-Gesellschaft m.b.H. (AKA), a German export finance bank, signed an Individual Loan Agreement for EUR 2.8m for 5.5 years for a project of the Gorky Iron and Steel Works to buy German-made equipment. The project is financed through Sberbank's Volgo-Vyatsky Regional Head Office.

In October 2003, Sberbank implemented a debut project for raising capital on international markets through the issue of US\$1 billion, 3-year Floating Rate Notes which was priced at par and pays a coupon of 3-month Libor + 1.75%, with UBS Investment Bank as the lead manager of the transaction. This issue was placed as a Reg. S deal and became the first investment grade rated Eurobond from Russia as well as biggest ever Eurobond issue from a bank in the Emerging Markets.

On 5 December 2003, Sberbank and AKA signed an Individual Loan Agreement amounting to EUR 22.7m to finance an eight-year project of Sayanskhiplast.

On 30 September 2003, Sberbank signed the Co-operation Agreement with Industrial and Commercial Bank of China (ICBC), the largest state-controlled commercial bank in China, with a special focus on settlements, trade and project finance and the servicing of trade in border areas and other transactions.

Work continued under the programme World Coins Through Sberbank, under which Sberbank entered into long-term agreements with such foreign partners as the Australian Perth Mint, British Royal Mint, New Zealand Mint, German company Emporium Hamburg for the delivery of bullion coins for distribution on the Russian retail market on exclusive terms.

Sberbank made a breakthrough onto the global capital markets by its debut issue of three-year floating rate notes for USD1 billion. The road show was held in major financial centers: Paris, Zurich, Geneva, London, Frankfurt, Munich, Vienna, Copenhagen, Milan, and London again.

Photo showing Sberbank team members at the presentation in Zurich: Alexander V. Zakharov, Deputy Chairman of the Board; Vladimir Y. Mamakin, Director of Financial Department; Natalia V. Neverkevich, Director of Department for IAS Accounting and External Reporting; Andrei I. Kazmin, Chairman of the Board and CEO. Speaker: Edward Kaufman, Managing Director of Brunswick UBS.





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RISK MANAGEMENT

The Bank runs a fully-functional system for control, monitoring and management of risk. The 2003 results demonstrate that the system in place ensures steady operation in the changing environment on financial markets.

In accordance with its risk management policies, the Bank aims at maintaining reasonable liquidity, a well matched structure of assets/liabilities by maturity and currency, diversified by region, customer, and exposure.

The risk management system is regulated by internal standards and procedures, based on the requirements of the Central Bank, recommendations of auditor firms and the Basel Committee on Banking Supervision and best practice of the leading foreign and national financial institutions.

Major risk levels are stress tested and subjected to scenario analysis that includes probable changes in financial market indicators and the Bank's assets and liabilities.

The Bank regards **credit risk** as the risk arising from a counter-party's failure to fulfil its obligations to the Bank in due time and/or in full. The loan portfolio has increased considerably, its share in assets has grown, and the financial result is highly sensitive to the quality of the loan portfolio. In view of these factors, the Bank attaches great importance to controlling and managing of this type of risk. Assessing the counter-party credit risk, the Bank takes account of such factors as organisation structure, credit history, business reputation, financial status, management efficiency, market status, development potential, operational equipment, application of modern technologies, socio-economic factors etc. The establishment of limits on the major groups of counter-parties and specific operations of the Bank is one of the major tools for credit risk control.

The Bank was successful in diversifying its credit risks thereby reducing the risk concentration. The share of loans to ten largest borrowers has gone down from 20.7% to 20.4% of the loan portfolio.

The Bank maintains high quality of its loan portfolio which attests to the efficiency of its credit risk management system. At 31 December 2003 the provision for impairment of interest earning assets was 7.7% of gross loans and advances to customers, decreasing by 1.4 p.p. over the year in review. Bad debt ratio as overdue loans to the loan portfolio decreased from 1.9% to 1.6% by the year end. Bad debt ratio for retail loans is even better at 0.5% of overdue loans in retail loans outstanding in 2003.

Controlling market risk resulting from unfavourable movement in financial market indices such as exchange rates, securities quotations, interest rates and prices on commodity markets is another component of risk management systems of the Bank.

The basic tools for controlling and managing **market risk** are open currency position limits and maximum loss limits (stop-loss) in each segment of the financial market set by Sberbank's collective bodies for the Bank's Treasury. Limits are also established for investments in government, sub-federal and corporate securities.

An analysis of the change of interest rate risk in 2003 revealed the trend of decreased sensitivity of the Bank's financial result to ruble interest rate fluctuations on three months to three years horizon. This comes as a result of significant growth in the share of long-term ruble deposits in the aggregate funds



raised from individuals. Ruble assets and liabilities are practically insensitive to interest rate fluctuations on six-month to twelve-month horizon.

Interest rates on both placed and attracted funds are reviewed regularly in order to minimize interest rate risk. Continuous forecasting of net interest margin enables the Bank to reduce basis risk as well.

The major **pricing risk**, seriously affecting the Bank's current financial result, relates to the government securities portfolio that is subject to daily monitoring. The Bank regards this risk as acceptable.

The exchange rate risk decreased notably in the year under review. The Bank's open currency position shrank 2.9 times to RUB 20.6bn, its share in net assets going down from 5.4% to 1.4%.

The **operational risk** associated with the procedural shortcomings in the Bank's operations, technologies in use, functioning of the information systems, inadequate proceedings, errors of the staff and external factors is minimised by regulation and control procedures applicable to all operations and by an ongoing improvement of technologies and information systems. All business units at the Bank are guided by the following core principles:

Procedures and technology must be strictly adhered to in accordance with the internal documentation;

A transaction may be made and access to information provided only within the established scope of reference;

Each transaction procedure must be subject to control.

To secure control on all levels of software development and commissioning, the Bank provides for evaluation, testing and trial run of the automated systems to be installed, as well as testing and installing anti-virus software on its computer facilities, testing system software for information security, making back-up copies and creating back-up databases to be used in case of failure or force majeure.

Before implementing any new product, service or technology, the Bank undertakes a preliminary marketing analysis, makes financial, legal and technological evaluations, works out and approves requirements and documentation to minimise financial risk.

The **liquidity risk** is assessed, managed and controlled in accordance with Sberbank Policies in Liquidity Management and Control, developed with regard to the Central Bank's recommendations. The Bank's liquidity is evaluated on all maturities under various development scenarios. Scenario analysis results are reviewed on a monthly basis by Sberbank Interest Rates and Limits Committee. Short-term liquidity is analysed and cash movement monitored daily. Liquidity



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management technologies in place help the Bank to maintain financial stability and ensure the high quality of customer service irrespective of fluctuations in the market indices.

The Bank uses the latest mathematical modelling software to evaluate future cash flows (econometric scenario and neuro-models) and to forecast cash flows on its correspondent accounts. The Bank creates optimisation models to maximise expected profit from treasury operations within liquidity risk limits. Reserve management models are used to streamline the balances of cash in rubles and foreign currency, and bullion accounts. Where a short-term liquidity shortage is forecast, the Treasury takes action within the existing limits to maintain quick and short-term liquidity by selling or buying foreign currency and bullion, making currency swap deals, raising funds on interbank market, entering into repurchase deals on domestic and global financial markets, including deals for direct repurchases from Central Bank auctions.

IT AND BANKING TECHNOLOGIES

In the year under review, the Bank continued to build an integrated IT system at its Central Head Office and regional head offices in accordance with Sberbank's IT Development Concept.

For the most critical IT systems, the Bank builds the infrastructure for Data Processing Centres and Stand-by Computer Centres. The Bank creates distributed data storage systems, streamlines link infrastructure for global networks, upgrades communication stations enhancing their reliability and performance parameters.

To service its corporate customers and correspondent banks and to reduce costs, Sberbank is phasing in an internet banking system. Also, the Bank is implementing a system for internet payments with bank cards.

To streamline retail payments processing, the Bank is installing automated systems at its regional head offices for receiving and processing payments by the billing centres.

Sberbank is improving its quick liquidity management system and is phasing in a cash management system.

The Bank has installed a system for tracking card account status from mobile phone. The Bank's customers can use ATMs to pay mobile operators' services. Automated system that provides information on credit card balances to mobile phones was implemented. Sberbank clients can pay the services of mobile companies through ATMs.



CHARITY AND SPONSORSHIP

In 2003 Sberbank went on with its major charity and sponsorship programmes. To name just a few, Sberbank made sizeable donations to support the poor, disabled and old, including donations to the Inter-regional Non-profit Organisation for Support of the Blind and Deaf (Elvira) for social adaptation programmes; the All-Russia Social Movement of Veterans of Local Wars and Military Conflicts (The Battle Brotherhood) for social aid to the Afghan war veterans.

Sberbank's donations for the orphaned, disabled, children from low-income and problem families, orphanages and boarding schools were transferred to The Illustrated Books for Blind Children, a regional charity foundation, for buying special books for blind children. Donations were also made to the Regional Charity Organisation for Support of Children with Musculoskeletal Disorders (Healing) for treatment; to orphanages and boarding schools Nos. 28, 23, 26, 11, 48, 1760 in Moscow, Pulmonology Sanatorium no. 47 and other institutions for children.

Considerable special purpose donations were made to the Nikolai Pirogov National Medical Surgery Centre of the Russian Ministry of Health for buying medical and diagnostic equipment; the Moscow City Cancer Hospital No. 62 for buying instruments, medicines and consumables; the leucosis chemotherapy and erythron pathology ward of the Haematology Centre of the Russian Academy of Medicine, for cancer treatment; the Regional Non-profit Organisation Child Oncology: Doctors and Parents Together, for buying medicines and medical equipment; the Oncology Centre of the Russian Academy of Medicine for treatment and after-care of cancer-stricken children; the Russian Foundation for Charity and Health for buying medical equipment and medicines for children affected by cerebral palsy; the International Foundation Fatherland's Health for arranging medical operations for children at foreign clinics.

Sberbank has made substantial contributions for spiritual and cultural development and preservation of the national heritage. Sberbank is the general sponsor of the Gold Mask Festival and National Theatre Award. For the 300th

On 2 April 2004 the Tenth Presentation Ceremony of the Laureates of the National Gold Mask Festival and National Theatre Award took place at the Bolshoi Theatre.

Photo showing People's Artist of the USSR Alla Demidova; Chairman of the Board & CEO of Sberbank Andrei I. Kazmin, and stage director Dmitry Chernyakov («The Rake's Progress» performance, Bolshoi Theatre, Moscow), at the ceremony.





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anniversary festivities in St Petersburg, Sberbank provided financial aid to renovate the Constantine Palace. Donations were made to renovate the National History Reserve Kazan Kremlin for the commemoration of the 1,000th anniversary of Kazan, Tatarstan Republic's capital, forthcoming in 2005. The Non-profit Culture Foundation "Tree of Life" received aid to erect the Tree of Life monument in Moscow.

The Bank provided financial support to the National Mariinsky Theatre, Tovstonogov Bolshoi Drama Theatre for staging new shows; to the Moscow Stas Namin's Music and Drama Theatre; to the Tarussa Sviatoslav Richter Foundation for holding regular music festivals in Tarussa, Kaluga Region. Charity funds were given to stage a concert for the veterans of the Great Patriotic War in the Red Square, Moscow, on the Victory Day. The Bank provided financial support to the foundation of the famous cartoon-maker Yuri Norstein to buy equipment for cartoon-making.

The Bank has supported a number of churches of the Russian Orthodox Church; the Ecclesiology Research Centre Orthodox Encyclopaedia for publishing a new volume of the Orthodox Encyclopaedia; the Central Spiritual Agency of Moslems in Russia, the Moslem Religious Organisation of the Council of Russian Muftis, and the Co-ordination Centre of North Caucasian Moslems, for publishing purposes and for buying training aids.

Like in previous years, the Bank continued to support research and education establishments, making charity contributions to the International Institute of Economics and Finance (the Higher School of Economics) and the Finance Academy at the Russian Government.

Considerable funds were given for publishing research papers in economy and history; and to the editorial board of the Arion poetry magazine.

The Bank provided financial aid to the North Fleet, including "Peter the Great", a heavy nuclear missile cruiser to relieve social issues of its crew members. It also supported military unit No. 40145, the Council of Veterans of the 348th Division, the Russian Home Ministry, the Russian Federal Security Service for construction and renovation of sport facilities, the Military Enlistment Office of Akademicheskyy Sub-District of Moscow's Southwest Administrative District and the Moscow City Foundation Against Economic Crime.

Mr. Kazmin, Chairman of the Board and CEO of Sberbank presented Sberbank Visa Gold bank cards to forty five Russian gold medallists of the Olympic Games in Athens during a traditional gala reception for Olympic athletes in the «Russia» State Concert Hall.





CORPORATE CULTURE AND TRADITIONS

Corporate culture is an essential factor of business and a foundation for building new traditions at the Bank. Sberbank ranks corporate culture amongst highly efficient tools for mustering its resources for a common goal. Corporate culture stimulates initiative, fosters loyalty and understanding among the staff. A shared code of communication and ethics help the Bank to maintain a positive image and consolidate its market position.

In 2003, the Bank focussed on the development of internal relations and operational environment, bringing its corporate culture in line with dynamic changes in the general environment and creating competitive advantages by building up HR potential, raising responsibility and professional qualification of the staff.

Sberbank takes steps to improve motivation for high performance, including staff training, moral and pecuniary incentives and social support. Incentives are directly related to performance and efficiency.

To improve efficiency, win the best positions on financial services market and encourage the best performers, the Bank holds annual best-in-business contests for its regional head offices. In 2003, its Tsentralno-Chernozemny Head Office won The Challenge Banner of Sberbank. Altaisky Head Office ran second and Baikalsky Head Office third. Srednerussky Head Office won the Will to Win prize in recognition of the highest jump in Head Offices Ratings.

The information on the winner bank, prize-winning and special awards winning banks, and the staff receiving corporate decorations, is available on the corporate museum's Board of Honour at the Central Head Office (19 Vavilova Street, Moscow).



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Sberbank places great emphasis on further training of its staff, primarily, the managers and experts working in high-priority areas of the banking business. Last year, it launched a joint education project (MBA Finance) with the Higher School of Economics State University for Sberbank's staff so that teams of managers have a shared view on their business and a better business interaction. By offering the Finance MBA course to its staff, Sberbank creates a team of highly professional managers who have common vision and speak common language.

Sberbank continued to implement socially-oriented corporate policies to create socio-economic, legal and organisation environment for unrestrained development and self-realisation of every staff member. The Bank regards social support for staff as an important image-building factor that sets its staff apart from its competitors in terms of economic efficiency, stability and social status.

For 2003, Sberbank envisaged a comprehensive programme to introduce across-the-board corporate standards of targeted and differentiated social support for its staff, their families and retired employees.

Concerted action in implementing social programmes at the Head Office and regional head offices is aimed at better consolidation of the team united by operational process, and preservation of the Bank's traditional core values.

Successful performance is stimulated by eventful and rich corporate life. Sberbank promotes company-wide sport activities, providing its staff with access to sport facilities, to sports and fitness programmes and competitions, providing equipment to corporate team members on favourable terms. Sberbank holds annual corporate games - Sberbankiades - where teams from the Central Head Office and regional head offices participate.

Concurrently with sport events, the Bank holds amateur art festivals.

The Bank continued the tradition of Theatre seasons at its Central Head Office.



SBERBANK'S MILESTONES

- 1841** 12 November (30 October old-style): Russian Emperor Nicholas I issues a decree to establish savings offices in Russia 'for the purpose of providing for all people of common rank and origin the means of making savings in a reliable and profitable manner'.
- 1842** First savings offices open in Moscow and St Petersburg.
- 1862** The State Bank under supervision of the Ministry of Finance is charged with the general management of the savings offices.
- 1895** Savings offices receive a new Charter on initiative of the Russian Minister of Finance Sergei Witte. Savings offices receive the status of 'state savings offices'.
- 1918** 21 January: The Soviet Government issues a decree on the immunity of deposits made with savings offices.
- 1919** 10 April: The Soviet government issues a decree to merge savings offices with the People's Bank of the Russian Federation.
- 1922** 26 December: The Soviet Government issues an enactment 'On the Establishment of State Savings Offices'.
- 1948** State savings offices receive a new Charter.
- 1963** The USSR State Bank replaces the USSR Ministry of Finance as the supervisor of state savings offices.
- 1987** State savings offices are reorganised into the USSR Bank of Savings and Retail Lending (Sberbank of the USSR).
- 1990** The Russian Republican Bank of Sberbank of the USSR is declared the property of the Russian Federation and reorganised into the Savings Bank of the Russian Federation.
- 1991** General Shareholders Meeting establishes the Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank).
- 1992** Sberbank becomes a member of the World Savings Banks Institute (WSBI).
Sberbank receives title to issue VISA International cards as a Principal Member.
- 1993** Sberbank receives title to issue and acquire Europay/MasterCard International cards as a Principal Member.
- 1996** Sberbank adopts the Development Concept to Year 2000 aimed at making Sberbank a universal commercial bank by expanding corporate services and retaining traditional leadership on the retail market.
- 1997** Sberbank is officially rated by the international Fitch IBCA rating agency. Sberbank is the only commercial bank in Russia in the Top 200 lending institutions of the world and the Top 100 European banks.



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1998
1999
2001

Sberbank issues the millionth bank card.
Sberbank launches the issue of Sberbank - Visa Electron cards.
Sberbank celebrates its 160th Anniversary. Russian President Vladimir Putin addresses Sberbank staff with a congratulatory telegram. Some of the staff are honoured with government awards. President Putin visits the Vernadskoye Branch of Sberbank in Moscow.

2002

Sberbank becomes the first Russian bank to issue the millionth Maestro card.
Sberbank's Annual General Shareholders Meeting approves Sberbank's Corporate Governance Code.
Sberbank is ranked the biggest bank in Central and Eastern Europe by assets, tier one capital, and deposit base.
Sberbank becomes the first Russian bank to issue 2 million VISA and MasterCard cards.

2003

Sberbank's Chairman of the Board and CEO Andrei I. Kazmin is elected to the Executive Board of Europay International.
Moody's international rating agency assigns an investment credit rating to Sberbank.
Morgan Stanley Capital Investment Inc. (MSCI) includes Sberbank's ordinary shares in calculation of MSCI Russia and MSCI Emerging Markets stock indices.
Sberbank places floating rate notes worth USD 1bn for 3 years at LIBOR + 1.75% setting a record for Central and East European banks.
Sberbank launches the issue of Visa Classic Gold Mask international bank card, a joint product of Sberbank and the Gold Mask National Theatre Award.
Sberbank becomes the first Russian bank to issue the millionth VISA International card.
The Bank of New York, the major correspondent bank for payments in USD, presents to Sberbank an international award 'In Recognition of the Highest Quality for Payment Formatting and Straight-Through Rate -2003', for payments in USD and Euro.
In recognition of Sberbank's performance in 2003, the Association of Russian Banks presents to Sberbank the Honorary Diploma in The Russian Bank of the World Class nomination.
Sberbank wins in the Bank nomination in the prestigious People's Mark national brands contest.
Sberbank wins the 2003 Stock Market Elite national contest held by the National Association of Stock Market Participants.





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**2003 FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

(In accordance with the International Financial Reporting Standards)



*Sberbank (Savings Bank of the Russian Federation)
Financial Statements and Independent Auditors' Report*

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Board of Sberbank
(Savings Bank of the Russian Federation) –

We have audited the accompanying balance sheet of Sberbank (Savings Bank of the Russian Federation) (the “Bank”) as of 31 December 2003, and the related statements of income, changes in shareholders’ equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit

25 June 2004




Sberbank (Savings Bank of the Russian Federation)

Balance Sheets as of 31 December

(Thousands of Russian Rubles, unless otherwise indicated)

	Note	2003	2002
Assets			
Cash and cash equivalents	5	45,615,928	67,608,513
Mandatory cash balances with the Central Bank of the Russian Federation		98,893,608	74,808,687
Trading securities	6	135,309,528	125,854,436
Due from banks	7	78,629,557	40,024,779
Securities available for sale	8	176,694,073	93,025,286
Loans and advances to customers	9	792,363,615	516,671,183
Securities acquired at original issuance	10	73,535,315	102,027,415
Tax asset	26	3,481,131	1,643,607
Premises and equipment	11	66,101,471	61,675,642
Other assets	12	6,877,032	3,673,820
Total assets		1,477,501,258	1,087,013,368
Liabilities			
Due to banks	13	37,889,470	4,053,218
Deposits from individuals	14	978,580,839	708,015,138
Customer accounts	14	211,561,162	187,745,057
Own securities issued	15	104,010,365	54,160,970
Other borrowed funds	16	1,053,151	1,467,509
Other liabilities	17	9,533,108	8,451,980
Total liabilities		1,342,628,095	963,893,872
Shareholders' equity			
Share capital	18	20,980,583	20,980,583
Share premium		10,016,190	10,016,190
Treasury shares	18	(312)	(411)
Revaluation reserve for premises	11	474,987	497,605
Retained earnings and other reserves		103,401,715	91,625,529
Total shareholders' equity	19	134,873,163	123,119,496
Total liabilities and shareholders' equity		1,477,501,258	1,087,013,368

Signed on behalf of the Board on 25 June 2004.


A.I. Kazmin
Chairman of the Board and CEO


V.I. Tkachenko
Deputy Chief Accountant

The accompanying notes are an integral part of these financial statements.



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Sberbank (Savings Bank of the Russian Federation)
Statements of Income for the Years Ended 31 December
(Thousands of Russian Rubles, unless otherwise indicated)

	Note	2003	2002
Interest income on loans	20	102,637,027	94,794,887
Interest income on securities	20	25,872,758	36,785,503
Interest expense	20	(79,642,994)	(58,729,018)
Net interest income		48,866,791	72,851,372
Impairment of interest earning assets	7, 9	(16,509,860)	(13,651,554)
Net interest income after impairment of interest earning assets		32,356,931	59,199,818
Gains less losses arising from securities and derivatives	21, 31	40,979,241	19,344,898
Gains less losses arising from dealing in foreign currencies		4,274,093	2,886,561
Foreign exchange translation gains less losses		(6,300,889)	3,579,901
Fee and commission income	22	22,096,989	16,929,637
Fee and commission expense	22	(644,722)	(480,229)
Other operating income	23	2,604,506	2,220,310
Net operating income		95,366,149	103,680,896
Payroll and other staff expense	24	(50,193,457)	(43,462,154)
Operating expenses	25	(28,981,804)	(24,380,268)
Provision for credit related commitments		(30,993)	(16,659)
Monetary loss		–	(7,922,164)
Profit before taxation		16,159,895	27,899,651
Income tax	26	(2,226,382)	(7,641,373)
Net profit		13,933,513	20,258,278
Earnings per share (expressed in Russian Rubles per share)	27	727	1,063

The accompanying notes are an integral part of these financial statements.

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Sberbank (Savings Bank of the Russian Federation)
Statements of Cash Flows for the Years Ended 31 December
(Thousands of Russian Rubles, unless otherwise indicated)

	Note	2003	2002
Cash flows from operating activities			
Interest received on loans		101,112,617	94,743,781
Interest received on securities		30,067,610	32,767,528
Interest paid		(72,937,761)	(56,817,683)
Income received from dealing in securities and derivatives		43,442,442	11,713,336
Income received from dealing in foreign currencies		4,274,093	2,886,561
Fees and commissions received		22,096,989	16,929,637
Fees and commissions paid		(644,722)	(480,229)
Other operating income received		2,305,534	2,190,166
Staff costs paid		(47,149,134)	(40,731,100)
Operating expenses		(19,696,543)	(24,000,002)
Income tax paid		(4,056,763)	(6,267,197)
Operating profits before changes in operating assets and liabilities		58,814,362	32,934,798
Cash flows from operating assets and liabilities			
Net (increase)/decrease in assets:			
Mandatory cash balances with the Central Bank of the Russian Federation		(24,084,921)	(22,852,002)
Trading securities		(15,772,527)	(55,783,548)
Due from banks		(38,046,455)	(41,378,278)
Loans and advances to customers		(292,737,858)	(153,640,094)
Securities available for sale		(75,830,911)	(8,141,134)
Securities acquired at original issuance		21,684,994	4,985,996
Other assets		(3,232,210)	1,584,261
Net increase/(decrease) in liabilities:			
Due to banks		30,707,858	(12,367,011)
Deposits from individuals		265,228,588	212,790,671
Customer accounts		22,942,794	60,015,812
Own securities issued other than eurobonds		17,026,397	26,469,692
Other liabilities		(4,949,074)	1,007,387
Net cash (used in) / provided by operating activities		(38,248,963)	45,626,550
Cash flows used in investing activities			
Purchase of premises and equipment	11	(11,836,195)	(9,661,646)
Proceeds from sale of premises and equipment		1,061,772	448,660
Sales of other investments		(53,232)	—
Dividend income received	23	110,174	30,144
Net cash used in investing activities		(10,717,481)	(9,182,842)
Cash flows from financing activities			
Eurobond issuance		29,718,636	—
Sale of treasury shares		99	800
Other borrowed funds repaid		(427,447)	(95,897)
Dividends paid	28	(2,177,906)	(1,115,484)
Net cash provided by / (used in) financing activities		27,113,382	(1,210,581)
Effect of exchange rate changes on cash and cash equivalents		(139,523)	370,723
Effect of inflation on cash and cash equivalents		—	(8,066,210)
Net (decrease)/increase in cash and cash equivalents		(21,992,585)	27,537,640
Cash and cash equivalents at the beginning of the year		67,608,513	40,070,873
Cash and cash equivalents at the end of the year	5	45,615,928	67,608,513

The accompanying notes are an integral part of these financial statements.



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Sberbank (Savings Bank of the Russian Federation)
Statements of Changes in Shareholders' Equity for the Years Ended 31 December
(Thousands of Russian Rubles, unless otherwise indicated)

	Share capital	Share premium	Treasury shares	Revaluation reserve for premises	Retained earnings and other reserves	Total shareholders' equity
Balance at 31 December 2001 as previously reported	20,980,583	10,016,190	(1,211)	521,300	62,188,502	93,705,364
Restatement of deferred tax liability	-	-	-	-	10,263,037	10,263,037
Balance at 31 December 2001 as restated	20,980,583	10,016,190	(1,211)	521,300	72,451,539	103,968,401
Net profit	-	-	-	-	20,258,278	20,258,278
Sale of treasury shares, net	-	-	800	-	-	800
Depreciation of revalued premises, net of tax	-	-	-	(23,695)	31,178	7,483
Dividends declared	-	-	-	-	-	-
- Ordinary shares	-	-	-	-	(1,055,688)	(1,055,688)
- Preference shares	-	-	-	-	(59,778)	(59,778)
Balance at 31 December 2002	20,980,583	10,016,190	(411)	497,605	91,625,529	123,119,496
Net profit	-	-	-	-	13,933,513	13,933,513
Sale of treasury shares, net	-	-	99	-	-	99
Depreciation of revalued premises, net of tax	-	-	-	(22,618)	29,761	7,143
Dividends declared	-	-	-	-	-	-
- Ordinary shares	-	-	-	-	(2,071,083)	(2,071,083)
- Preference shares	-	-	-	-	(116,005)	(116,005)
Balance at 31 December 2003	20,980,583	10,016,190	(312)	474,987	103,401,715	134,873,163

The accompanying notes are an integral part of these financial statements.

4



Sberbank (Savings Bank of the Russian Federation)
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1. Principal Activities

Sberbank (Savings Bank of the Russian Federation) (the "Bank") is a joint stock commercial bank established in 1841 and having operated in various forms since then. The Bank's principal shareholder, the Central Bank of the Russian Federation ("the Bank of Russia"), owns 63.76% of ordinary shares or 60.57% of the issued and outstanding shares at 31 December 2003. The Bank is registered in the Russian Federation to conduct banking activities and has operated under a full banking license issued by the Bank of the Russian since 1991. The Bank's principal business activity is retail and commercial banking operations within the Russian Federation. Deposits of individuals placed with the Bank are guaranteed by the Russian Federation (the "State").

The Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia and co-chaired by the Deputy Chairman of the Bank of Russia. The Supervisory Board also includes representatives of the Bank's other shareholders.

The Bank has 17 regional head offices, 1 028 branches and 19 143 sub-branches within the Russian Federation. The main office of the Bank is located at 19 Vavilova St., 117 997 Moscow. The average number of the Bank's employees during 2003 was 219,048 (2002: 205,477).

2. Operating Environment

The Bank's financial position and results of operations are significantly influenced by the economic and social policies of the Russian Federation. The Bank has a significant level of lending operations with companies that are controlled by the State or where the State holds more than 25% of the voting shares. As of 31 December 2003, loans granted to such companies with exposure over 1% of the Bank's loan portfolio represented 7.9% of the total loan portfolio (2002: 13.6%).

During 2003, Moody's, the international rating agency assigned Russia an investment grade rating. Nevertheless, the Russian economy continues to display certain features consistent with those of a transitional economy. These attributes have in the past included higher than normal inflation rates, lack of liquidity in capital markets. The continued success and stability of the Russian economy will be significantly impacted by the Government's continued actions with regard to supervisory, legal, and economic reforms.

Those uncertainties may affect the ability of the banking sector to conduct operations. The Bank could be affected, in the foreseeable future, by these risks and their consequences. As a result, these uncertainties may affect the Bank's future operations, the recoverability of its assets, and the ability to maintain or pay its obligations as they mature. The Bank's risk management processes give consideration to these uncertainties (please refer to Note 30).

3. Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS in all material aspects.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the financial statements date. Actual results, therefore, could differ from these estimates.

The financial statements are presented in the national currency of the Russian Federation, the Russian Ruble ("RR"), expressed in terms of the purchasing power of thousands of Russian Rubles as of 31 December 2003, unless otherwise indicated.



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3. Basis of Presentation (continued)

Effective from 1 January 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning in 2003, the Bank ceased applying IAS 29 to current periods and only recognizes the cumulative impact of inflation indexing on non-monetary elements of the financial statements through December 31, 2002. Monetary items and results of operations as of and for the year ended December 31, 2003, are reported at actual, nominal amounts.

The 2001 financial statements of the Bank were restated for the effect of a RR 10,263,037 fundamental error that resulted from the calculation of deferred taxes as of 31 December 2001. In 2002, the correction of this fundamental error was reflected in the 2002 financial statements as allowed under the alternative treatment in accordance with IAS 8, with presentation of pro-forma financial information for 2001 as if the correction had been made during 2001.

During 2003, the Bank changed its accounting policy regarding the presentation of fundamental errors. Under the new accounting policy, the Bank will apply the benchmark treatment under IAS 8 with any fundamental error correction presented as an adjustment to the opening balance of retained earnings and restating the comparative information. Management believes that the use of the benchmark treatment will result in a more appropriate presentation of historical events and transactions in the financial statements.

Following this change in accounting policy, the 2003 financial statements present the 2002 comparative information as if the historical 2002 and 2001 financial statements had been restated for correction of the 2001 fundamental error, without the presentation of pro-forma financial information.

4. Significant Accounting Policies

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within a day. They include correspondent accounts (including accounts in precious metals) with the CBR, banks and non-banking institutions, as well as deposits, that mature not later than the first working day after the reporting date, and cash balances. Other interbank placements are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory balances with the Central Bank of the Russian Federation. Mandatory balances with the Bank of Russia represent mandatory reserve deposits that are not available to finance the Bank's day-to-day operations.

Precious metals. Gold and other precious metals are recorded at the balance sheet date at London Fixing. Precious metals are included in cash and cash equivalents.

Trading securities. Trading securities are securities that were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or securities included in a portfolio in which a pattern of short-term profit taking exists. The Bank classifies securities into trading securities if it has an intention to sell them within 180 days after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and are subsequently re-measured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future ability to realise these securities. In determining market value, trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

Changes in fair values are recorded within gains less losses arising from securities in the statements of income in the period in which the change occurs. Coupon and interest earned on trading securities are reflected in the statements of income as interest income on securities. Dividends received are included in other operating income.



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4. Significant Accounting Policies (continued)

Sale and repurchase agreements. Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under repos are included into trading securities, securities available for sale or securities acquired at original issuance as appropriate. The corresponding liability is presented within due to banks.

Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest income or expense and accrued over the life of the agreements using the effective interest method.

Securities purchased by the Bank under reverse repo are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from securities and derivatives in the statements of income. The obligation to return them is recorded at fair value as a trading liability.

Originated loans and advances and allowance for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost, less allowance for loan impairment.

Loans and advances are recognised when cash is advanced to borrowers. The allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due. The allowance is the difference between the carrying value and estimated recoverable amounts based on discounted cash flows.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers, and reflecting the current economic environment in which the borrowers operate.

When a loan cannot be collected, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the related impairment account in the statements of income.

Bills of exchange purchased. The Bank purchases bills of exchange from its customers or on the market. These bills of exchange are included in trading securities, securities available for sale, loans and advances to customers, or in due from banks, depending on their substance and subsequently re-measured and accounted in accordance with the accounting policies described above for those categories of assets.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit, and guarantees. The accounting policy and allowance methodology are similar to those for originated loans noted above. Specific allowances are raised against other credit related commitments when losses are considered probable.

Securities available for sale. This classification includes securities that the Bank intends to hold for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. The Bank determines the appropriate classification of securities at the time of purchase.

Securities available for sale include other investments, which represent equity investments in non-consolidated subsidiary companies, associated companies and investments held for resale.

Securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain securities available for sale, for which there is no available external independent quotation have been fair valued by the Bank. Fair value has been determined after the application of various valuation methodologies, including assumptions as to amounts to be realised on settlement. Realised and unrealised gains and losses arising from changes in the fair value of securities available for sale are included in the statement of income under gains less losses from securities in the period in which they arise. Coupon and interest earned on securities available for sale are reflected in the statements of income as interest income on securities. Dividends received are included in other operating income.



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4. Significant Accounting Policies (continued)

Securities acquired at original issuance. The Bank classifies its investment securities acquired at original issuance directly from a debtor, other than those that are purchased with the intent to be sold in the short-term, as “securities acquired at original issuance.” Such securities are carried at amortized cost. Income arising from the accretion of these securities’ purchase discount are recognized in the statements of income as interest income from securities using the effective interest method.

Premises and equipment. Premises and equipment are stated at revalued amounts, restated to the equivalent purchasing power of the Russian Ruble at 31 December 2002, less accumulated depreciation and allowance for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, an allowance is provided to reduce it to the recoverable amount and the related provision is charged to the statements of income. The estimated recoverable amount is the higher of an asset’s net selling price and its value in use.

The revaluation reserve represents the difference between the restated net book amount of premises and their market value. The proportion of revaluation reserve, representing the amount depreciated, is transferred annually to retained earnings based on the estimated average useful life of the underlying premises.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Ruble at 31 December 2002. Upon completion, assets are transferred to premises at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their net book value. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

Depreciation and amortisation. Depreciation and amortisation are applied on a straight-line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2.5% - 4.5%;
Equipment	18% - 25%;
Intangible assets	25%.

Depreciation and amortisation is calculated starting from the month following the month when the fixed / intangible asset has been placed into operation. Depreciation and amortisation for the reporting period are recorded in the statements of income under operating expenses.

Due to banks and customers. Amounts due to banks and to customers are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the maturity period of the borrowings using the effective interest method.

Own securities issued. Bills of exchange, deposit certificates, saving certificates, eurobonds are issued by the Bank to its customers and carry a fixed date of repayment. Bills of exchange may be issued against cash deposits or as a payment instrument, which the customer can discount in the over-the-counter secondary market. Own securities issued by the Bank are recognised initially at cost, being their issue proceeds, net of transaction costs incurred. Subsequently, own securities issued are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statements of income over the period of the security issue using the effective interest method.

Share capital. Share capital is recognized at restated cost reflecting the cumulative impact of inflation indexing through December 31, 2002.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued and is recognized at restated cost reflecting the cumulative impact of inflation indexing through December 31, 2002.

Preference shares. Preference shares are not redeemable, they guarantee payment of annual dividends of not less than 15% of their nominal value. Dividend payments in excess of that minimum are determined at the Bank’s Annual Shareholders Meeting. Preference shares are classified as a part of equity.



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Significant Accounting Policies (continued)

Treasury shares. Shares of the Bank owned and held at the balance sheet date, are defined as treasury shares. The cost of such shares is shown as a reduction in shareholders' equity.

Dividends. Dividends payable are not recognised until they have been ratified at the Bank's Annual Shareholders Meeting. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit determined in accordance with statutory requirements.

Taxes. Taxation has been provided in accordance with Russian legislation currently in force. The charge for taxation in the statements of income comprises current taxes and changes in deferred tax assets and liabilities. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates in force during the relevant period.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The deferred tax liability arising on the revaluation of premises is charged directly to the revaluation reserve. Any tax effect of subsequent impairment of the revaluation reserve is recognised through the statement of changes in shareholders equity; any deferred tax benefit beyond the remaining amount of revaluation reserve is reflected in the statements of income.

The Bank is subject to certain taxes, other than on net profit. These are recorded in operating expenses.

Income and expense recognition. Interest income and expense are recognised in the statements of income on an accrual basis calculated using the effective interest method. Interest income on loans is accrued only if delays of interest and principal payments are less than 90 days. Interest income is not recognised where the Bank believes it is not collectible.

Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Foreign currency translation. Transactions denominated in foreign currencies are recorded at the CBR exchange rate prevailing on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currencies are included in the statements of income using the CBR official exchange rate prevailing on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official exchange rate of the Bank of Russia at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statements of income as foreign exchange translation gains less losses. As of 31 December 2003, the CBR exchange rate used for translating USD balances was USD 1 = RR 29.4545 (2002: USD 1 = RR 31.7844). Exchange restrictions and controls exist relating to converting Russian Rubles into other currencies. At present, the Russian Ruble is not a convertible currency outside of the Russian Federation.

Derivative financial instruments. Derivative financial instruments including forward foreign exchange contracts, currency swaps, currency options, forwards with securities and precious metals and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or using the spot rate at the year-end, as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.



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4. Significant Accounting Policies (continued)

Changes in the fair value of derivatives are included in gains less losses arising from securities and derivatives.

The Bank does not enter into derivative instruments for hedging purposes.

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

Provisions. Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Social funds costs. The Bank contributes to the Russian Federation state pension, social insurance and obligatory medical insurance funds in respect of its employees. The Bank's funds contributions are expensed as incurred. The contributions are included in staff costs.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) that is subject to risks and rewards that are different from those of other segments. The Bank determined that the primary segments for its activities are business segments (corporate and retail), and the secondary segments are the geographical areas of Russia.

Fiduciary assets: Fiduciary assets are not included in the Bank's balance sheet as they are not assets of the Bank.

5. Cash and Cash Equivalents

	2003	2002
Cash on hand	25,798,913	17,970,344
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	12,327,864	40,515,431
Correspondent accounts and overnight deposits with other banks		
- Russian Federation	4,089,790	1,446,874
- Other countries	738,788	6,068,419
Balances with non-banking settlement organisations	2,892	1
Precious metals	2,657,681	1,607,444
Total cash and cash equivalents	45,615,928	67,608,513



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6. Trading Securities

	2003	2002
RR denominated securities		
Federal loan bonds (OFZ) and federal short term bonds (GKO)	57,546,097	55,300,224
Municipal bonds	16,556,880	6,688,279
Corporate shares	3,117,173	1,151,668
Corporate bonds	477,274	–
Foreign currency denominated securities		
Russian Federation Eurobonds	31,273,191	54,179,583
Federal currency bonds (OVGVZ)	1,319,933	8,534,682
Foreign currency denominated securities sold under repo		
Russian Federation Eurobonds	25,018,980	–
Total trading securities	135,309,528	125,854,436

Stated coupon rates and maturity of trading securities are as follows:

	2003		2002	
	%	Maturity	%	Maturity
Federal loan bonds (OFZ) and federal short term bonds (GKO)	8.00% - 14.00%	2004 - 2018	10.00% - 15.00%	2003 - 2008
Federal currency bonds (OVGVZ)	3.00%	2006 - 2011	3.00%	2003 - 2011
Russian Federation Eurobonds	5.00% - 12.75%	2004 - 2030	5.00% - 12.75%	2003 - 2030
Municipal bonds	7.48% - 17.00%	2004 - 2011	8.48% - 20.00%	2003 - 2009
Corporate bonds	8.50% - 16.00%	2004 - 2006	–	–

7. Due from Banks

	2003	2002
Current loans to banks	47,520,681	40,024,779
Reverse repo deals with Bank of Russia	31,108,876	–
Overdue loans to banks	76,900	81,537
Less: allowance for loan impairment	(76,900)	(81,537)
Total due from banks	78,629,557	40,024,779

The Bank accepted 61.6% and 100% of two OFZ issues as collateral for reverse repo transactions with the Bank of Russia.

Movement in the allowances for loan impairment is as follows:

	2003	2002
Allowance for loan impairment at 1 January	(81,537)	(324,158)
Reversal of allowance for loan impairment	270	85,261
Due from banks written off as uncollectable	4,367	114,785
Effect of inflation	–	42,575
Allowance for loan impairment at 31 December	(76,900)	(81,537)



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8. Securities Available for Sale

	2003	2002
Debt securities		
Federal loan bonds (OFZ) and federal short term bonds (GKO)	151,430,367	64,556,098
Federal currency bonds (OFGVZ)	–	13,895,779
Russian Federation Eurobonds	15,975,926	13,657,697
Municipal bonds	–	406,654
Corporate bonds	2,440,976	–
Equity securities		
Investments in non-consolidated subsidiary companies	257,631	270,051
Investments in associated companies	–	32,913
Investments held for sale	6,589,173	206,094
Total securities available for sale	176,694,073	93,025,286

Stated coupon rates and maturities of federal government securities in the Bank's portfolio are presented in Note 6.

For the year ended 31 December 2003, the majority of subsidiary and associated companies have not prepared financial statements in accordance with IFRS. These investments have not been consolidated with the results of the Bank nor accounted for under equity method, as the effect of consolidation or equity accounting would not materially alter the financial position of the Bank at 31 December 2003 or the results of its operations or cash flows for the year then ended.

9. Loans and Advances to Customers

	2003	2002
Current loans	844,855,369	557,917,456
Overdue loans	14,068,226	10,622,627
Less: allowance for loan impairment	(66,559,980)	(51,868,900)
Total loans and advances to customers	792,363,615	516,671,183

Movements in the allowances for loan impairment are as follows:

	2003	2002
Allowance for loan impairment at 1 January	(51,868,900)	(44,828,154)
Provision for loan impairment	(16,510,130)	(13,736,815)
Loans and advances to customers written off as uncollectable	1,819,050	808,285
Effect of inflation	–	5,887,784
Allowance for loan impairment at 31 December	(66,559,980)	(51,868,900)



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9. Loans and Advances to Customers (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2003		2002	
	Amount	%	Amount	%
Trade	156,013,372	18.16%	114,095,187	20.07%
Individuals	145,604,017	16.95%	65,919,396	11.59%
Machine-building	89,740,231	10.45%	61,463,368	10.81%
Metallurgy	83,299,731	9.70%	42,962,791	7.56%
Food and agriculture	82,241,174	9.57%	57,392,389	10.09%
Oil, gas and chemical	82,030,021	9.56%	104,467,924	18.37%
Services	53,159,527	6.19%	5,529,958	0.97%
Construction	39,323,699	4.58%	23,932,443	4.21%
Telecommunications	38,925,824	4.53%	21,251,692	3.74%
Transport, aviation, space industry	30,988,219	3.61%	17,877,327	3.14%
Energy	21,412,462	2.49%	24,181,779	4.25%
Timber industry	16,157,812	1.88%	11,573,543	2.04%
Government and municipal bodies	15,304,955	1.78%	11,421,453	2.01%
Other	4,722,551	0.55%	6,470,833	1.15%
Total loans and advances to customers, gross	858,923,595	100.00%	568,540,083	100.00%

The Bank's loan portfolio has been extended to the following types of borrowers:

	2003	2002
Limited liability and joint-stock companies	646,570,568	444,427,027
Individuals	145,604,017	65,919,396
State enterprises	39,080,724	33,676,402
Entities of the subjects of the Russian Federation	15,340,316	11,420,816
Municipal bodies	2,648,901	2,465,545
Others	9,679,069	10,630,897
Total loans and advances to customers, gross	858,923,595	568,540,083

The Bank's largest ten borrowers constitute RR 175,567,927 or 20.4% of the total loan portfolio (2002: RR 117,743,803 or 20.7%). As of 31 December 2003, the largest borrower is represented by a group of the companies that operate under common control with loans of RR 54,724,886 or 6.37% (2002: RR 43,192,992 or 7.6%).

0. Securities Acquired at Original Issuance

	2003		2002	
	Nominal value	Carrying value	Nominal value	Carrying value
Russian Federation Eurobonds	82,511,185	71,252,208	107,666,794	92,077,087
Federal loan bonds (OFZ)	2,254,483	2,283,107	10,407,025	9,950,328
Total securities acquired at original issuance	84,765,668	73,535,315	118,073,819	102,027,415

Securities acquired at original issuance include securities obtained directly from the issuer – the Ministry of Finance of the Russian Federation, and not designated for immediate or short-term sale.



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10. Securities Acquired at Original Issuance (continued)

The Bank's portfolio of Russian Federation Eurobonds consists of two issues with maturity dates of 24 July 2005 and 24 July 2018 and effective yield to maturity 15.45% and 15.76%, correspondingly. The annual coupon rate on these bonds ranges from 8.75% to 11.00%, and interest is payable semi-annually. Market value of these Eurobonds as of 31 December 2003 was RR 102,749,403 (2002: RR 122,766,243). These Eurobonds were received from the Ministry of Finance in July 1998, in exchange for part of the Bank's Russian Ruble denominated state securities portfolio.

OFZ portfolio consists of two issues of Federal loan bonds with maturity in 2004. Yield to maturity varies from 19.64% to 31.91%, and coupon rates during 2003 were 12.00% and 10.00% respectively. Market value of these OFZ bonds as of 31 December 2003, was RR 2,269,255 (2002: RR 10,267,791).

During 2003, the Bank disposed of certain Russian Federation Eurobonds with par value of USD 586,100 thousand and maturity in 2005.

11. Premises and Equipment

	Premises	Office and computer equipment	Vehicles and other equipment	Intangible assets	Construction in progress	Total
Net book amount at 31 December 2002	45,671,756	9,332,820	2,963,012	711,376	2,996,678	61,675,642
Carrying amount at cost or revaluation						
Balance at 31 December 2002	49,953,328	15,344,632	6,549,746	1,621,039	2,996,678	76,465,423
Additions	201,138	7,433,157	1,165,046	8,314	3,028,540	11,836,195
Transfers	2,010,563	—	—	—	(2,010,563)	—
Disposals	(475,096)	(672,805)	(306,515)	(835,240)	(167,584)	(2,457,240)
Balance at 31 December 2003	51,689,933	22,104,984	7,408,277	794,113	3,847,071	85,844,378
Accumulated depreciation and amortisation						
Balance at 31 December 2002	(4,281,572)	(6,011,812)	(3,586,734)	(909,663)	—	(14,789,781)
Depreciation and amortisation charge	(2,220,177)	(3,232,725)	(697,162)	(198,528)	—	(6,348,592)
Disposals	54,888	354,705	197,737	788,136	—	1,395,466
Balance at 31 December 2003	(6,446,861)	(8,889,832)	(4,086,159)	(320,055)	—	(19,742,907)
Net book amount at 31 December 2003	45,243,072	13,215,152	3,322,118	474,058	3,847,071	66,101,471

Construction in progress consists mainly of construction and refurbishment of Bank premises. Upon completion, assets will be transferred to premises.

Premises were independently appraised as of 31 December 2000. An internationally recognised independent appraisal firm performed the valuation. The basis used for the appraisal was the sales comparison approach. Included in the net book value of premises at 31 December 2003 is RR 474,987 representing revaluation reserve relating to premises of the Bank, net of deferred tax (2002: RR 497,605). The deferred tax liability with respect to this fair value adjustment was recorded directly to revaluation reserve for premises.



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12. Other Assets

	2003	2002
Banking cards debtors	2,292,008	1,152,080
Settlements on operations with banknotes with non-resident banks	1,472,786	–
Prepaid operating taxes	1,064,538	793,439
Trade debtors and prepayments	866,228	726,495
Deferred charges	771,482	856,295
Balances arising from derivative financial instruments	88,130	65,026
Settlements on operations with securities and conversion operations	1,561	1,994
Other	320,299	78,491
Total other assets	6,877,032	3,673,820

13. Due to Banks

	2003	2002
Amounts on "LORO" accounts of other banks		
- Russian Federation	6,823,415	2,373,542
- Other countries	1,996,102	1,149,900
Short term deposits due to banks		
- Russian Federation	683,903	529,776
- Other countries	28,386,050	–
Total due to banks	37,889,470	4,053,218

14. Deposits from Individuals and Customer Accounts

	2003	2002
Individuals		
- Current/demand accounts	130,375,539	104,035,718
- Term deposits	848,205,300	603,979,420
Total deposits from individuals	978,580,839	708,015,138
State and public organisations		
- Current/settlement accounts	39,206,809	36,159,495
- Term deposits	437,843	1,670,111
Other legal entities		
- Current/settlement accounts	154,510,183	119,369,794
- Term deposits	17,406,327	30,545,657
Total customer accounts	211,561,162	187,745,057
Total deposits from individuals and customer accounts	1,190,142,001	895,760,195



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14. Deposits from Individuals and Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

	2003		2002	
	Amount	%	Amount	%
Individuals	978,580,839	82.22%	708,015,138	79.04%
Trade	38,371,147	3.22%	28,401,492	3.17%
Oil and gas	27,480,568	2.31%	36,726,001	4.10%
Construction	17,468,521	1.47%	13,284,822	1.48%
Food and agriculture	14,700,988	1.24%	12,158,487	1.36%
Municipal bodies and state organisations	10,677,141	0.90%	27,656,439	3.09%
Equipment manufacturing	8,602,025	0.72%	6,142,167	0.69%
Telecommunications	7,741,794	0.65%	8,280,146	0.92%
Transport, aviation and space	7,302,412	0.61%	5,041,506	0.56%
Metallurgy	5,576,048	0.47%	5,164,900	0.58%
Energy	4,363,940	0.37%	3,007,185	0.33%
Other	69,276,578	5.82%	41,881,912	4.68%
Total deposits from individuals and customer accounts	1,190,142,001	100.00%	895,760,195	100.00%

Included in customer accounts are deposits of RR 9,776,039 (2002: RR 4,139,811) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 31.

15. Own Securities Issued

	2003	2002
Bills of exchange	70,283,192	46,782,791
Eurobonds	29,429,729	–
Deposit certificates	2,602,135	6,244,271
Savings certificates	1,695,309	1,133,908
Total own securities issued	104,010,365	54,160,970

In October 2003, the Bank issued floating rate (three month LIBOR + 1.75%) notes maturing in three years. The bonds have par value of USD 1,000,000 thousand, and carry 12 quarterly coupons. The bonds are accounted for at amortised cost of USD 999,159 thousand, or RR 29,429,729. The transaction was structured as an issue of notes by UBS Luxembourg S.A., for the purpose of financing a loan to the Bank.

16. Other Borrowed Funds

As of 31 December 2003, the Bank had borrowings of USD 32,740 thousand carried at amortised cost of USD 33,204 thousand, or RR 977,998 (2002: borrowings of USD 45,000 thousand carried at amortised cost of USD 46,171 thousand, or RR 1,467,509), and borrowings of EUR 2,038 thousand carried at amortised cost of EUR 2,041 thousand, or RR 75,153 (2002: none). The borrowings are attracted in the form of special purpose lines of credit from international and foreign banking institutions. The contractual maturities of the borrowings vary from one to 66 months (2002: from one to 38 months), the annual interest rate for USD borrowings ranges from LIBOR + 0.99% to LIBOR + 1.95% (2002: LIBOR + 1.95%) and for EUR borrowings – EURIBOR + 0.875%.



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17. Other Liabilities

	2003	2002
Accrued compensation expenses	5,441,370	4,461,367
Operating taxes payable	2,792,845	2,719,216
Trade creditors	520,917	196,260
Banking card creditors	138,434	58,623
Settlements on conversion operations and operations with securities	97,232	168,404
Provision for credit related commitments	57,232	26,239
Balances arising from derivative financial instruments	44,435	1,618
Dividends payable	23,602	14,420
Other accruals and deferred income	4,171	7,633
Other	412,870	798,200
Total other liabilities	9,533,108	8,451,980

18. Share Capital

As of 31 December 2003, authorised share capital of the Bank amounted to RR 1,000,000, including 19,000,000 ordinary shares and 50,000,000 preference shares. Share capital issued and fully paid comprised:

	2003			2002		
	Number of shares	Nominal value	Inflation adjusted amount	Number of share	Nominal value	Inflation adjusted amount
Ordinary shares	19,000,000	950,000	19,525,646	19,000,000	950,000	19,525,646
Preference shares	50,000,000	50,000	1,454,937	50,000,000	50,000	1,454,937
Less: Treasury shares						
Ordinary shares	(1,770)	(89)	(226)	(1,772)	(89)	(275)
Preference shares	(1,780)	(2)	(86)	(3,145)	(3)	(136)
Total share capital	68,996,450	999,909	20,980,271	68,995,083	999,908	20,980,172

Ordinary shares have a nominal value of 50 Russian Rubles per share, rank equally and carry one vote.

The preference shares have a nominal value of 1 Russian Ruble and carry no voting rights, but rank ahead of the ordinary shares in event of liquidation of the Bank. Preference shares are not subject to obligatory redemption. They carry a minimum annual dividend equal to 15% of their nominal value.



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19. Shareholders' Equity

Shareholders' equity and net profit are reconciled between Russian statutory books and IFRS as follows:

	2003		2002	
	Shareholders' equity	Net Profit	Shareholders' equity	Net Profit
Russian statutory books	157,392,208	38,816,378	127,314,512	36,015,985
Inflation impact on:				
- share capital	–	–	–	(4,070,841)
- other non-monetary items	39,539,689	–	39,576,676	(1,405,248)
Premises revaluation reserve	(36,593,231)	–	(36,693,322)	–
Additional allowance for impairment	(21,244,705)	(329,321)	(20,915,384)	(5,108,306)
Depreciation and amortisation	(10,044,679)	(3,748,727)	(6,295,952)	(2,984,264)
Fair value adjustment for securities	9,074,103	(2,691,122)	11,765,225	7,631,562
Accrued staff costs and administrative expenses	(8,047,532)	(2,395,438)	(5,652,094)	(3,072,762)
Deferred tax	3,073,292	2,841,336	217,330	(1,940,381)
Accrued interest income and expense, net	1,689,062	(10,687,166)	12,376,228	2,244,802
Expenses booked directly to shareholders' funds	–	(7,922,551)	–	(7,934,039)
Current tax	–	–	1,426,277	872,816
Other	34,956	50,124	–	8,954
International Financial Reporting Standards	134,873,163	13,933,513	123,119,496	20,258,278

In accordance with Russian banking regulations, the Bank must distribute profits as dividends or transfer them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as of 31 December 2003 were RR 79,963,340 (2002: RR 81,504,412) (non-inflated).

0. Interest Income and Expense

	2003	2002
Interest income		
Loans and advances to customers	97,465,093	88,939,592
Interbank loans	5,171,934	5,855,295
Securities	25,872,758	36,785,503
Total interest income	128,509,785	131,580,390
Interest expense		
Term deposits from individuals	(68,674,149)	(53,560,404)
Current/settlement accounts	(3,928,430)	(1,614,553)
Term deposits of legal entities	(1,253,296)	(2,098,599)
Own securities issued	(5,359,259)	(1,238,057)
Term placements of banks and other borrowed funds	(427,860)	(217,405)
Total interest expense	(79,642,994)	(58,729,018)
Net interest income	48,866,791	72,851,372

As of 31 December 2003, the Bank had RR 16,608,757 of loans (2002: RR 14,323,686) that have been placed on non-performing status as to contractual interest in accordance with the Bank's accounting policy. As of 31 December 2003, interest income not recognised for non-performing loans was RR 2,924,851.



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21. Gains Less Losses Arising from Securities and Derivatives

	2003			2002		
	Adjusting to fair value	Realized revaluation income and income from redemption	Total	Adjusting to fair value	Realized revaluation income and income from redemption	Total
Derivative financial instruments	(19,713)	1,647,488	1,627,775	112,229	(19,819)	92,410
Trading securities and securities available for sale	10,574,170	28,777,296	39,351,466	4,286,525	14,965,963	19,252,488
Total gains less losses arising from securities and derivatives	10,554,457	30,424,784	40,979,241	4,398,754	14,946,144	19,344,898

22. Fee and Commission Income and Expense

	2003	2002
Commission on cash transactions	13,397,918	8,100,141
Commission for lending operations	3,599,658	1,917,839
Commission on settlement transactions	2,267,094	3,764,356
Commission related to operations with foreign currency	1,355,047	1,906,204
Commission on cash collection	975,930	766,098
Commission on transactions with securities	320,647	277,631
Commission on guarantees issued	61,210	28,252
Other	119,485	169,116
Total fee and commission income	22,096,989	16,929,637
Commission related to operations with foreign currency	(295,278)	(251,832)
Commission on settlement transactions	(130,990)	(66,666)
Commission on transactions with securities	(117,871)	(90,527)
Commission on cash collection	(75,317)	(55,003)
Commission on cash transactions	(914)	(599)
Other	(24,352)	(15,602)
Total fee and commission expense	(644,722)	(480,229)
Net fee and commission income	21,452,267	16,449,408



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23. Other Operating Income

	2003	2002
Recoveries of amounts previously written off	932,325	11,085
Late charges on loans and other penalties	519,801	811,114
Leasing and other income on premises and equipment	449,409	495,079
Gains less losses arising from dealing in precious metals	188,798	239,671
Dividends received	110,174	30,144
Other	403,999	633,217
Total other operating income	2,604,506	2,220,310

24. Payroll and Other Staff Expenses

	2003	2002
Payroll expenses	(40,319,744)	(33,997,979)
Unified social tax expenses	(9,873,713)	(9,464,175)
Total payroll and other staff expenses	(50,193,457)	(43,462,154)

25. Operating Expenses

	2003	2002
Administrative expenses	(6,516,071)	(4,726,085)
Taxes other than income tax	(6,488,433)	(7,159,688)
Depreciation and amortisation	(6,348,592)	(5,574,910)
Other expenses related to premises and equipment	(3,953,789)	(2,968,070)
Advertising and marketing	(674,354)	(503,194)
Expenses related to clients claims and court expenses	(198,768)	(87,417)
Professional services	(129,475)	(97,076)
Other	(4,672,322)	(3,263,828)
Total operating expenses	(28,981,804)	(24,380,268)

26. Income Taxes

Income tax expense is comprised of the following:

	2003	2002
Current tax expense	(5,067,718)	(5,700,992)
Deferred tax benefit / (expense)	2,841,336	(1,940,381)
Income tax expense	(2,226,382)	(7,641,373)



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26. Income Taxes (continued)

Russian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate tax authorities. The income tax rate for banks other than on state securities was 24%. The tax rate for interest income on state securities was 15% for Federal taxes.

The effective profit tax rate differs from the statutory income tax rates. A reconciliation of the income tax expenses based on statutory rates with the actual income tax expense follows.

	2003	2002
IFRS profit before taxation	16,159,830	27,899,651
Statutory income tax rate	24%	24%
Theoretical tax charge at the applicable statutory rate	(3,878,359)	(6,695,916)
Income exempt from taxation	160,648	270,177
Income on government securities taxed at different rates	2,857,530	2,381,692
Non-temporary elements of monetary gains and losses	–	(2,886,061)
Other non-temporary differences	(556,223)	(294,632)
Non-deductible expenses	(262,533)	(416,633)
Transfer-pricing adjustment for securities operations	(547,445)	–
Income tax expense	(2,226,382)	(7,641,373)

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%, except for income on state securities that is taxed at 15%.

	2002	Change	2003
Tax effect of deductible temporary differences			
Allowance for impairment of interest earning assets	6,472,028	803,242	7,275,270
Premises and equipment depreciation and amortisation	1,420,916	101,553	1,522,469
Accruals	2,685,053	(179,344)	2,505,709
Other	103,370	(51,511)	51,859
Deferred tax asset	10,681,367	673,940	11,355,307
Tax effect of taxable temporary differences			
Fair valuation of securities	(8,030,874)	2,552,391	(5,478,483)
Premises and equipment	(2,425,361)	(346,608)	(2,771,969)
Other	(7,802)	(31,244)	(39,046)
Deferred tax liability	(10,464,037)	2,174,539	(8,289,498)
Net deferred tax asset	217,330	2,848,479	3,065,809

The tax effect of the movement in temporary differences for premises and equipment includes deferred tax reductions in respect of the depreciation of revalued premises of RR 7,143 (2002: RR 7,483). These amounts are recorded directly to revaluation reserve for premises.

The Bank's current tax asset related to prepaid income taxes is RR 415,322 (2002: RR 1,426,277).



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27. Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

The Bank has no potentially diluted ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	2003	2002
Net profit attributable to shareholders	13,933,513	20,258,278
Less: dividends on preference shares	(116,005)	(59,778)
Net profit attributable to ordinary shareholders	13,817,508	20,198,500
Weighted average number of ordinary shares outstanding (thousands)	18,998	18,998
Basic and diluted earnings per share (expressed in Russian Rubles per share)	727	1,063

28. Dividends

	2003		2002	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	13,647	773	15,749	873
Dividends declared during the year	2,071,083	116,005	1,055,688	59,778
Dividends paid during the year	(2,062,380)	(115,526)	(1,055,721)	(59,763)
Effect of inflation	–	–	(2,069)	(115)
Dividends payable at 31 December	22,350	1,252	13,647	773
Dividends per share declared during the year (expressed in Russian Rubles per share)	109.00	2.32	55.56	1.20

Dividends are declared and paid in Russian Rubles. On June 18, 2004, shareholders' meeting of Sberbank made a decision to pay dividends for 2003 of RR 2,699,593.



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29. Analysis by Segment and Geography

Geographical analysis. The geographical analysis of the Bank's assets and liabilities as of 31 December 2003 is presented below:

	Russia	Other countries	Total
Assets			
Cash and cash equivalents	44,877,140	738,788	45,615,928
Mandatory cash balances with the Central Bank of the Russian Federation	98,893,608	–	98,893,608
Trading securities	135,309,528	–	135,309,528
Due from banks	78,409,077	220,480	78,629,557
Securities available for sale	176,694,073	–	176,694,073
Loans and advances to customers	791,066,031	1,297,584	792,363,615
Securities acquired at original issuance	73,535,315	–	73,535,315
Tax asset	3,481,131	–	3,481,131
Premises and equipment	66,101,471	–	66,101,471
Other assets	6,877,032	–	6,877,032
Total assets	1,475,244,406	2,256,852	1,477,501,258
Liabilities			
Due to banks	(7,507,318)	(30,382,152)	(37,889,470)
Deposits from individuals	(975,781,705)	(2,799,134)	(978,580,839)
Customer accounts	(210,654,421)	(906,741)	(211,561,162)
Own securities issued	(74,580,636)	(29,429,729)	(104,010,365)
Other borrowed funds	–	(1,053,151)	(1,053,151)
Other liabilities	(9,533,108)	–	(9,533,108)
Total liabilities	(1,278,057,188)	(64,570,907)	(1,342,628,095)
Net balance sheet position at 31 December 2003	197,187,218	(62,314,055)	134,873,163
Net balance sheet position at 31 December 2002	100,280,971	22,838,525	123,119,496

Other countries consist primarily of OECD member countries.



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29. Analysis by Segment and Geography (continued)

Segment reporting. In accordance with requirements of IAS 14 "Segment reporting", the Bank defined that its primary segments are business (corporate and retail). The secondary segments are geographical based on Russia regions where the Bank operates. Segment reporting per business segments as of 31 December 2003 follows:

	Corporate Sector	Retail Sector	Unallocated	Total
Assets				
Trading securities	135,309,528	–	–	135,309,528
Due from banks	78,629,557	–	–	78,629,557
Securities available for sale	176,694,073	–	–	176,694,073
Loans and advances to customers	651,171,267	141,192,348	–	792,363,615
Securities acquired at original issuance	73,535,315	–	–	73,535,315
Unallocated assets	–	–	220,969,170	220,969,170
Total Assets	1,115,339,740	141,192,348	220,969,170	1,477,501,258
Liabilities				
Due to banks	37,889,470	–	–	37,889,470
Deposits from individuals	–	978,580,839	–	978,580,839
Customer accounts	211,561,162	–	–	211,561,162
Own securities issued	95,782,043	8,228,322	–	104,010,365
Other borrowed funds	1,053,151	–	–	1,053,151
Unallocated liabilities	–	–	9,533,108	9,533,108
Total Liabilities	346,285,826	986,809,161	9,533,108	1,342,628,095
Income and Expenses				
Interest income on loans	84,011,921	18,625,106	–	102,637,027
Interest income on securities	25,872,758	–	–	25,872,758
Fee and commission income	14,162,135	7,934,854	–	22,096,989
Fee and commission expense	(644,722)	–	–	(644,722)



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29. Analysis by Segment and Geography (continued)

Segment reporting per business segments as of 31 December 2002 follows:

	Corporate Sector	Retail Sector	Unallocated	Total
Assets				
Trading securities	125,854,436	-	-	125,854,436
Due from banks	40,024,779	-	-	40,024,779
Securities available for sale	93,025,286	-	-	93,025,286
Loans and advances to customers	452,755,399	63,915,784	-	516,671,183
Securities acquired at original issuance	102,027,415	-	-	102,027,415
Unallocated assets	-	-	209,410,269	209,410,269
Total Assets	813,687,315	63,915,784	209,410,269	1,087,013,368
Liabilities				
Due to banks	4,053,218	-	-	4,053,218
Deposits from individuals	-	708,015,138	-	708,015,138
Customer accounts	187,745,057	-	-	187,745,057
Own securities issued	52,117,479	2,043,491	-	54,160,970
Other borrowed funds	1,467,509	-	-	1,467,509
Unallocated liabilities	-	-	8,451,980	8,451,980
Total Liabilities	245,383,263	710,058,629	8,451,980	963,893,872
Interest income on loans	83,493,809	11,301,078	-	94,794,887
Interest income on securities	36,785,503	-	-	36,785,503
Fee and commission income	16,183,357	746,280	-	16,929,637
Fee and commission expense	(480,229)	-	-	(480,229)



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29. Analysis by Segment and Geography (continued)

Geographical segment reporting is based on the Bank's activity among its central head office and 17 regional head offices. The Bank has defined five geographical segments:

Geographical segment	Name of territorial bank	Location of the regional head offices
Moscow	Central head office	Moscow
European Russia	Severny	Yaroslavl
	Severo-Zapadny	Saint-Petersburg
	Tsentralno-Chernozemny	Voronezh
	Volgo-Vyatsky	Nizhniy Novgorod
	Povolzhsky	Samara
	Srednerussky	Moscow
	Severo-Kavkazsky	Stavropol
Ural	Yugo-Zapadny	Rostov-on-Don
	Zapadno-Uralsky	Perm
Western Siberia	Uralsky	Ekaterinburg
	Sibirsky	Novosibirsk
	Altaysky	Barnaul
Eastern Siberia and Far East	Zapadno-Sibirsky	Tumen
	Severo-Vostochny	Magadan
	Dalnevostochny	Khabarovsk
	Vostochno-Sibirsky	Krasnoyarsk
	Baikalsky	Irkutsk



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29. Analysis by Segment and Geography (continued)

The Bank's reporting by geographical segments as of 31 December 2003 follows:

	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Unallocated	Total
Assets:							
Cash and cash equivalents	21,969,883	14,833,773	4,363,452	2,107,196	2,341,624	–	45,615,928
Trading securities	73,430,220	43,538,426	6,783,415	5,360,631	6,196,836	–	135,309,528
Due from banks	78,626,610	2,947	–	–	–	–	78,629,557
Securities available for sale	107,337,827	48,799,881	7,602,711	6,007,862	6,945,792	–	176,694,073
Loans and advances to customers	304,909,766	294,220,945	74,076,365	67,657,164	51,499,375	–	792,363,615
Securities acquired at original issuance	39,299,286	24,088,878	3,752,894	2,965,635	3,428,622	–	73,535,315
Premises and equipment	12,839,124	34,296,240	6,331,978	6,830,713	5,803,416	–	66,101,471
Unallocated assets	–	–	–	–	–	109,251,771	109,251,771
Total assets	638,412,716	459,781,090	102,910,815	90,929,201	76,215,665	109,251,771	1,477,501,258
Liabilities:							
Due to banks	33,999,040	1,745,882	1,135,217	816,375	192,956	–	37,889,470
Deposits from individuals	263,237,951	469,477,799	87,222,495	77,394,316	81,248,278	–	978,580,839
Customer accounts	78,284,327	84,799,661	21,264,680	11,745,529	15,466,965	–	211,561,162
Own securities issued	48,200,993	28,986,992	13,757,251	9,492,559	3,572,570	–	104,010,365
Other borrowed funds	1,053,151	–	–	–	–	–	1,053,151
Unallocated liabilities	–	–	–	–	–	9,533,108	9,533,108
Total liabilities	424,775,462	585,010,334	123,379,643	99,448,779	100,480,769	9,533,108	1,342,628,095
	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Total	
Interest income on loans	32,062,325	42,394,560	10,162,534	10,062,772	7,954,836	102,637,027	
Interest income on securities	11,876,152	9,775,343	1,609,899	1,301,214	1,310,150	25,872,758	
Interest expense	(25,884,663)	(35,382,260)	(7,026,050)	(5,767,114)	(5,582,907)	(79,642,994)	
Gains less losses arising from securities and derivatives	30,601,875	7,719,215	875,758	922,214	860,179	40,979,241	
Gains less losses arising from dealing in foreign currencies	1,324,558	1,958,444	265,813	268,566	456,712	4,274,093	
Foreign exchange translation gains less losses	(2,999,442)	(2,236,906)	(542,973)	(313,159)	(208,409)	(6,300,889)	
Fee and commission income	3,703,178	10,838,848	2,223,914	2,628,491	2,702,558	22,096,989	
Fee and commission expense	(513,475)	(50,334)	(14,218)	(20,885)	(45,810)	(644,722)	
Other operating income	261,569	1,359,576	507,162	234,065	242,134	2,604,506	
Additionally acquired premises and equipment	2,298,986	6,141,119	1,133,810	1,223,115	1,039,165	11,836,195	



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29. Analysis by Segment and Geography (continued)

The Bank's reporting by geographical segments as of 31 December 2002 follows:

	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Unallocated	Total
Assets:							
Cash and cash equivalents	49,898,571	12,939,223	1,657,823	1,283,261	1,829,635	–	67,608,513
Trading securities	44,875,368	54,966,206	10,650,047	8,364,268	6,998,547	–	125,854,436
Due from banks	39,996,805	–	8,910	8,700	10,364	–	40,024,779
Securities available for sale	17,985,934	57,771,665	5,694,630	7,366,193	4,206,864	–	93,025,286
Loans and advances to customers	208,018,951	186,944,215	45,638,157	42,817,964	33,251,896	–	516,671,183
Securities acquired at original issuance	36,057,651	47,244,292	7,615,042	4,407,926	6,702,504	–	102,027,415
Premises and equipment	18,406,080	28,615,299	4,234,606	5,687,313	4,732,344	–	61,675,642
Unallocated assets	–	–	–	–	–	80,126,114	80,126,114
Total assets	415,239,360	388,480,900	75,499,215	69,935,625	57,732,154	80,126,114	1,087,013,368
Liabilities:							
Due to banks	2,466,557	569,504	599,537	291,704	125,916	–	4,053,218
Deposits from individuals	176,218,624	350,957,363	65,402,880	56,865,437	58,570,834	–	708,015,138
Customer accounts	81,521,431	69,485,133	13,622,120	9,909,296	13,207,077	–	187,745,057
Own securities issued	18,552,766	18,604,856	9,543,091	5,176,988	2,283,269	–	54,160,970
Other borrowed funds	1,467,509	–	–	–	–	–	1,467,509
Unallocated liabilities	–	–	–	–	–	8,451,980	8,451,980
Total liabilities	280,226,887	439,616,856	89,167,628	72,243,425	74,187,096	8,451,980	963,893,872
	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Total	
Interest income on loans	38,620,918	34,305,155	7,959,380	7,947,483	5,961,951	94,794,887	
Interest income on securities	13,141,451	16,312,662	2,929,191	2,071,327	2,330,872	36,785,503	
Interest expense	(16,038,187)	(28,309,414)	(5,584,494)	(4,520,494)	(4,276,429)	(58,729,018)	
Gains less losses arising from securities and derivatives	14,141,172	3,610,013	712,808	470,507	410,398	19,344,898	
Gains less losses arising from dealing in foreign currencies	798,752	1,355,322	209,680	185,612	337,195	2,886,561	
Foreign exchange translation gains less losses	512,623	2,036,402	451,914	338,292	240,670	3,579,901	
Fee and commission income	2,732,395	8,161,976	1,821,282	1,954,225	2,259,759	16,929,637	
Fee and commission expense	(264,276)	(97,491)	(24,111)	(39,942)	(54,409)	(480,229)	
Other operating income	539,861	983,617	345,248	113,909	237,675	2,220,310	
Additionally acquired premises and equipment	2,883,359	4,482,659	663,362	890,932	741,334	9,661,646	



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30. Interest Rate, Currency, Liquidity, Market and Credit Risks

The Bank's risk management processes give consideration to various uncertainties. The evaluation of these risks is based on balance sheet modelling and analysis of various scenarios. The results of such testing are measured by the exposure of the Bank's equity capital to loss based upon the scenarios modelled.

Interest rate risk. The Bank is exposed to interest rate pricing risk, principally as a result of lending to customers and other banks, at fixed interest rates in amounts and for periods, which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions.

The table below summarises the effective average year-end interest rate, by major currencies, for monetary financial instruments outstanding as of 31 December 2003. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end effective rates.

	2003		2002	
	RR	Other currencies	RR	Other currencies
Assets				
Cash and cash equivalents	0.40%	0.70%	0.50%	0.90%
Trading securities	6.50%	5.62%	13.52%	8.24%
Due from banks	0.90%	1.50%	12.10%	1.80%
Securities available for sale	7.28%	7.47%	13.64%	8.47%
Loans and advances to customers	15.31%	8.51%	19.05%	9.56%
Securities acquired at original issuance	25.62%	15.64%	31.67%	15.60%
Liabilities				
Due to banks	1.30%	2.80%	2.90%	5.50%
Deposits from individuals	8.70%	5.00%	9.80%	4.50%
Customer accounts	1.93%	3.61%	2.28%	3.04%
Own securities issued	5.67%	3.25%	5.33%	5.70%
Other borrowed funds	—	3.01%	—	5.27%

The sign “—” in the table above means, that the Bank does not have the respective assets or liabilities in the corresponding currency.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. Liquidity risk management at the Bank is performed on the basis of measuring liquidity surplus/deficit and liquidity ratios that are calculated using scenario analysis. Liquidity ratios limits are approved by the Committee on Interest Rates and Limits of the Bank at least once a year. The Bank has also developed an action plan to deal with liquidity issues in the event of an economic crisis. The table below shows assets and liabilities as of 31 December 2003 by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer-term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.



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30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

The liquidity position of the Bank as of 31 December 2003 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Overdue / no stated maturity	Total
Assets							
Cash and cash equivalents	45,615,928	–	–	–	–	–	45,615,928
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	98,893,608	98,893,608
Trading securities	135,309,528	–	–	–	–	–	135,309,528
Due from banks	48,264,195	10,005,737	2,426,194	17,933,431	–	–	78,629,557
Securities available for sale	–	–	17,268,339	82,118,735	70,460,197	6,846,802	176,694,073
Loans and advances to customers	44,527,048	188,683,418	197,596,921	239,737,920	121,471,021	347,287	792,363,615
Securities acquired at original issuance	1,237,922	1,045,185	–	30,989,962	40,262,246	–	73,535,315
Tax asset	–	–	–	–	–	3,481,131	3,481,131
Premises and equipment	–	–	–	–	–	66,101,471	66,101,471
Other assets	4,646,491	1,029,848	149,104	207,643	25,506	818,440	6,877,032
Total assets	279,601,112	200,764,188	217,440,558	370,987,691	232,218,970	176,488,739	1,477,501,258
Liabilities							
Due to banks	(14,245,682)	(14,750,154)	(8,893,634)	–	–	–	(37,889,470)
Deposits from individuals	(249,573,126)	(272,732,366)	(232,510,166)	(197,430,835)	(26,334,346)	–	(978,580,839)
Customer accounts	(196,657,061)	(5,403,936)	(5,316,072)	(3,937,252)	(246,841)	–	(211,561,162)
Own securities issued	(48,096,339)	(18,139,586)	(4,535,316)	(33,229,731)	(9,393)	–	(104,010,365)
Other borrowed funds	(13,413)	(9,198)	(15,883)	(946,807)	(67,850)	–	(1,053,151)
Other liabilities	(5,048,602)	(1,108,840)	(1,382,075)	(979,284)	(155,524)	(858,783)	(9,533,108)
Total liabilities	(513,634,223)	(312,144,080)	(252,653,146)	(236,523,909)	(26,813,954)	(858,783)	(1,342,628,095)
Net liquidity gap	(234,033,111)	(111,379,892)	(35,212,588)	134,463,782	205,405,016	175,629,956	134,873,163
Cumulative liquidity gap at 31 December 2003	(234,033,111)	(345,413,003)	(380,625,591)	(246,161,809)	(40,756,793)	134,873,163	
Cumulative liquidity gap at 31 December 2002	(162,748,941)	(231,433,765)	(151,975,054)	(123,563,943)	(14,429,982)	123,119,496	

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a dealing nature and the Bank believes this is the proper presentation of its liquidity position. Overdue loans and advances to customers represent overdue payments of loan principal.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank's interest rate sensitivity analysis based on the re-pricing of the Bank's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above. For certain interest sensitive instruments the Bank establishes limits of their respective maturities. The Bank evaluates its risk exposure under negative market conditions and considers these results in interest rate risk and asset and liability management. Interest rate limits and decisions in respect of interest rate policy are made by the Bank's Committee on Interest Rates and Limits.



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30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

The Bank believes that in spite of a substantial portion of deposits from individuals being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank. Further, the Bank's available-for-sale securities portfolio is presented above according to the contractual maturities of the securities. These securities represent an additional source of liquidity for the Bank in managing their cumulative liquidity gap.

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At year end the Bank had balances in RR and other currencies. Other currencies represent mainly amounts in US Dollars and Euro.

At 31 December 2003, the Bank has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	33,029,493	7,051,906	2,312,011	3,222,518	45,615,928
Mandatory cash balances with the Central Bank of the Russian Federation	98,893,608	–	–	–	98,893,608
Trading securities	77,697,422	54,328,309	3,283,797	–	135,309,528
Due from banks	74,215,323	4,414,234	–	–	78,629,557
Securities available for sale	160,718,147	15,975,926	–	–	176,694,073
Loans and advances to customers	621,633,878	162,850,423	7,865,039	14,275	792,363,615
Securities acquired at original issuance	2,283,107	71,252,208	–	–	73,535,315
Tax asset	3,481,131	–	–	–	3,481,131
Premises and equipment	66,101,471	–	–	–	66,101,471
Other assets	5,381,474	1,477,136	5,360	13,062	6,877,032
Total assets	1,143,435,054	317,350,142	13,466,207	3,249,855	1,477,501,258
Liabilities					
Due to banks	(7,571,898)	(29,887,073)	(427,343)	(3,156)	(37,889,470)
Deposits from individuals	(768,766,259)	(182,801,764)	(26,527,989)	(484,827)	(978,580,839)
Customer accounts	(174,803,628)	(27,572,135)	(9,006,287)	(179,112)	(211,561,162)
Own securities issued	(68,768,889)	(34,744,107)	(497,369)	–	(104,010,365)
Other borrowed funds	–	(977,998)	(75,153)	–	(1,053,151)
Other liabilities	(9,231,761)	(245,788)	(51,332)	(4,227)	(9,533,108)
Total liabilities	(1,029,142,435)	(276,228,865)	(36,585,473)	(671,322)	(1,342,628,095)
Net balance sheet position	114,292,619	41,121,277	(23,119,266)	2,578,533	134,873,163
Credit related commitments	78,278,914	34,131,946	8,551,237	13,408	120,975,505

At 31 December 2002, the Bank had the following positions in currency:

	RR	USD	EUR	Other currencies	Total
Net balance sheet position	63,880,986	58,196,391	7,397,218	(6,355,099)	123,119,496
Credit related commitments	62,471,103	19,083,274	1,252,699	1,066,502	83,873,578



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30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

Market risk. The Bank takes an exposure to market risk due to price fluctuations in financial, currency and precious metals markets. The Bank sets limits on the value at risk that may be accepted in respect of the open positions in various financial products. The stop-loss limits are set by the Bank to prevent excessive losses when market conditions change significantly. Limits are monitored on a daily basis. Market risk limits are approved by the Committee on Interest Rates and Limits of the Bank. However, the use of this approach does not fully prevent losses outside of these limits in the event of more significant market movements.

Credit risk. The Bank takes an exposure to credit risk, which is the risk that a counterpart may not be able to pay amounts in full when due. The Bank has implemented an internal risk rating system in respect of its largest borrowers to assess probability of default on loans to these borrowers. To manage the level of credit risk, the Bank sets limits by one borrower, or a group of related borrowers, geographical and industry segments. Credit risk limits are approved by the Loans and Investments Committee, Interest rates and Limits Committee, and Credit Committees of regional head offices or branches within their authority. Procedures of risk limits setting, monitoring, usage, and control are governed by internal regulations. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review: limits for resident banks are reviewed monthly, for non-resident banks and foreign countries – not less than once a year, for corporate borrowers and subjects of the Russian Federation – at least twice a year. In certain cases defined by internal regulations, the Bank can perform an unscheduled review of established limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate or personal guarantees as well as by providing for loan losses.

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

31. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. The Bank is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. Due to the presence in Russian tax legislation of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, the Bank's judgement of its business activities may not coincide with the interpretation of the same activities by tax authorities.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with different counterparts by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital commitments. As of 31 December 2003, the Bank had capital commitments in respect of construction and computer equipment installation totalling RR 2,785,341 (2002: RR 1,347,947). The Bank has already allocated the necessary resources in respect of this commitment. The Bank believes that future net revenues and funding will be sufficient to cover this and any similar commitments.



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31. Contingencies, Commitments and Derivative Financial Instruments (continued)

Operating lease commitments. In the course of its business the Bank enters into a number of lease agreements. The majority of these lease agreements are cancellable. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2003	2002
Not later than 1 year	109	10,164
Later than 1 year and not later than 5 years	372	4,218
Later than 5 years	729	23,425
Total operating lease commitments	1,210	37,807

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, most of the Bank's import letters of credit are collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	2003	2002
Undrawn credit lines and commitments to extend credit	107,725,413	76,671,021
Import letters of credit	10,546,724	5,178,953
Export letters of credit	8,410,654	4,119,624
Guarantees issued	2,861,601	1,311,960
Letters of credit for domestic settlements	1,264,384	758,070
Less: cash deposits held as collateral	(9,776,039)	(4,139,811)
Less: provision for losses on credit related commitments	(57,232)	(26,239)
Total credit related commitments	120,975,505	83,873,578

The Bank evaluated the likelihood of possible losses arising from other credit related commitments and concluded that a provision of RR 57,232 was necessary as of 31 December 2003 (2002: RR 26,239). This provision is accounted under other liabilities. The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivatives. The Bank enters into derivative agreements that include forward, option and swap agreements with foreign currency, forward agreements with securities and precious metals and other derivatives. Currency-based and other derivatives are usually traded on the over-the-counter market on the basis of the standard contracts.



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31. Contingencies, Commitments and Derivative Financial Instruments (continued)

The table below includes contracts with a maturity date subsequent to 31 December 2003. These contracts were entered into in 2003 and are short term in nature.

	Domestic				Foreign			
	Principal or agreed amount of asset purchased	Principal or agreed amount of asset sold	Unrealised Loss	Unrealised Gain	Principal or agreed amount of asset purchased	Principal or agreed amount of asset sold	Unrealised Loss	Unrealised Gain
Spot transactions								
Foreign currency								
- purchase	147,273	147,073	–	200	22,698,314	22,690,908	(3,079)	10,485
- sale	2,228,816	2,236,706	(7,890)	–	29,452	29,455	(3)	–
Term deals								
Foreign currency								
- sale	94,107	94,696	(589)	–	–	–	–	–
Precious metals								
- purchase	4,585,671	4,512,733	–	72,938	760,165	755,658	–	4,507
- sale	–	–	–	–	3,153,801	3,186,675	(32,874)	–
Total	7,055,867	6,991,208	(8,479)	73,138	26,641,732	26,662,696	(35,956)	14,992

Unrealised gains or losses in the table above reflect the fair value adjustment of outstanding derivatives as of each year-end. The Bank has recorded a net gain of RR 43,695 (2002: RR 63,408), which is included in gains less losses arising from securities and derivatives.

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not the Bank's assets. Nominal values disclosed below are normally different from the fair values of the respective securities. The fiduciary assets fall into the following categories:

	2003 Nominal value	2002 Nominal value
Shares in companies held in other custodies	11,318,763	4,458,183
Debt securities of municipal authorities of RF	2,574,936	1,569,918
OVGZ	1,595,698	2,484,173
Bills of exchange	1,495,452	1,467,555
GKO and OFZ	408,049	2,147,232
RF Eurobonds	2,945	3,178
Other securities	2,915,417	115,904

Assets pledged. As of 31 December 2003, the Bank has pledged securities with fair value of RR 36,938,861 as collateral against overnight interbank borrowings that the Bank takes on a regular basis from the Bank of Russia (2002: RR 4,965,348). As of 31 December 2003 and 2002, the Bank had no overnight borrowings from the Bank of Russia.



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32. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances taking into account the existing volume of operations on the Russian financial markets.

The Bank has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values. These balance sheet instruments include cash, nostros and term deposits, placements with banks and other financial institutions, securities held for trading or available for sale purposes, loans and advances to customers, deposits from banks and other financial institutions, current accounts and deposits from customers, certificates of deposit and bills of exchange and other short-term assets and liabilities which are of a contractual nature. The Bank believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions (refer to Note 30). Fair values of securities acquired at original issuance have been disclosed in Note 10.

As set out in Note 4, external independent market quotations were not available for certain securities available for sale. These were fair valued by the Bank using relevant factors such as discounted cash flows and financial information of the underlying investments.

The fair values of equity securities in associated and subsidiary companies, share capital, premises and equipment, and other assets and liabilities which are not of a contractual nature are not calculated as they are not considered financial instruments under IAS 32, "Financial Instruments: Disclosure and Presentation".

33. Related Party Transactions

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

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates.

The outstanding balances at the year-end and interest expense and income as well as other transactions for the year with related parties other than the Central Bank of the Russian Federation are as follows:

	2003	2002
Correspondent accounts and overnight deposits with other banks	2,617	46,937
Due from banks		
Placements with the banks	—	776,766
Interest income	3,264	17,600
Loans and advances to customers		
Loans outstanding	2,960,739	3,293,258
Allowance for loan impairment	(1,203,242)	(1,668,463)
Interest income	171,958	109,672
Due to banks		
Correspondent accounts and overnight deposits of other banks	6,092	23,251
Interest expense	782	4,272
Customer deposits		
Current/settlement accounts	200,265	178,990
Interest expense	6,519	16,767



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SBERBANK

Sberbank (Savings Bank of the Russian Federation)
Notes to the Financial Statements – 31 December 2003
(Thousands of Russian Rubles, unless otherwise indicated)

33. Related Party Transactions (continued)

The Bank of Russia is the majority shareholder of the Bank. As noted in the financial statements, the Bank maintains a number of balances, and carries out a range of transactions with the Bank of Russia, which are not included in the above analysis. These transactions included settlements, deposit placement and deposit taking, transfer of funds to the mandatory cash balances in accordance with the Russian banking regulations. These transactions were priced predominantly at market rates, where applicable.

The outstanding balances at the year-end and interest income and expense as well as other transactions for the year with the Bank of Russia are stated in the table below:

	2003	2002
Mandatory cash balances with the Bank of Russia as of year end	98,893,608	74,808,687
Account with the Bank of Russia as of year end (other than mandatory cash balances)	12,327,864	40,515,431
Loans and advances to the Bank of Russia as of year end (including reverse repo transactions with the Bank of Russia)	74,215,323	15,276,822
Interest income	4,680,894	4,627,708
Interest expense	(64,073)	(5,503)

34. Capital Adequacy

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% (2002: 10%) of risk weighted assets, computed based on statutory rules for Banks with equity capital more than five million EUR. As of 31 December 2003 and 2002, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As of 31 December 2003 and 2002 the Bank's international risk based capital adequacy ratio exceeded the minimum ratio of 8% recommended by the Basle Accord:

	2003	2002
Core capital adequacy ratio (Tier 1)	12.71%	14.66%
Total capital adequacy ratio (Tier 1 and Tier 2)	13.75%	15.97%





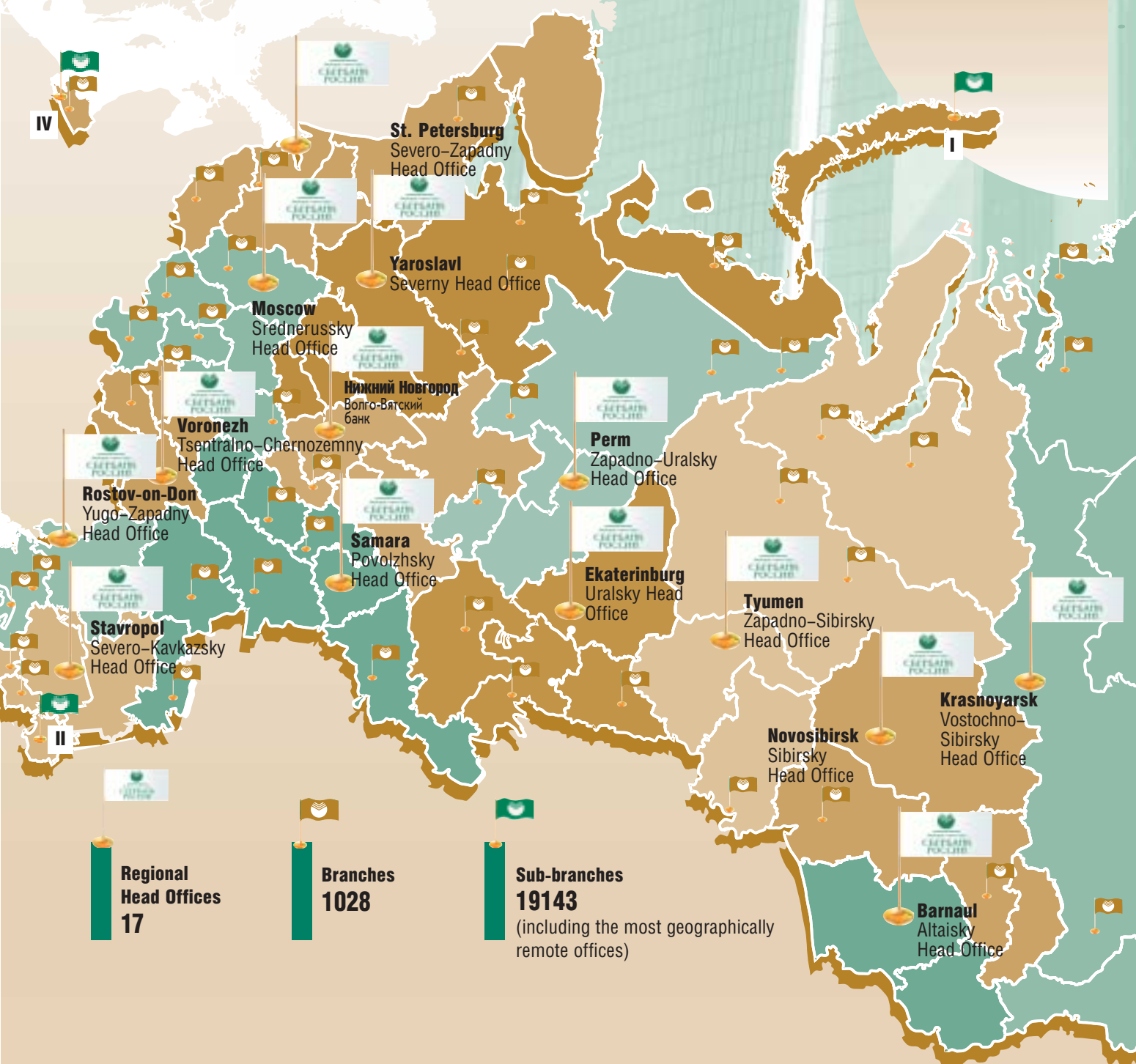
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BRANCH NETWORK



BRANCH NETWORK OF SBERBANK

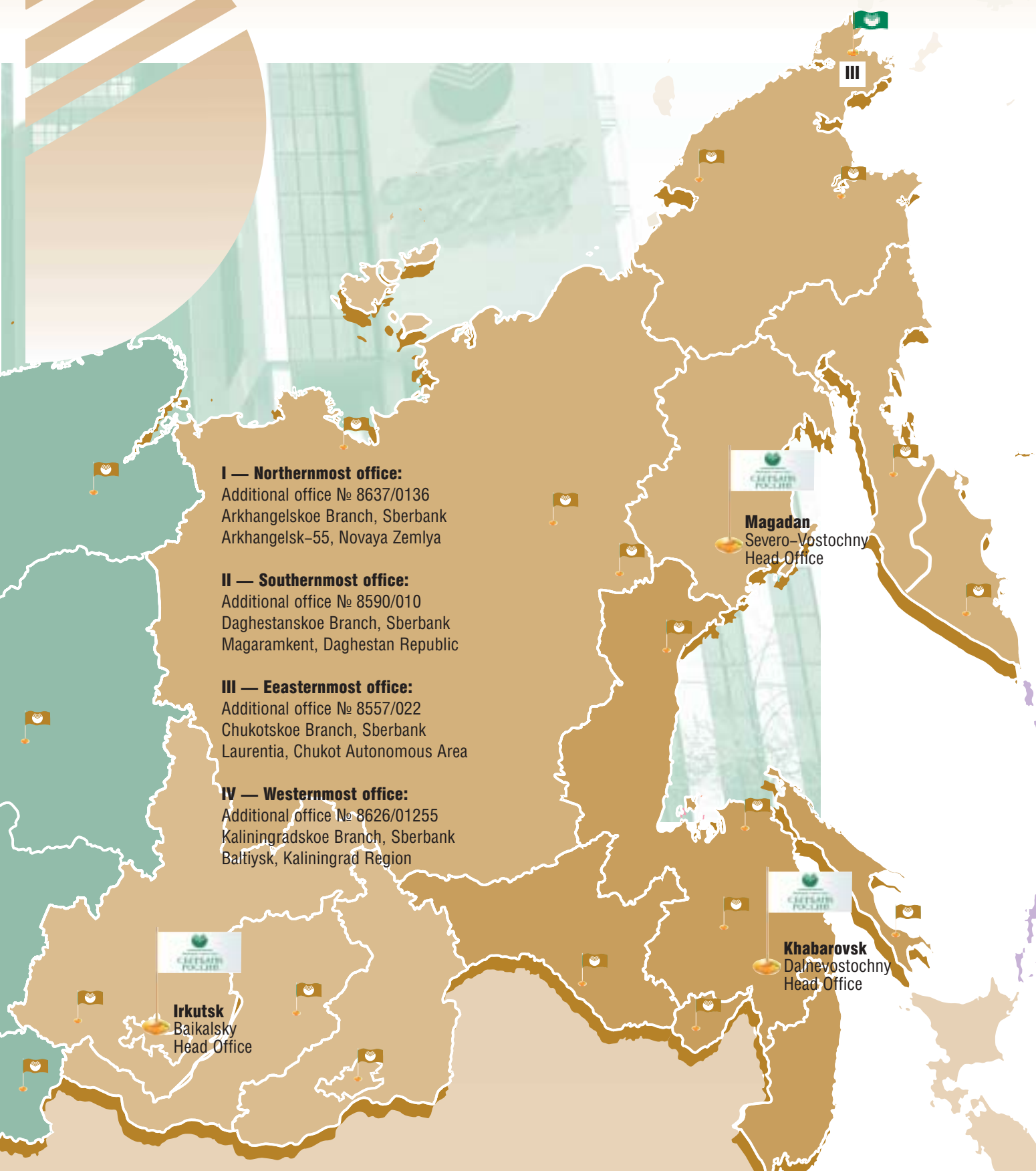
(as of 1 January 2004)





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SBERBANK



I — Northernmost office:

Additional office № 8637/0136
Arkhangelskoe Branch, Sberbank
Arkhangelsk-55, Novaya Zemlya

II — Southernmost office:

Additional office № 8590/010
Daghestanskoe Branch, Sberbank
Magarmkent, Daghestan Republic

III — Easternmost office:

Additional office № 8557/022
Chukotskoe Branch, Sberbank
Laurentia, Chukot Autonomous Area

IV — Westernmost office:

Additional office № 8626/01255
Kaliningradskoe Branch, Sberbank
Baltiysk, Kaliningrad Region

Magadan
Severo-Vostochny
Head Office

Irkutsk
Baikalsky
Head Office

Khabarovsk
Dalnevostochny
Head Office



REGIONAL HEAD OFFICES OF SBERBANK

ALTAISKY HEAD OFFICE

Branches 25
Sub-branches 742

106-a Komsomolski Prospekt,
656038 Barnaul, Russia
tel.: (385-2) 39 92 11



Vladimir F. PESOTSKI
Chairman

BAIKALSKY HEAD OFFICE

Branches 55
Sub-branches 563

32 Deputatskaya St.,
664047 Irkutsk, Russia
tel.: (395-2) 25 41 11



Maxim V. POLETAEV
Chairman

DALNEVOSTOCHNY HEAD OFFICE

Branches 23
Sub-branches 426

4 Brestskaya St.,
680011 Khabarovsk, Russia
tel.: (421 2) 34 21 16

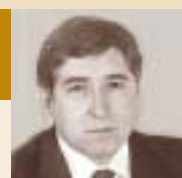


Valeri V. PYTNEV
Chairman

POVOLZHISKY HEAD OFFICE

Branches 129
Sub-branches 2879

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Viktor V.
SHCHURENKOV
Chairman



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SBERBANK



Vladimir P. RYBIN
Chairman



SEVERNY HEAD OFFICE

**Branches 34
Sub-branches 785**

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150003 Yaroslavl, Russia
tel. (085 2) 40 78 11



Viktor V. GAVRILOV
Chairman



SEVERO-KAVKAZSKY HEAD OFFICE

**Branches 26
Sub-branches 498**

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355035 Stavropol, Russia
tel.: (865-2) 30 80 11



Galina D. KOZUB
Chairperson



SEVERO-VOSTOCHNY HEAD OFFICE

**Branches 45
Sub-branches 234**

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Leonid G. SHATS
Chairman



SEVERO-ZAPADNY HEAD OFFICE

**Branches 61
Sub-branches 943**

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SIBIRSKY HEAD OFFICE

Branches 29
Sub-branches 695

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630091 Novosibirsk, Russia
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Vladimir V.
VOROZHEIKIN
Chairman

SREDNERUSSKY HEAD OFFICE

Branches 89
Sub-branches 1588

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109544 Moscow, Russia
tel.: (095)974 72 00



Vladimir A. NIKONOV
Deputy Chairman of
Sberbank's Board, Chairman
of the Head Office

TSENTRALNO-CHERNOZEMNY HEAD OFFICE

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Sub-branches 1425

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Alexander K. SOLOVYEV
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URALSKY HEAD OFFICE

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Sub-branches 1620

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CHERKASHIN
Chairman

VOLGO-VYATSKY HEAD OFFICE

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Sub-branches 2374

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Dmitri Yu. DAVYDOV
Chairman



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SBERBANK



Vaycheslav V. SHABAIIKIN
Acting Chairman



**VOSTOCHNO-SIBIRSKY HEAD
OFFICE**

**Branches 46
Sub-branches 447**

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Sergei V. KUGAEV
Chairman



YUGO-ZAPADNY HEAD OFFICE

**Branches 50
Sub-branches 1376**

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Tatayna N. KISELEVA
Chairperson



**ZAPADNO-SIBIRSKY HEAD
OFFICE**

**Branches 63
Sub-branches 951**

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Vladimir A.
VERKHOLANTSEV
Chairman



**ZAPADNO-URALSKY HEAD
OFFICE**

**Branches 48
Sub-branches 855**

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614990 Perm, Russia
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The numbers of branches are given as of 1 January 2004

The names of chairmen are given as of 8 June 2004



DEVELOPMENT OF SBERBANK'S BRANCH NETWORK

As of 1 January 2004, Sberbank had 20,188 business units (17 regional head offices, 1,028 branches, 19,143 sub-branches including 3,452 additional offices (of which 57.3% are universal, 4.3% specialising in corporate banking, 38.4% in retail banking), 15,691 stand-alone operational cash offices). It also operates 88 stand-alone exchange outlets.

During the year in review, the Bank continued to develop its branch network by opening more customer service outlets at the locations where the current demand for banking products is high or may grow in future. In 2003, Sberbank opened 175 more units of which 149 (85.1%) are located in the cities including 76 (43.4%) in administrative centres. The Bank opened 22 stand-alone exchange outlets. 220 outlets were relocated for customers' convenience.

Last year, the Bank closed down 129 units that could not operate for external reasons or owing to poor demand for banking services.

The Bank broadened the powers of its additional offices in rendering specific banking products and services (primarily, loans).

The Bank worked to optimise operational hours to meet the intra-day demand for banking services. Last year, 1,073 units started to work extended hours on week days and 573 on Saturdays. 173 units started working on Sundays.



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SBERBANK

SBERBANK'S CORRESPONDENTS WORLDWIDE

(as of 1 June 2004)

Total number of correspondent banks worldwide — **212**, including:

Europe

Total number of correspondent banks — **144**

among them Nostro correspondents in foreign currencies — **25**
including main clearing banks:

CHF	UBS AG, Zurich
CZK	Komerční Banka a.s., Prague
DKK	Danske Bank A/S, Copenhagen
EUR	Deutsche Bank AG, Frankfurt/Main ¹
EUR	J.P. Morgan AG, Frankfurt/Main ²
GBP	HSBC Bank Plc, London
MULTI	Raiffeisen Centrobank AG, Vienna
NOK	DNB Nor Bank ASA, Oslo
PLN	Bank Handlowy w Warszawie SA, Warsaw
SEK	Nordea Bank AB (publ), Stockholm
UAH	AVAL Bank, Kiev
BYR	Belvnesheconombank, Minsk
EEK, LVL, LTL	AS Hansapank, Tallinn

North America

Total number of correspondent banks — **20**

among them Nostro correspondents in foreign currencies — **4**
including main clearing banks:

USD	The Bank of New York, New York
CAD	Canadian Imperial Bank of Commerce, Toronto

South America

Total number of correspondent banks — **1**

Asia

Total number of correspondent banks — **40**

among them Nostro correspondents in foreign currencies — **5**
including main clearing banks:

JPY	The Bank of Tokyo-Mitsubishi Ltd., Tokyo
KZT	Kazkommertsbank, Almaty

Australia and Oceania

Total number of correspondent banks — **2**

Africa

Total number of correspondent banks — **5**

¹For commercial payments

²For bank-to-bank payments



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Reuters Dealing Codes: SBRF, SBRR, SBRO

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Fax: (+7 095) 747 37 58

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Commercial Operations
Department**

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Trade Finance
Traveller's Cheques
Bullion &
Commemorative Coins
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LORO Bank Accounts
Investigations
Reconciliation*

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Fax: (+7 095) 957 57 41

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Markets Department**

*Foreign Exchange Market
Money Market
Precious Metals Market*

Head of Treasury and Director:
Mr. Andrey F. Golikov
E-mail: money@sbrf.ru
Fax: (+7 095) 957 50 67



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SBERBANK

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Corporate Banking Department	Director: Mr. Nikolai I. Kuleshov E-mail: market@sbrf.ru Fax: (+7 095) 957 57 84
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