



**BANK ZENIT**  
**ANNUAL REPORT**  
**2003**



## WAR-TIME SLIDES

*60 years have passed since Soviet troops reached the western borders of the USSR, thus having almost fully liberated the homeland from the enemy. Hundreds of thousands of pages of various kinds were written, describing the events of the Great Patriotic War. The stories, one is going to read under heading «War-time slides», are not pretending to occupy a special place in the history. They are made of the recollections of the veterans, relatives of the Bank's employees, about their life in the war. We thought that their recollections should be kept.*



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MOSCOW

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# STATEMENT BY OJSC BANK ZENIT COUNCIL OF DIRECTORS

Dear Shareholders, Clients, and Partners,

1. In spite of a complicated situation in the financial market and a higher competition among Russian lending institutions in 2003, Bank ZENIT demonstrated results that we can undoubtedly take pride in.
2. ZENIT whose assets exceeded a \$1 billion threshold not only outperformed the 2003 targets but also succeeded in implementing a number of projects which formed a basis for its fruitful operation under conditions of the forthcoming liberalisation of the currency market.
3. The placement of the Bank's Eurobonds (totalling \$125 million) in the international financial markets — one of the most successful Eurobond projects implemented by Russian banks — was a benchmark in that respect.
4. Acting as an underwriter and co-manager of 24 issues of corporate and municipal securities exceeding RUR50 billion and two issues of currency-denominated bonds totalling \$910 million, ZENIT strengthened its status as one of Russia's leading investment banks.
5. The Bank obtained 1,300 new corporate clients, including leading chemical, coal, light, food, energy, mechanical engineering, metal, and construction sector companies. Both existing subsidiaries and the new ones opened in 2003 in Nizhny Novgorod, Rostov-on-Don, Kazan, and Moscow pursuant to the Regional Development Concept made a sizeable contribution to the diversification of the Bank's customer base. The fact that ZENIT was awarded a special Client-oriented Company Prize within the framework of the Company of the Year national competition was recognition of its persistent adherence to the principles of trust in relations with clients.
6. The Bank made a good progress in retail business development: it brought the amount of household deposits to \$100 million and offered new products and a higher quality of regional services to retail clients.
7. Positive results achieved by ZENIT in 2003 were acknowledged by Moody's which upgraded the Bank's foreign currency long-term rating from B2 to B1.
8. At the same time, these achievements could not overshadow the need for a fundamental increase in the Bank's equity that was well understood by the shareholders and management as it was a prerequisite for addressing the Bank's long-term tasks. Our efforts in 2004 will be focused on the achievement of that strategic target.
9. Looking forward to our further fruitful collaboration, I would like to express my sincere gratitude to our Members, Clients and Partners for mutually beneficial cooperation and trust.

*Chairman, Council of Directors*



*R.R. Musin*

## MIKHAIL ANTONOVICH REUT



Born on January 6, 1919 in the village of Drazy, Belarus.

Finished a technical school in Minsk. Fought in the war from the very start.

After the war graduated from a construction and architecture college with honors.

Worked for the Energy Ministry.

**War-time decorations:**

Order of Patriotic War, 2nd Class.

Medals for the defense of Moscow, for taking of Koningsberg, for the victory over Germany, for the victory over Japan.

### HIS GRANDDAUGHTER MARIA REUT



is an expert of the Personnel Department responsible for organizing the upgrading of skills.



## BERRY-PICKING IN THE WOODS

I remember how one summer I was driving very near the frontline on my ZIS-5 and suddenly saw raspberry bushes. We were always very hungry those days. So in violation of all regulations I stopped, parked the car on the roadside, went out and headed for the bushes. I kept my assault rifle hanging on my shoulder with one finger on the trigger because there were enemies everywhere. I used my other hand to pick berries and shove them into my mouth. At first I looked around but as I wanted to eat very much and the raspberries tasted so sweet and there were so many of them that I could not stop. I dropped my weapon, started picking the berries with both hands and eating without looking around anymore. Then suddenly I felt the barrel of a gun stuck at my back and heard a voice order: «Hande hoch!» I realized: «That's it, that's my end.» I raised my hands, turned around and saw a soldier laughing at me. He turned out to be our scout who had simply decided to play a joke on me. Since then I cannot remain calm when I see raspberries.



## A TANKFUL OF ALCOHOL

We used to drink plenty of vodka, of course. You cannot do without vodka in a war. I remember an amusing case. I belonged to a convoy transporting tanks with pure alcohol to army hospitals. The tanks were sealed, of course. So if anyone would attempt opening a tank, a criminal case would be immediately opened and even charges of sabotage could be brought and that meant immediate execution. Still soldiers were dying for a drink. So what could they do? Here is what they invented: they would cut the broad bands on the tank, drill small holes in them, drain alcohol into containers and then pour in the same amount of water. After that they would fix up the holes and weld the bands back. So what? The alcohol would be intact and a bucketful of water would make little difference for a whole tankful while the soldiers were happy and at the warehouse nobody noticed anything because all the seals were intact. However, we drivers could not drink at all, of course.

## ACQUAINTANCE WITH MINISTER SUSLOV



There was a time when I had to transport gasoline for our automobile regiment. Once I had to have my tank truck repaired. When a tank is welded, it is usually filled with water. That is a technological requirement. So when I was returning from repairs, I parked the truck on Rublyovskoye highway outside of Moscow and opened the tap to let the water out. Suddenly I saw a ZIS limo with government license plate parking next to my truck. I got scared, of course. A colonel jumped out of the car and ran up to me. «What do you think you are doing, son of a bitch, wasting gasoline! That's sabotage, embezzlement! The gasoline is for the army,» he shouted and cursed without letting me say a word. Then he ordered: «March to the car for explanations.» I went up and said who I was and what unit I belonged to. The man in the ZIS responded in an angry voice: «And I am Minister Mikhail Suslov. And now we will send you for execution for committing a crime in office.» And started yelling at me so that I was unable to say that it was water, not gasoline I was pouring. But then the colonel who went to close the tap noticed that it was not gasoline. And they started yelling at me again: «Why are you transporting water instead of gasoline, that is an even greater crime.» How could I explain to them that it had been a condition for repairs. They wouldn't listen. Banged the door and drove away. That's how I met comrade Suslov [later senior Communist ideologue].

## HARE ON THE FRONTLINE

I remember the stubborn fighting for Koningsberg: shells exploding, bombs blasting, bullets whistling. It was a nightmare! Once there was fighting in the woods. The situation was extremely tense. And suddenly we saw a hare jump out from somewhere. Despite the bullets and bombs it kept on jumping from side to side, evading them, crisscrossing as if in a dance. That distracted us from the fighting and we started laughing watching the hare. In the end it was hit by a fragment of a shell after all. We ate it, of course.



# 1

## BASIC INFORMATION ON BANK ZENIT

**1** 2 3 4 5 6 7 8



part one

## SHAREHOLDERS

Tatneft (Open Joint Stock Company),  
*Tatarstan Republic, Russian Federation*

Stinol Invest (Closed Joint Stock Company),  
*Russian Federation*

SGI ENTERPRISES LIMITED,  
*UK*

AK BARS Trade House (Limited Liability Company),  
*Tatarstan Republic, Russian Federation*

Grand Tea House (Limited Liability Company),  
*Russian Federation*

ALNAS (Open Joint Stock Company),  
*Tatarstan Republic, Russian Federation*

S.E.T.-Select Energy Trading GmbH,  
*Germany*

Tatarstan Republic as represented by the Republican Ministry of Land and Property Relations,  
*Russian Federation*

## BANK COUNCIL OF DIRECTORS

<b>Mr. R.R. Musin</b>	Chairman, Council of Directors OJSC Bank ZENIT
<b>Mr. I.G. Avanesyan</b>	Director OJSC Petrokam
<b>Mr. S.V. Chelyadin</b>	Estate and Securities Management Director OJSC Novolipetsk Iron and Steel Plant
<b>Mr. I.G. Garifullin</b>	Chief Accountant OJSC Tatneft
<b>Mr. S. Ghosh</b>	Director SGI ENTERPRISES LIMITED
<b>Mr. V.P. Fedorov</b>	Chairman, Council of Directors OJSC Lipetskcombank
<b>Mr. S.A. Feldman</b>	Deputy General Director for Capital Construction OJSC Tatneft
<b>Mr. A.I. Kravchenko</b>	Legal Director OJSC Novolipetsk Iron and Steel Plant
<b>Mr. N.U. Maganov</b>	First Deputy Director OJSC Tatneft
<b>Mr. A.I. Proshechkin</b>	Chairman, Council of Directors OJSC ALNAS
<b>Mr. A.S. Smolyansky</b>	General Director LLC Rumelko
<b>Mr. A.A. Sokolov</b>	Chairman, Board OJSC Bank ZENIT
<b>Mr. E.P. Sulimov</b>	Deputy Director for Economy and Finance OJSC Novolipetsk Iron and Steel Plant
<b>Mr. Sh.F. Takhautdinov</b>	General Director OJSC Tatneft
<b>Mr. E.A. Tikhturov</b>	Head, Financial Department OJSC Tatneft

## ■ ■ ■ BANK BOARD

1. <b>Mr. Sokolov, Alexey Arkadievich</b>	Chairman
2. <b>Mr. Gubaidullin, Rashit Shaikhullovi</b>	First Deputy Chairman
3. <b>Mrs. Shishkina, Tatiana Petrovna</b>	First Deputy Chairman
4. <b>Mrs. Ainulova, Valeria Viktorovna</b>	Deputy Chairman
5. <b>Mr. Bolshakov, Anton Alexandrovich</b>	Deputy Chairman
6. <b>Mrs. Gornaya, Elena Vladimirovna</b>	Deputy Chairman
7. <b>Mr. Gorovoy, Rodion Vladimirovich</b>	Deputy Chairman
8. <b>Mr. Paschenko, Stanislav Sergeevich</b>	Deputy Chairman
9. <b>Mr. Shpigun, Kirill Olegovich</b>	Deputy Chairman
10. <b>Mr. Rudik, Sergey Viktorovich</b>	Member, Financial Director
11. <b>Mr. Fedorov, Vyacheslav Petrovich</b>	Member

*Bank ZENIT was founded in December 1994 as a limited liability company. In December 1999, the Bank was reorganised into an open joint stock company.*

### **L I C E N C E S :**

- a) *General Banking Licence*
- b) *General Licence for precious metal transactions*
- c) *Gold export licence*
- d) *Silver export licence*
- e) *Capital market professional agent licence for depositary operations*
- f) *Capital market professional agent licence for brokerage*
- g) *Capital market professional agent licence for dealing*
- h) *Capital market professional agent licence for securities management*
- i) *Licence to exchange traded futures and options in the Russian Federation*
- j) *Licence of a specialised depositary of investment funds and unit investment funds*
- k) *Licence for operations with data classified as state secret*
- l) *Licence to provide encoding/decoding services to S.W.I.F.T. users in respect of data, which are not classified as state secret*
- m) *Licence to maintain encoders/decoders for S.W.I.F.T. operations*
- n) *Licence to provide encoding/decoding services to bank card holders within international payment systems in respect of data, which are not classified as state secret*
- o) *Licence to maintain encoders/decoders for international payment systems that use bank cards*

- p) *Licence to maintain encoders/decoders designed for cryptographic protection of data, which are not classified as state secret, in the course of data processing, storage and transmission via communication channels within the Bank's electronic document turnover system*
- q) *Licence to encode/decode data, which are not classified as state secret, within the Bank's electronic document turnover system*
- r) *Licence for encoder/decoder dissemination*

**Status:**

- »»» A bank authorised to issue guarantees in favour of the SCC (importer clients' transactions with excised goods);
- »»» Banking for federal state companies/exporters of military products;
- »»» A Moscow Oblast Government partner bank in the sphere of external economic relations;
- »»» An authorised bank of the Tatarstan Ministry of Finance and Tatarstan Ministry of Economy and Industry;
- »»» An authorised agent, underwriter and market-maker for Moscow City OGOVZ;
- »»» An official dealer for Saint Petersburg OGOVZ;
- »»» An official partner of the National Olympic Committee of the Russian Federation.

**Participation in international payment and clearing systems; membership in associations, exchanges, and unions:**

1. Member of ARB, ACRB, NCMA, NAUFOR, RTS, AUVER, MFE, SPCE, Tatarstan Republic Chamber of Commerce and Industry, RUPE, and Gold Producer Union;
2. Principal member of Europay International and VISA International;
3. Member of S.W.I.F.T. and Clearstream Banking.

**Auditors:**

- LLC Energy Consulting — Russian Accounting Standards;
- Ernst and Young (CIS) Limited — International Accounting Standards.

**Clientele:**

*Enterprises representing practically all sectors of the Russian economy — first of all, export-oriented companies and enterprises producing highly liquid products for the domestic market. The clientele profile is as follows:*

- »» Oil production and refining;
- »» Petrochemical and chemical industries;
- »» Metal industry;
- »» Coal industry;

- » Gold production;
- » Mechanical engineering, including co-operation with other countries in the military technology sector (production and export of military goods);
- » Light industry;
- » Food industry;
- » Wholesale and retail trade;
- » Energy;
- » Pharmaceutical industry;
- » Financial institutions.

***The Bank's Activities:***

- » Financial support of the clients' export/import transactions;
- » Fund raising projects in external markets;
- » Commercial lending to the clients;
- » Project and trade finance, with a large-scale use of documentary transactions;
- » Fund raising projects in the domestic market (bond issue, organisation of syndicated loans and veksel programmes);
- » Financial consulting on A&M and fund raising projects; corporate strategy development;
- » Organisation of A&M funding;
- » Transactions with clearing currencies;
- » Transactions with government and municipal securities, Eurobonds, and London Club debts, including the preparation and management of the clients' and counterparty banks' securities portfolios;
- » Transactions with corporate securities (shares, ADR, bonds, veksel);
- » Financing of gold export transactions;
- » Regional activities: a comprehensive support of regional programmes, including the extension of funds obtained from external creditors, and the development of the regional interbank and securities market.

***Major Foreign Partner Banks:***

<b>Dresdner Bank AG</b>	<i>Frankfurt am Main, Germany</i>
<b>ING BHF-BANK</b>	<i>Frankfurt am Main, Germany</i>
<b>Commerzbank AG</b>	<i>Frankfurt am Main, Germany</i>
<b>Deutsche Bank AG</b>	<i>Frankfurt am Main, Germany</i>
<b>Ost-West Handelsbank AG</b>	<i>Frankfurt am Main, Germany</i>

<b>HypoVereinsbank AG</b>	<i>Munich, Germany</i>
<b>BankGesellschaft Berlin</b>	<i>Berlin, Germany</i>
<b>Rabobank</b>	<i>Utrecht, The Netherlands</i>
<b>ING Bank NV</b>	<i>Amsterdam, The Netherlands</i>
<b>UBS AG</b>	<i>Zurich, Switzerland</i>
<b>BNP Paribas (Geneve)</b>	<i>Geneve, Switzerland</i>
<b>Deutsche Bank Trust Company Americas, NY</b>	<i>New York, USA</i>
<b>ABN AMRO Bank N.V. New York Branch</b>	<i>New York, USA</i>
<b>JP Morgan Chase Bank</b>	<i>New York, USA</i>
<b>ING Bank (Vienna) AG</b>	<i>Vienna, Austria</i>
<b>Raiffeisen Zentralbank Oesterreich AG</b>	<i>Vienna, Austria</i>
<b>Donau-Bank</b>	<i>Vienna, Austria</i>
<b>Moscow Narodny Bank</b>	<i>London, UK</i>
<b>HSBC Bank Plc (London)</b>	<i>London, UK</i>
<b>Credit Suisse First Boston</b>	<i>London, UK</i>
<b>Standard Bank</b>	<i>London, UK</i>
<b>Schroder Salomon Smith Barney</b>	<i>London, UK</i>
<b>Eurobank</b>	<i>Paris, France</i>
<b>Natexis Banques Populaires</b>	<i>Paris, France</i>
<b>BRED Banque Populaire</b>	<i>Paris, France</i>
<b>Canara Bank</b>	<i>New Delhi, India</i>
<b>Bank of China</b>	<i>Beijing, China</i>
<b>Industrial and Commercial Bank of China</b>	<i>Beijing, China</i>
<b>National Bank of Abu Dhabi</b>	<i>Abu Dhabi, UAE</i>
<b>UNIBANCO</b>	<i>Rio de Janeiro, Brazil</i>

*The Bank's Major Financial Performance Indicators as of 31 December 2003:*

- Total assets      **RUR36,770,359,000**
- Equity              **RUR4,130,311,000**
- Profit               **RUR930,772,000**

## VIKTOR ALEXANDROVICH NIKOLAYEV



Born on March 28, 1925 in Leningrad. Sergeant major, commander of a mortar unit, YCL leader of his battalion. After the war worked for the Zhelyabov textile mill in Leningrad.

**War-time decorations:**

Order of the Red Star.  
Order of Patriotic War, 1st Class.  
Medal of Courage.

HIS SON  
YEVGENY NIKOLAYEV



is deputy director of Subsidiary No. 2 in St. Petersburg who supervises its retail banking, lending and currency control sections.



### HAND-TO-HAND FIGHTING

I had to enter hand-to-hand fighting quite often. It was scary before the battle, of course. Some people would pray. As the head of the YCL cell I always had to be the first one to rise and raise the guys to battle. And then you would meet the enemy face-to-face and yell: «Hitler kaput!» And he would attack you even more ferociously. You would shoot at him from a distance of five meters and he would fall. Killed or wounded — you never knew — and would run ahead. We had a well-planned policy: when we advanced after a battle the dead bodies of Soviet soldiers would be removed first and the corpses of the enemy soldiers would be left so that the units after us would see that there were only killed enemies lying around. That would raise the morale of our soldiers.





### RESTING AFTER BATTLE

In general there was never enough time to have a proper rest after fighting. We would get into order, dry our clothes because we would often get wet through. It was rare luck to have a bath so we fed lice throughout the war. Some guys would drink but I didn't, I gave my portion of vodka to the lieutenant and he would give me his tobacco in return. I remember that once there was some trouble with food supplies, we did not get our rations. So we crawled to no man's land to fetch killed horses and then roasted them on a bonfire and used our caps to disperse the smoke so that the enemy would not notice where we were sitting.

### TWO SPOONFULS OF SAUERKRAUT

I landed in hospital with a bad wound and spent two weeks in intensive care. When I more or less came to my senses I longed for sauerkraut. I was simply dying for it. And I started begging the nurses to bring at least a little bit of it.

They would not agree. Probably I was not supposed to eat it because of my condition. Then they brought literally two spoonfuls of it, got it somewhere in a village. What a feast it was for me — two spoonfuls of sauerkraut! It seems I never ate anything better afterwards.



# 2

## MAJOR DEVELOPMENT OUTCOMES

1 2 3 4 5 6 7 8



part two

## STATUS

- »» The Bank's assets as of the end of 2003 exceeded \$1 billion.
- »» The Bank placed its Eurobonds totalling \$125 million in the international financial markets.
- »» In December 2003, Moody's upgraded the Bank's foreign currency long-term rating from B2 to B1. The agency's report said that the upgrading reflected further diversification of the Bank's business and customer base, and its reduced dependence on the largest shareholders.
- »» The Bank won a special Client-oriented Company Prize within the framework of the Company of the Year national competition.
- »» In 2003, the Bank opened 2 subsidiaries and 3 additional offices pursuant to the Regional Development Concept:
  - a) Subsidiary No. 6 in Nizhny Novgorod;
  - b) Subsidiary No. 7 in Rostov-on-Don;
  - c) Additional office City Centre in Kazan;
  - d) Additional office No. 7 Khimki-2 in Moscow;
  - e) Additional office No. 8 Dobryninsky in Moscow.

## BUSINESS

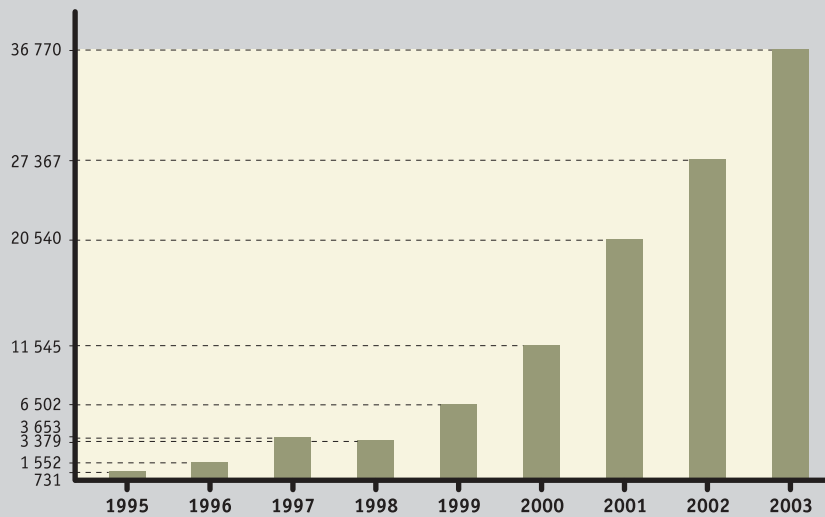
- »» As an underwriter and co-manager, the Bank participated in 24 issues of corporate and municipal bonds totalling RUR50 billion, as well as in two issues of currency-denominated bonds totalling \$910 million.
- »» The Bank was included in the TOP-5 list of the largest underwriters by the number of issues and TOP-10 list of the largest underwriters by the amount of issues in the rouble-denominated bond market as rated by Russia's lead news agencies based on the outcomes of 2003.
- »» In 2003, the Bank started working with Western export agencies, and implemented a \$7 million project covered by KUKE export insurance agency via ING Bank Slaski (Poland).
- »» The amount of household deposits exceeded \$100 million, which is over 10% of the Bank's liabilities. In 2003, the Bank was invariably included in the TOP-30 List of Russian banks by the level of household deposits.

## SCOPE OF OPERATIONS

*In 2003, the scope of the Bank's operations characterised by total assets increased by 34%. As of 31 December 2003, the Bank ranked 17th among Russia's largest banks by the total assets.*

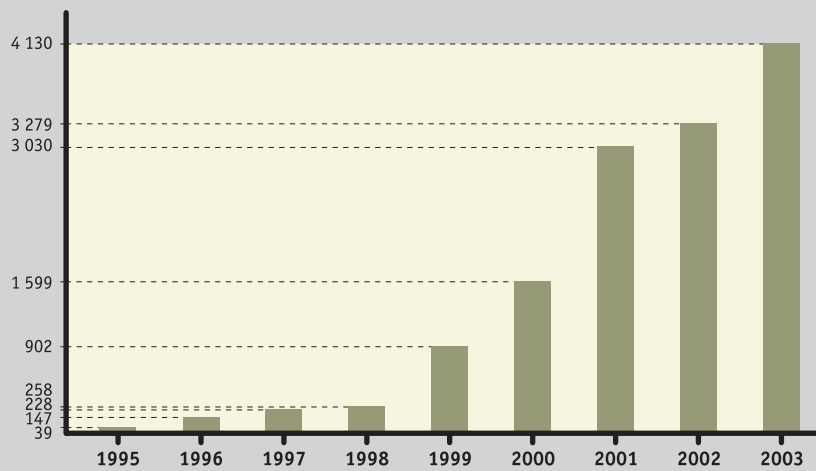
The scope of the Bank's operations was triggered mainly by a 32% growth of lending transactions (net loans to customers increased from RUR15,279 million to RUR20,123 million). Changes in the Bank's assets are shown in Figure 1.

*Changes in the Assets, million roubles*



*Figure 1*

*Changes in the Bank's Equity, million roubles*



*Figure 2*

### ■ ■ ■ EQUITY

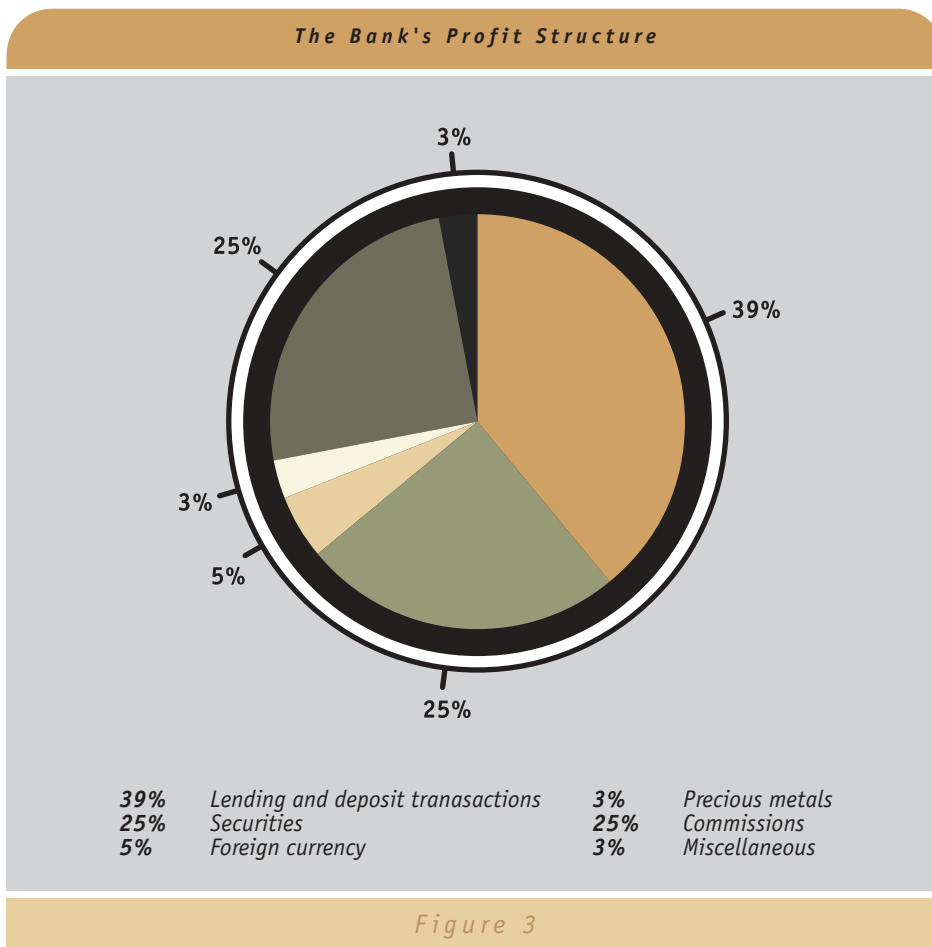
By the end of 2003, Bank ZENIT had equity of RUR4,130 million, which enabled it to place 25th by equity size among Russia's largest banks.

Changes in the Bank's equity are shown in Figure 2.

### ■ ■ ■ PROFIT BEFORE TAXATION

*The 2003 balance sheet profit amounted to RUR930.8 million. By the outcomes of the year, the Bank placed fifteen among the most profitable Russian banks.*

Figure 3 shows the profit structure. Lending and deposit transactions account for the bulk of the Bank's profit, with a significant contribution from securities operations and fees.



## ARKADY VASILYEVICH SOKOLOV



Born on December 27, 1923.  
An engine driver of an armored train at the beginning of the war.  
Since December 1941 an army serviceman, commander of a machinegun platoon.  
Wounded in the battle of Stalingrad.  
After the war held leading posts in railways, led the Kursk regional committee of the CPSU, worked as Soviet ambassador to several countries.

**Among war-time decorations:**  
Order of the Red Star.  
Order of Patriotic War, 2nd Class.

HIS SON  
ALEXEI SOKOLOV



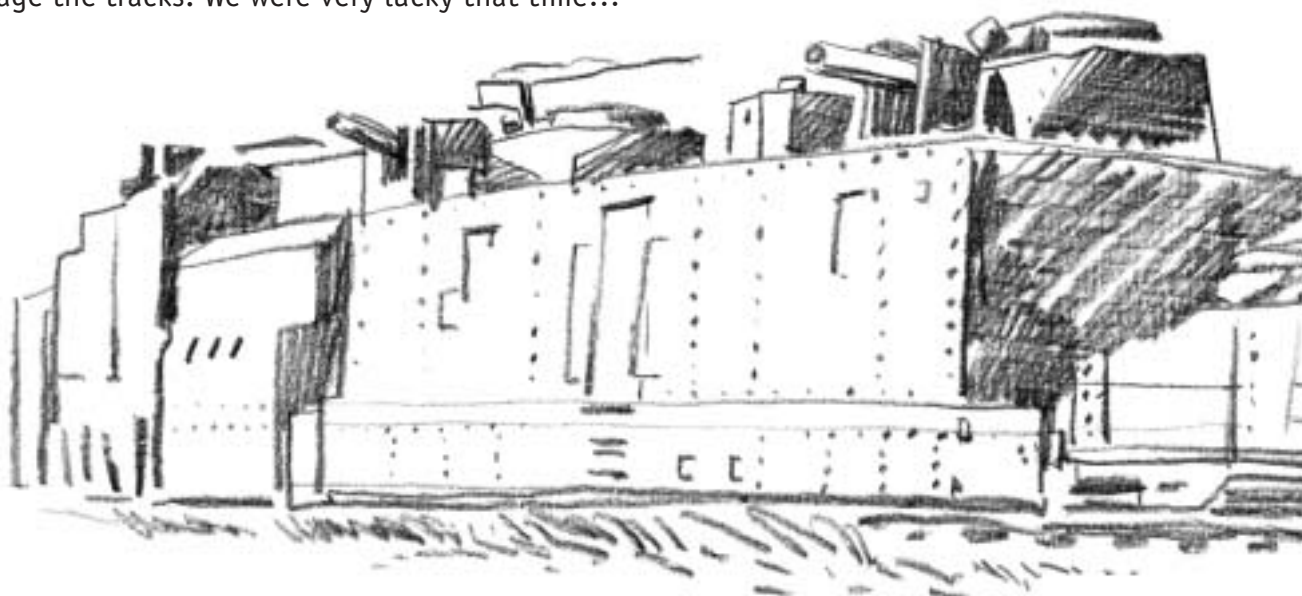
is the Chairman of the Bank Board.



### «STEP ON THE GAS!»

At the beginning of the war I, an engine driver at the time, was called up to run an armored train, not to fight on the front. But operating an armored train near the frontline was no less dangerous than being in the trenches. When you are moving in an open field, you become a perfect target for enemy planes. And there is nowhere to hide. Here are the tracks and here is the train to shoot at and bomb — everything is absolutely clear.

I remember how we were taking a whole trainful of ammunition and military hardware to the front. First one Junkers aircraft appeared in the sky. A reconnaissance plane. So I told the other guys (there were always three of us: myself, my mate and the stoker): «Let the headquarters know that an enemy plane is above us and fast.» The guys sent a message and got a reply: «Hold on, we are sending fighters.» Well, the reconnaissance plane flew away and we kept on moving. Half an hour later we saw a whole air squadron approaching. So I shouted: «Step on the gas! Press as hard as you can!» We raised the speed to 50-60 kilometers an hour... The armor offered certain protection, of course. But if a machinegun burst had reached the ammunition we were transporting, we would not have a chance... It's good that our fighter planes came to our assistance on time and drove the Junkerses away. And the enemy failed to hit the train or damage the tracks. We were very lucky that time...





## TURNING MANEUVER

It happened in spring 1942 near Stalingrad. Our platoon was sent on a scouting mission to take a prisoner for interrogation. The three of us went at night: my deputy, one more fellow and myself. We crept in the woods for a long time. But even though we were moving very stealthily an enemy post discovered us. There were some 15 of them. They opened very intensive fire at us. We went into hiding to save cartridges. Then we saw that the enemies were beginning to surround us. So I as a commander decided that my deputy would remain where he was while I and the private would try to make the enemy turn around. We were lucky that the terrain was very rough with plenty of gullies. We started running along the gullies and shouting to each other loudly so that the enemies would hear where we were moving. They followed us, pursued. We managed to make a semicircle and make them turn in our direction while my deputy found himself behind their backs. Then we opened fire. It was night and it was hard to tell what was happening and where the fire was coming from. The enemies thought that they were being shot from all sides. Later their officer whom we took prisoner said they had thought they were being attacked by a big group of Russians. Some of the enemy soldiers were killed, some fled. And we took three prisoners. They disclosed important information to our command.

# 3

## CUSTOMER BASE DEVELOPMENT. EXTENSION OF THE RANGE OF BANKING SERVICES

1 2 3 4 5 6 7 8



part three

## ■ ■ ■ ORGANISING WORK WITH CORPORATE CLIENTS

*Bank ZENIT had the following strategic priorities in 2003: maintaining the customer base growth rate, with an emphasis on its sectoral and regional diversification; extending the range of services provided to enterprises and institutions, with an emphasis on the banking support of technological chains in various sectors from suppliers to end producers, irrespective of their geographic locations, which shall be offered comprehensive settlement and financing projects, and a wide range of financial advisory services.*

Today, Bank ZENIT is oriented to servicing all types of customers and has a long record of successful, comprehensive and mutually beneficial co-operation with companies in nearly all sectors of economy.

The customer base growth in 2003 was 34%; the Bank opened accounts to 1,297 companies, including coal, energy, light and car industries, wholesale and retail trade companies, chemical, petrochemical and metal enterprises, financial companies, and food and manufacturing industries. The growth was largely driven by customers from regions where the Bank's offices and subsidiaries are located.

The client account external turnover increased by 21%, i.e. up to \$ 9,289 million. The share of new clients in the total mean chronological balances was 6.27% while their share in the turnover was 8.56%. The total fund raising from corporate clients exceeded \$495 million in the fourth quarter 2003.

However, the customer base growth and regional diversification did not affect the quality of services provided to the clients: the Bank continues to rely on a customised approach to clients as its basic operational principle.

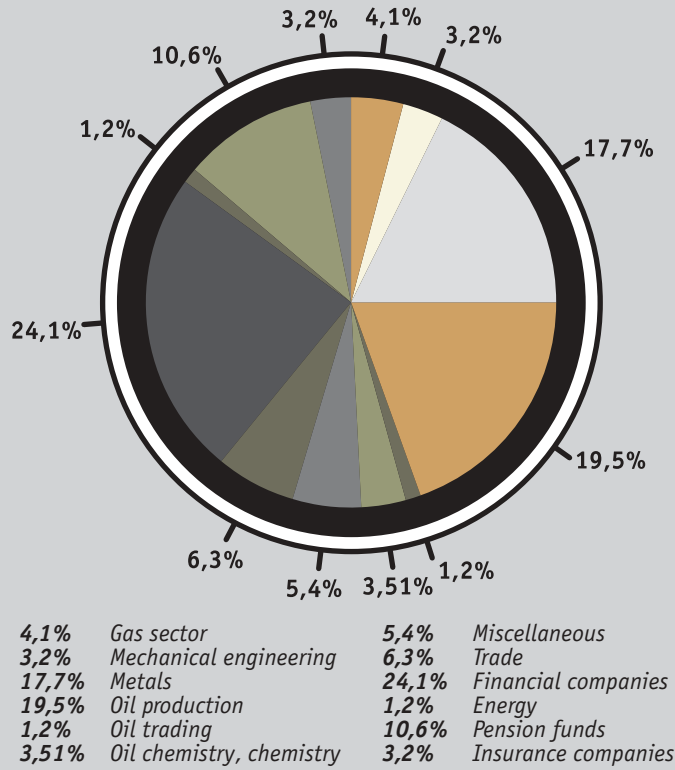
A successful implementation of the Bank's strategic development tasks is largely dependent on the rate of real sector and customer business development. The Bank, which is interested in business development of all its clients, acts as a financial adviser and selects a combination of banking products and additional services that can best meet business development objectives of a specific client. Such comprehensive customised approach allows extending the range of products and services provided by the Bank, as well as the range of services provided by the Bank's partners operating in the leasing, insurance and nongovernmental pension sectors.

The utilisation of these principles, the use of modern business procedures, professional management and a customised approach to clients allowed not only an increase but also a significant sectoral diversification of the Bank's customer base in 2003, which is illustrated in Figure 4.

## ■ ■ ■ INTERBANK BUSINESS. DEVELOPMENT OF THE CORRESPONDENT NETWORK. INTERACTION WITH FINANCIAL INSTITUTIONS

In 2003, the Bank was making efforts to increase the number of its counterparties among and the scope of operation with financial institutions in Russia, FSU and other countries.

*Sectoral Structure of the Customer Base as of Late 2003*



*Figure 4*

A wide range of transactions and varying needs of the counterparties required a thorough coordination of actions inside the Bank. To a large extent, that was the reason for establishing a Department for Interaction with Financial Institutions based on the Department of Settlements and Correspondent Relations. At present, the new Department deals with financial institutions such as banks, investment and management companies.

***The year 2003 yielded the following results:***

1. The Bank opened 75 new correspondent accounts with more than 40 new banks in Russia and FSU. Altogether, Bank ZENIT has correspondent relations with more than 170 banks.
2. The Bank acquired new partners (93 banks) in the IBL, Forex and Securities markets, and the total number of its counterparties exceeded 400. The total amount of mutu-

al limits under interbank operations increased by 60% while the level of interbank transactions increased by 40%, on the average.

3. As requested by its clients and following the logic of the integration processes, Bank ZENIT has been traditionally paying special attention to the development of relations with financial institutions from the CIS and Baltic countries. In 2003, the Bank continued to develop the co-operation with Kazakhstan, Ukrainian and Baltic banks. The total level of mutual interbank credit lines exceeded \$30 million. The level of trade finance transactions between Russian companies and their FSU partners (first and foremost, those from Belarus and Ukraine) also increased significantly.

In the international market, ZENIT keeps up close business contacts with more than 50 largest international financial institutions from Europe, America, and Asia. Taking into account the needs of its clients, the Bank is extending co-operation with banks in China, South-East Asia and Middle East.

*Such co-operation mainly takes place as:*

- a) International settlements: transfers, documentary LOCs, guarantees, cheques, and collection of payments.
- b) Fixed-income market transactions.
- c) Interbank transactions: Forex, Depo, and various derivatives.
- d) Operations in the debt capital market.

Due to the Bank's intensive efforts, the amount of documentary transaction lines exceeded \$70 million in 2003. Limits opened to Bank ZENIT by international banks under other transactions exceeded \$100 million.

## DEPOSITARY SERVICES

*The year 2003 was another stage in the development of the Bank's depositary activities. In brief, the Depositary made a good progress which is reflected in its major performance indicators. The Bank's Depositary provides services to both professional participants of the securities market (brokers, nongovernmental pension funds and their management companies, banks, and investment companies) and private investors. As of the end of 2003, the Bank's Depositary had 575 clients, which exceeds the 2002 outcome by 22%. The amount of securities held in custody by the Bank increased compared to 2002 and exceeded RUR9 billion by the year end. The number of transacted deals also increased and reached 410, 895 deals in the absolute terms, which exceeds the previous-year figure more than 3 times. Such rate of change is related to a significant technological progress of the Depositary, the extended range of services provided, and the improved infrastructure of the stock market.*

The amount of assets given for custody to the Bank's Depositary in 2003 increased by 82% in terms of their face value (RUR17.4 billion vs. RUR9.6 billion in 2002). Underlying this growth is the inflow of newly issued securities (mostly those issued under bond loans). As a result, by the end of 2003, the Bank's Depositary was servicing over 930 securities issues of 400 issuers.

Among the largest projects implemented by the Depositary in 2003, one should note its participation in a depositary study conducted by the INFI Foundation in collaboration with PARTAD (the Professional Association of Transfer Agents, Depositaries and Registrars). Thus, based on the outcomes of the first half of 2003, the Bank was given an honorary rating (24th place) among Russia's largest depositaries, proceeding from the market value of depositors' securities held in custody (as of 30 June 2003, the value of such securities exceeded RUR8.5 billion). The commissioning of a module for accounting of the pension reserves of nongovernmental pension funds was another significant event. The module considerably reduced the nongovernmental pension fund service costs and provided a complete service cycle meeting all requirements of the public regulators (FCSM and NPF Inspection).

The development of relations with correspondent depositaries and registrars is an essential component required to strengthen the market position of the Bank's Depositary. Last year, the Depositary opened more than 10 interdepository accounts and nominal holder accounts with depositaries and registers of registered securities holders. At present, the Bank is a nominal holder in the registers of over 70 issuers. Interdepository accounts opened with 14 depositaries enable our clients to make securities-related settlements (including DVP) practically at any trading floor in Russia, and make securities-related and monetary settlements in Western clearing systems (Clearstream Banking S.A., Euroclear, DTC). As a securities holder at the Moscow Interbank Currency Exchange and the RTS, in early 2003, the Depositary started providing services to professional securities market participants, which have a brokerage license.

The Depositary pays special attention to the support of the issuers' corporate actions and to the disclosure of reliable and complete information on the issuers, registrars and securities. Last year, the Bank further developed its information disclosure system accessible via the Bank's website, which allows our clients obtaining real-time information about securities, significant events, and corporate actions.

## ■ ■ ■ RETAIL BANKING

*The Bank considers retail banking as an independent segment of the banking market, which significantly extends the customer base and yields a stable income.*

In 2003, the Bank established a Retail Banking Department with a view to putting in place a single mechanism that would allow an efficient and consistent implementation of the retail banking development policy. The RBD has the following priority tasks: to develop and introduce new retail products, including a full range of retail lending services; to disseminate the Bank's retail services in regions on a wide scale; to conduct marketing studies and research; and to find new approaches to selling the retail banking package.

The first six months of the Department's operation confirmed that the development direction of the new activity had been selected correctly. The RBD achieved all major performance targets: bank card issue, profitability and efficiency of retail transactions, and the level of household deposits.

In view of an increased confidence in the banking system among households and in order to extend its deposit scale, the Bank introduced a number of new deposit types in 2003, the Triple Deposit being most interesting among them. It is a combined deposit that

provides for a simultaneous placement of savings in three currencies: roubles, US dollars, and euros. The new multicurrency deposit increases the probability that the clients would protect their money against inflation and market shocks and get the highest possible profitability notwithstanding the unstable exchange rates of international currencies. The total amount of term household deposits taken in 2003 increased by almost 50% and exceeded \$100 million equivalent.

In late 2003, Bank ZENIT approved the Private Lending Programme, which assumed the development, introduction and efficient use of new lending products: mortgage loans, car purchase loans, and consumer credits, including those using plastic cards. The new lending products would be offered to the general public in 2004.

In 2003, pursuant to its retail banking development strategy, the Bank continued to provide retail services through the Directorate of Private Banking (DPB) whose operation was oriented to further extension of the customer base, the development and introduction of new financial products and services for well-off clients, and a higher-quality comprehensive support of the clients' financial transactions in compliance with the best international standards of Private Banking.

In the reporting year, special emphasis was made on the regional development of the DPB business, and, to that end, the Directorate established a separate Regional Development Unit focusing on the organisation of the operation of the respective structural units at the Bank's subsidiaries. All Bank subsidiaries organise the operation of the Private Banking Units pursuant to the DPB's private banking guidelines.

The most important achievement among the DPB's major performance indicators in 2003 (including the performance of the DPB units at the subsidiaries) is a more than 40% growth of the customer base relative to the preceding year, and an almost twofold growth of the liabilities which exceeded \$85 million by the year end.

Improved lending procedures and technologies developed by the DPB in the reporting year, and the actual adaptation of lending products to the DPB clients' needs allowed a significant (almost 2.5 times) extension of the Directorate's loan portfolio which is mostly composed of long-term mortgage loans secured by highly liquid assets, including elite real estate.

Acting within the framework of the Bank-wide plastic product development and improvement programme, and taking into account the requirements of its clients, the DPB initiated the signature of respective agreements with American Express in 2003 and started selling elite cards American Express Centurion, as well as American Express cards denominated in euros.

Fiduciary management of the clients' assets in the securities market was developing rapidly in 2003 as one of the key activity areas of private banking. Improved private management technologies, a high-quality analytical support by the Bank's profile units, and a wide range of investment declarations offered to the clients with due regard for their investment interests, enabled the DPB to increase the total fiduciary management portfolio of private assets almost 20 times while their profitability for the clients was much higher than the profitability of bank deposits. The annual fees charged for the fiduciary management of the clients' assets were a good addition to the fees charged for retail transactions.

## VERA VASILYEVNA ZAKHAROVA



Born on August 23, 1929 in Leningrad. Lived in Leningrad during the siege in 1941-1943. After the war worked at Leningrad merchant port.

HER SON-IN-LAW  
STANISLAV PASHCHENKO



is Deputy Board Chairman who is responsible for the Clients' Department, regional development issues and the Retail Banking Department.



## AIR RAIDS

When the war broke out I was not even 12 years old, a mere child yet. The enemy bombed Leningrad terribly already in the very first months of the war. And we children were very foolish, of course. During the air raids instead of hiding in the shelter we would run out into the street and watch the planes fly and the bombs fall. We would look and see the planes fly — a dozen of enemy ones and one of our own. We called our planes primus burners because they would buzz like burners. Later adults organized us to collect fragments and extinguish incendiary bombs. We would be on duty at the gate or in the yard but mainly on the roof. We would run, throw sand and pour water on the bombs. Now when I recall those days I remember them as fun, it was like a game. Things became truly terrifying later when the siege began.





## SIEGE. STARVATION

There was nothing worse in my life than the siege of Leningrad when one's near and dear ones were dying a painful death in front of one's eyes and one didn't know whether one would survive or not. We made stew from carpenter's glue that was sold in blocks at the gasoline shop as we called household goods' stores those days. In spring we would eat grass that grew along Obvodnoi channel. You would walk along the river bank and see all the grass grazed. When a food warehouse with sweets and sugar went on fire at the very beginning of the siege we collected the sweetened earth there, soaked it in water and then drank that sweet water. I also remember that there was some white substance that was called cottage cheese but people said it was made from peat. And I was surprised: «How is it possible — peat is black and this cottage cheese is white...» But for the glass of sunflower seed oil which Mother brought from somewhere, all of us would have died. We would dip a piece of bread in it and suck it. Some people would lose everything human in them. I saw a man snatch a bread ration from a woman who had just collected it and immediately shove it into his mouth. He kept on chewing even though people around started beating him. When we were evacuated, taken across Lake Ladoga, we saw food for the first time after the siege. There were field kitchens there and some people started eating and could not stop and died of overeating.



To diversify the fiduciary management instruments, reduce the investment thresholds, optimise the costs for the bank and the client, and create conditions for a more flexible management of the clients' investment structure, the Bank, acting on the initiative and with the participation of the Directorate, established General Bank Management Funds Universalny and Dokhodny at the end of 2003; their investment declarations pursued the best possible (from the Bank's viewpoint) private investment strategy in the Russian financial market. The fact that the fund portfolios increased rapidly to more than \$2.5 million equivalent during the first month of the operation reflected a high depositor demand for such instruments.

Long-term investment instruments proposed to the clients by the DPB in 2003 included the so called «investment in precious metals», which required the opening of «metal» accounts, and allowed investment in precious metals without a physical delivery, and generation of additional profits when traditional financial markets are unstable.

To extend the range of non-traditional investment and taking into account the interest expressed by the clients, the DPB was making much effort in 2003 to develop sale technologies for financial products and services in the sphere of «beautiful investment», i.e. fine art items, antiquities, automobile and wine collections. Based on the established infrastructure, the DPB was able to provide respective consulting and organizational support to the clients even in 2003.

The DPB activities in 2003 indicated that financial consulting is a core of private banking, which is based on long-term and mutually beneficial co-operation between the clients and the Bank, and can be considered as one of the most demanded and profitable activity in the private banking sphere. Financial and tax planning services, and consultations on issues such as civil and family law, insurance, pensions and currency regulation enjoyed the highest demand among the clients in the reporting year.

To strengthen co-operation with foreign financial institutions in the private banking sphere with a view to further internalisation of the DPB services and the extension of the range of proposed financial products using the products and instruments of foreign financial markets, the Bank established long-term business contacts with lead foreign banks in 2003, including Commerzbank, Dresdner Bank, Credit Suisse, and HSBC, as well as consulting companies and solicitor bureaus. In mid-2003, Bank ZENIT joined the International Association of Private Banks (London), which opened up new vistas for the DPB as regards a more efficient integration into the international private banking market.

Summing up the DPB operation in 2003, one may state that private banking has become one of the key retail business activities for Bank ZENIT.

## ■■■ TRANSACTIONS WITH PLASTIC CARDS

*Taking into account a growing demand among households, Russia's huge potential for non-cash payment increase, and a significant interest in the regional markets, the Bank defined the growth of plastic card transactions as a retail business priority for 2003.*

After the commissioning of the in-house processing centre in late 2002, all Bank ZENIT points-of-sale were gradually transferred to the acquiring via the Bank's own terminals, and their total number increased by 100 new points in 2003. To improve the techno-

logical efficiency of plastic card use by purchasers to pay for goods the Bank combined plastic card readers with cash registers at points-of-sale. It installed 16 ATMs in Moscow and regional subsidiaries in 2003. Thus, by the end of the reporting year, the Bank's acquiring network included 30 ATMs, 80 cash points, and 300 POS. The Bank is planning further extension of the ATM network in 2004.

In 2003, the Bank doubled the issue of bank cards belonging to international payment systems, as a result of which the Bank's total issue almost reached 40,000 cards. Compared to 2002, the issued card turnover increased by 45% and amounted to \$64 million. The Bank's total acquiring turnover increased by 55% in 2003 and amounted to \$70 million, including \$13 million in non-cash acquiring.

As an official Principal Member of VISA International and MasterCard International and the owner of a processing centre, Bank ZENIT offers co-operation to commercial banks with a view to developing the retail infrastructure of plastic cards and extending the range of products. In 2003, the Bank signed 10 agency agreements; and in December, it successfully completed the first project whereby a partner bank sponsored by Bank ZENIT joined VISA International.

In late 2003, ZENIT initiated a procedure to be certified by VISA International for chip card issue. The Bank intends to start issuing Visa Classic and Visa Gold chip cards on a mass scale in 2004, which would allow extending the range of services and business solutions for both card holders and the Bank's partners. A major advantage of the new card is a higher safety of non-cash card payments due to the use of microprocessor technologies, and an opportunity to place additional functional applications in the card memory to implement various loyalty programmes.

In summer 2003, ZENIT became an official member of STB CARD, which allowed a significant extension of the range of services provided by the Bank: it arranged for the acceptance of STB and Union cards in the commercial network, and is now making final arrangements to allow the acceptance of Diners Club and AmEx cards.

Since October 2003 the Bank's clients have been using MasterCard and Maestro plastic cards whose card accounts are maintained in euros. Such cards enable the holders to avoid conversion losses when making settlements in the EU.

As an additional service, Bank ZENIT offers a card transaction notification by SMS messages sent to the holder's mobile phone, which allows on-line monitoring of withdrawals from the account by the client when he/she makes card payments for goods and services.

The above achievements make it possible to predict further successes in this business area and Bank ZENIT becoming one of the most proactive participants of the retail banking market in Russia.

## ■■■ CURRENCY CONTROL

*The Bank's major principle as a currency control agent is to prevent potential violations of the currency legislation. To that end, the Bank's currency control experts closely interact with the clients who participate in foreign trade activities and the partner banks advising them on the entire range of legal issues in the currency control and customs sphere, and holding work-*

*shops on topics of interest. Due to that, the Bank's clients have no difficulties in conducting any foreign trade transaction.*

Bank ZENIT has permanent contacts with the currency control authorities and participates in working groups involved in the development of documents relating to the currency legislation. In 2003, the Bank repeatedly submitted its opinions on a few versions of the new draft Federal Law on Currency Regulation and Control, and made several proposals to the Association of Russian Banks and the Government of the Russian Federation.

***In 2003, the Bank executed the following passports of deals:***

- » *Exports: 492 passports totalling \$1.88 billion;*
- » *Imports: 801 passports totalling \$947.4 million.*

## ■ ■ ■ TRANSACTIONS WITH THE BANK'S VEKSELS AND DEPOSIT CERTIFICATES

*In 2003, in view of the increase in the Bank's active transactions, number of subsidiaries, clients and counterparties interested in the Bank's services, Bank ZENIT focused on establishing a sustainable liability framework by investing free funds in its vekseles and deposit certificates.*

The mean balance of the Bank's debt instruments in 2003 exceeded RUR3 billion and \$25 million, which outperformed the 2002 indicator by more than 30%. The total amount fund raising transactions exceeded RUR9.2 billion and \$113 million, increasing more than 1.9 times relative to the preceding year. The Bank put 3,300 securities into circulation, and the number of the counterparties working with the Bank's vekseles and deposit certificates reached 200. The counterparties include large companies operating in the petrochemical and car industries, construction entities, military complex enterprises, as well as financial institutions such as banks, insurance, investment and management companies.

Following its tradition and parallel to the establishment of the liability framework, the Bank paid much attention to extending veksel loans to companies and their dealers and counterparties with a view to financing end product marketing and settlements with suppliers. The total amount of such transactions exceeded RUR980 million in 2003 (a 29% growth relative to 2002).

The Bank organised and maintained the secondary market of its vekseles by placing the vekseles in the securities market; conducted early buy-back operations; and extended loans against the pledge and repurchase of its own vekseles (REPO deals). The level of such operations increased 1.6 times during the year and amounted to RUR728.5 million.

In 2003, the Bank organised veksel circulation for various industries, taking into account the individual peculiarities of their business, including the optimisation of the financial flows of the Bank's clients and counterparties, settlement of arrears, construction of settlement schemes and chains, and issue of guarantees and warranties using the Bank's vekseles. The respective turnover within the framework of comprehensive case-by-case projects implemented for the Bank's corporate clients exceeded RUR2 billion in 2003.

Parallel to the organisation of veksel programmes for its clients, Bank ZENIT was

proactive in offering domiciliation services in respect of the clients' veksel. The total amount of the clients' veksel redeemed by the Bank under domiciliation agreements in 2003 was RUR975 million.

Bank ZENIT attracted \$7 million from its Western counterparties and invested the money in its veksel under the foreign trade contract funding programme.

In general, it may be noted that there was a significant increase in the operations with the Bank's debt instruments in 2003 due to a close interaction between the Bank and its clients and counterparties, an increased number of the counterparties, and the Bank's proactive position in maintaining the liquidity of its own debt instruments in the financial market.

## PYOTR ANISIMOVICH PASTUSHENKO



Born on December 22, 1923 in Vitebsk region. Truck and tank driver. Captain by the end of the war. After the war worked at the car repair department of the Moscow city administration advancing from driver to production chief.

**War-time decorations:**

Order of the Red Star.  
Orders of Patriotic War, 1st and 2nd Classes.  
Medal of Courage.

HIS GRANDSON  
DMITRI  
PASTUSHENKO



is Deputy Chief Accountant who is responsible for book-keeping and tax planning.



### LET'S HAVE A SMOKE!



I was a truck driver for a long time during the war. We used to have long convoys consisting of several hundred vehicles. We would transfer troops from one place to another. We would be driving round-the-clock with almost no sleep, so we were sleepy all the time, on the verge of dozing off behind the wheel. Once we drove for a very long time and the journey was so monotonous that I almost fell asleep and by sheer miracle did not collide with the truck in front of me. I woke up literally at the very last moment. After that experienced drivers advised me to start smoking. And they were right. When my eyes started closing by themselves, I would immediately have a smoke and driving would seem easier.





### WAR-TIME VARIETY SHOWS

It was a real treat for us when performers would come to the frontline: the singers Leonid Utyosov and Klavdia Shulzhenko and various film actors. A platform truck would be prepared for them, its sides folded down making a high stage. The microphones would be brought and loudspeakers turned on to full volume because thousands of soldiers and officers would get together. They listened to the performers, sang and danced themselves. It raised our spirits greatly. And when the enemies would hear that we were so happy and enjoying ourselves they got very angry and started shooting. But, of course, we were too far away from them and the bullets would not reach us. However, if there was an air raid, an air alarm would be sounded and the performers would go into hiding at once. And when the raid would be over, the concert would resume.

# 4

## DEVELOPMENT DYNAMICS OF THE BANK'S OPERATIONS

1 2 3 4 5 6 7 8



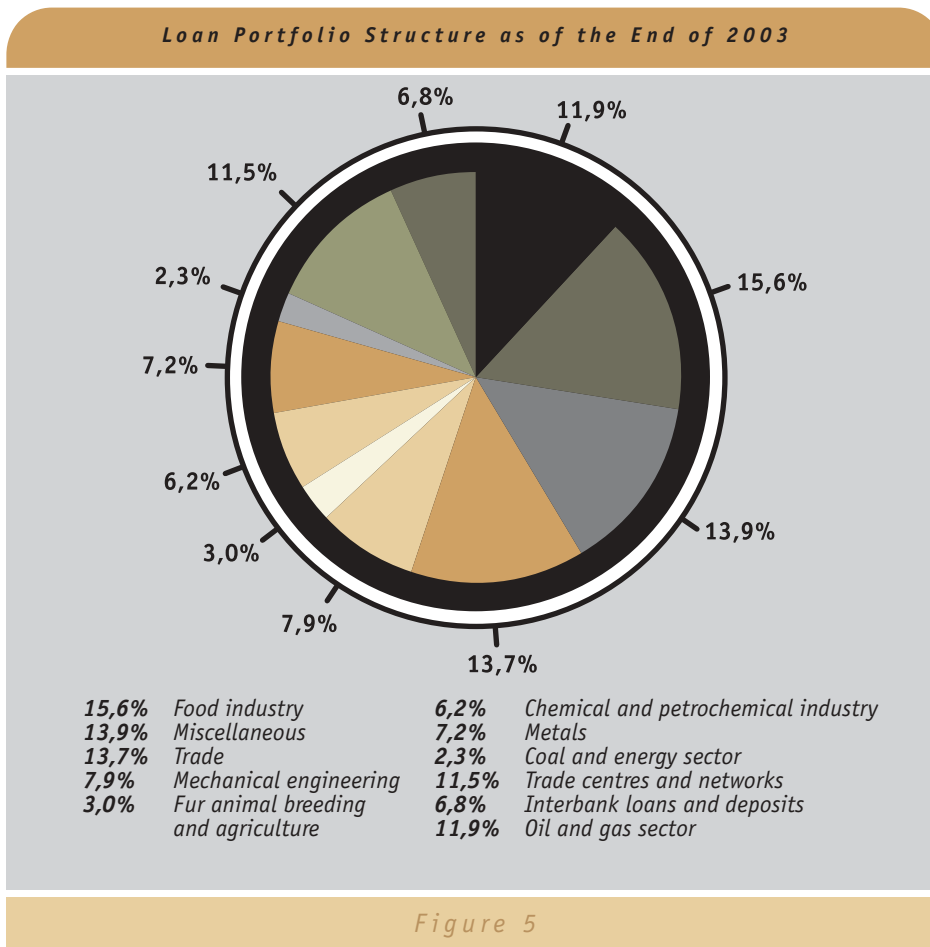
part four

## LENDING TRANSACTION

*Real sector funding is the Bank's strategic priority.*

Net loans to customers increased by 32% in 2003 and exceeded RUR20 billion as of the year end. The figure includes loans to legal entities in the non-banking sector which increased by 42% amounting to RUR17.5 billion. The annual income from the lending operations increased by 36% relative to 2002.

The above outcome was accounted for by a consistent client-oriented position of the Bank. The clients used additional lending products and services in 2003 as a result of which the Bank increased lending limits for many of its borrowers. Pursuant to its lending policy, the Bank established financial partnership relations with more than 90 new clients: large Moscow-based and regional companies operating in the mechanical engineering, coal, chemical, metal and light industries.



In 2003, special attention was paid to financing food producers, trade companies and catering facilities. The largest trade companies were offered joint trade network development projects, inter alia, in regions.

The funding of regional clients under the Regional Development Programme almost doubled, which ensured a geographic growth of the Bank's share in the lending product and service market. The result was achieved through the identification of the best possible range of products with due regard for regional peculiarities, and the revision of lending limits independently managed by the Bank's subsidiaries.

The Implementation of the Bank's Regional Development Programme was not confined to financing the clients of the operating subsidiaries. The geographic diversification of the loan portfolio assumes loan extension to borrowers in regions where the Bank has no offices or subsidiaries, as well as the monitoring of new regions with a view to extending the network of subsidiaries following a detailed analysis of the customer base and the local market of banking services.

Throughout the year, the loan portfolio remained optimally diversified in terms of money investment, currency and maturity structure. In 2003, emphasis was made on the financial and legal security of the loan portfolio, which allowed the minimisation of the Bank's credit and other risks.

***The Bank's major activities relating to corporate client funding:***

#### ■■■■ PROJECT FINANCE AND INVESTMENT LENDING

*Funding investment projects relating to the establishment of new production facilities, or reconstruction, refurbishment or extension of existing production facilities in Russia is an important and rapidly developing activity sphere for Bank ZENIT.*

Investment lending increased by 70% in 2003 and exceeded \$180 million equivalent by the year end. In 2003, the Bank financed over 30 investment projects in different sectors, including 4 projects that were implemented using conditional funding from the West. The largest projects included: the establishment of a SPAR supermarket network; the construction of Grand-2 Furniture Centre; and the construction of the Lesnoy Terminal customs warehouses.

In 2003, the Bank developed and put in place new procedures to interact with leasing companies. Leasing project funding increased by 90% over the reporting year and reached \$22.5 million. The Bank financed over 130 deals in excess of \$10 million under the vehicle leasing programme and the small leasing project funding programme taken alone.

While further developing the project finance activity in 2003, Bank ZENIT introduced new funding schemes for complicated investment projects of its clients using a wide range of banking instruments and financial services.

#### ■■■■ TRADE FINANCE AND DOCUMENTARY BUSINESS

*The demand for trade finance and documentary transactions increased significantly among the Bank's clients in 2003. It is light and food industry producers and traders, and large enterprises willing to import equipment with a view to refurbishing and/or extending their production facilities that are the most active users of the Bank's documentary lending products.*

The funding of the clients' export/import transactions using documentary instruments (guarantees and LOCs) within the limits opened by foreign banks remained one of the most demanded activities in the documentary business in 2003. The total amount of issued LOCs was \$76 million, with over 70% of the LOCs issued using credit lines opened for Bank ZENIT by Western banks.

The annual amount of issued guarantees exceeded \$152 million, including \$125 million of guarantees for the benefit of the SCC, which is 30% higher than the preceding-year indicator. Besides, the amount of the Bank's guarantees/warranties issued for the benefit of tax authorities to allow excise tax reductions for exported oil products increased by 32% relative to 2002 and exceeded RUR873 million.

In 2003, the Bank started working with Western export agencies. It implemented a project covered by KUKI export insurance agency (Poland), which allowed raising \$7 million for 5 years to be further used for the construction of customs warehouses. The project is financed by ING Bank Slaski (Poland).

The Bank resumed the financing of tool and machinery supplies to Iraq under the UN-sponsored Oil for Food Programme.

In 2003, Bank ZENIT received new documentary credit lines from BBVA, BNP Paribas (Geneve), and Finansbank N.V.; it should be noted that the majority of the correspondent banks increased the available limits. Compared to 2002, conditional funding of export/import transactions using documentary instruments and targeted resources within the limits opened by foreign banks increased by 42% totalling \$63 billion.

### ▣▣▣ WORKING CAPITAL LOANS

Working capital lending remains the most significant activity for the Bank in terms of investment level and, hence, gross income generated. During the reporting year, the working capital funding increased by 50%, on the average. In 2003, preference was given to the financing of food, metal and mechanical engineering industries. Loans to metal companies increased 2 times; the share of loans to mechanical engineering companies increased by 85%; and working capital loans to food producers, agricultural product processing companies and food importers exceeded \$90 million equivalent as of the year end.

### ▣▣▣ SECURITIES TRANSACTIONS

*In 2003, Bank ZENIT, as one of the securities market leaders, pursued a strategy featuring the optimal investment yield/acceptable risk ratio, which took into account the interests of the Bank's clients to the largest possible extent.*

#### **Rouble-denominated Fixed-income.**

In 2003, Bank ZENIT, acting as a project manager, took an active part in debt fund raising for a number of Russian regions and largest companies.

Within that framework, the Bank participated in 17 issues of rouble-denominated corporate bonds exceeding RUR 19 billion (at par value), acting as a project manager, co-manager and underwriter. In particular, the Bank assisted in placing the bonds issued by OJSC Tatneft, OJSC Nizhnekamskneftekhim, Razgulay UKRROS Group, OJSC

## NIKOLAI ANDREYEVICH CHERNOV



Born on February 9, 1925 in Stavropol. Graduated from the M.V. Frunze Military Academy. Instructor at the M.V. Frunze Military Academy. Military consultant, Candidate of Military Sciences.

**War-time decorations:**

Three Orders of the Red Banner.  
Three Orders of the Red Star.  
Orders of Patriotic War, 1st and 2nd classes.

HIS GRANDSON  
ANDREI ZVYAGIN



is section chief at the Clients' Department who is responsible for services to fuel and energy companies.



## OFFICERS' PARTY

I was fast making my military career. I had not turned 20 when I was promoted to the rank of captain. And I got into a mishap the very day when my promotion order came. I decided to celebrate my new rank with my comrades-in-arms. Several of us got together and then one of our scouts got out an enormous bottle of home-made vodka and honey in combs as a snack. We drank and partied properly. And in the morning I was taken to the SMERSH special unit. It must be added that we had just received orders not to take anything from the local population (we were in Soviet territory then): no money, food or things. Punishment was severe. SMERSH officers asked me where the vodka and honey had come from. I kept mum saying I did not know. I did, of course. They said to me: «If you won't say, we will think that it was you who robbed the local population.» I did not give betray my friends and was held responsible for everything: I was stripped of all my ranks and decorations and sent to a penal company. But it must be said that everyone at the intelligence unit of our army knew everything and I was deeply respected for assuming the entire responsibility. Later I asked the guy who had brought the vodka where he had taken it. He said he had simply exchanged it for canned food in the village. It was true though that he had taken the honey from a nearby bee garden without permission so there had been a case of stealing.





## CODE OF CONDUCT

Scouts always had their own code of conduct that sometimes even contradicted army regulations. I remember one case. I had just finished training courses for scouts, got the rank of lieutenant and received an assignment. The privates in the platoon where I was appointed commander were older and had greater military and life experience. And I was very young, I had not seen the war properly but was appointed their commander. The very first time when we were given orders to take a prisoner for interrogation I told my subordinates: «You, you and you will go with me on a mission tonight.» Suddenly one of them refused to go. I was simply shocked — disobeying the orders of a commander! I got nervous and started threatening the man and accusing him of cowardice. He turned his face away and repeated: «I won't go tonight!»

Then the oldest and most experienced of my soldiers came up to me, took me by the shoulders and said: «Let's step aside.» Well, we did and he whispered me in the ear: «Calm down! All the guys here are brave but you are a novice and don't know many things. Scouts have their own rules. If a person says, he won't go, it means he has a premonition. And in intelligence intuition is the main thing. Leave him alone and he will be as good as two men tomorrow!» By the way, later I learned from my own experience that it is not accidental that scouts had their own code of conduct.

Salavatnefteorgsintez, Tinkoff Private Company, Moscow-based Ochakovo Brewery, OJSC Tatmetall, KARAT Works, Soyuz Factory, and OJSC KAMAZ.

The Bank continued to take an active part in the issue and placement of subnational and municipal bonds. Thus, the Bank acted as a co-underwriter for bonds issued by the Sakha (Yakutia) Republic Administration, (RUR1 billion) in addition to the traditional issuers such as Moscow City and Saint Petersburg (in 2003, they placed over RUR26 billion).

The corporate bond market reached a record high level in 2003. As one of the principal participants of the secondary market which actively supports the market liquidity, Bank ZENIT placed fifth in the MICEX list of the lead operators in the corporate bond secondary market.

According to the survey conducted by reputable agency CBONDS.ru, the Bank's analytical studies of the corporate bond market were recognised as best in Russia for the second year running. The Global Finance rated the Bank's analytical unit as the best one in Russia in the Best Domestic Debt Market Analysis category. In 2003, the yield of the model portfolio of corporate bonds was about 35% p.a. (almost 15% higher than the market average). The model share portfolio also showed a better-than-market dynamics.

To help its clients better cope with the information flow the Bank's analytical unit offered new analytical products: indices of the domestic debt market, and daily reviews of rouble-and currency-denominated fixed-income. The analytical reviews were regularly published by lead media such as The Securities Market and The Expert, The Vedomosti newspaper, etc. That allowed a significant expansion of the Bank's customer base.

#### **REPO Transactions.**

*In 2003, Bank ZENIT continued to develop refinancing operations collateralised by securities.*

REPO transactions were conducted according to different schemes, depending on the preferences of the Bank's partners:

- » Establishing covered limits for counterparty banks collateralised by the shares of Russian issuers, currency- and rouble-denominated debt instruments;
- » Extending interbank loans collateralised by securities (such arrangement is structurally similar to collateralisation schemes based on the English Law);
- » Prepaid sale/purchase transactions;
- » Classic REPO transactions based on ISMA agreements used under the English Law.

In 2003, the Bank continued its close co-operation with the lead European REPO market operators. Its major counterparties include Citigroup (London), Credit Swiss First Boston (London), Standard Bank (London), Raiffeisenbank Austria (Vienna), Donau Bank (Vienna), etc.

#### **Transactions with Hard Currency Fixed-income.**

*Participation in the issue and placement of Russian corporate Eurobonds was and remains one of the Bank's major activities in the debt finance market. Thus, the Bank participated in the Eurobond issues of Uralsib Bank and Gazprombank as a co-manager.*

The Bank's high competitiveness in the international market and a competent pricing policy allowed a significant extension of its customer base in 2003, which made it

possible for the Bank to become more active in the European fixed-income market. According to the Western counterparties, the Bank is among ten largest operators of the Eurobond secondary market and five largest operators of corporate Eurobonds among Russian banks.

#### ***Domestic Equity Transactions.***

*In 2003, the Bank strengthened its position in the domestic equity market. During the year, it achieved the following results in that segment of the financial market:*

- ➔ Mutual limits were established with a number of Western companies, which transact trade deals with Bank ZENIT using depositary receipts;
- ➔ The Bank intensified the depositary receipt trade in the International Order Book (LONDON OTC) and NYSE (New York Stock Exchange), which allowed improving the instant liquidity of the portfolio;
- ➔ The Bank significantly extended trade limits for existing counterparties due to the increased trade turnover;
- ➔ Diversification improved the quality of the equity portfolio;
- ➔ The Internet trading system was constantly developing and improving; in particular, the customers were given an opportunity to conduct transactions in the term market. As a result, the amount of customers' transactions increased almost threefold while the customer base doubled;
- ➔ Continuous efforts made by the Bank to improve the quality of customer service in the over-the-counter securities market enabled the Bank to extend its customer base, which increased the turnover of the Bank's RTS transactions 1.8 times. Bank ZENIT placed among 20 most active companies and 10 largest banks by the amount of the RTS trade turnover.

#### ***Transactions with Veksels Issued by Third Parties.***

*In 2003, the total amount of veksels transactions exceeded RUR20 billion. Investment efficiency was over 16% p.a. while the mean veksels market yield in 2003 did not exceed 11% p.a.*

The Bank's customers — primarily financial companies, pension funds and insurance companies — accounted for a significant share of all veksels transactions.

## **▣▣▣ TRANSACTIONS WITH FOREIGN CURRENCIES**

*A competent client service policy and favourable international energy prices accounted for a 20% growth of clients' conversion transactions compared to 2002.*

There was a further growth of arbitrage activities whose turnover increased by 60% while the profit doubled. The commencement of currency derivative operations at the SPCEX, which had been preceded by intensive preparatory work, was a significant achievement. As a result, the Bank is now able to perform currency derivative operations for its own needs and at the request of its clients for both speculative and hedging purposes.

## ■■■ CORPORATE FINANCE

*The consolidation of large blocks of Russian companies' shares within the framework of brokerage agreements has traditionally enjoyed a high demand among the Bank's clients. In May 2003, the Bank, acting in the interests of its clients, successfully completed the consolidation of the blocking shares of Russia's largest light engineering company OJSC LISMA.*

In 2003, the Bank implemented a number of large projects involving the provision of funds for A&M deals. The Bank provides a wide range of investment banking services under such projects, including financial consulting, intermediation, representation, partial or complete financing of deals, etc. In June 2003, the Bank successfully completed a deal whereby one of the Bank's clients (Planeta Group) acquired the controlling block of shares of Russia's largest pig breeding farm OJSC Ilyinogorskoye. The Bank acted as a financial adviser and manager of the deal, and provided the client with \$25 million.

## ■■■ ISSUE OF THE BANK'S SECURITIES

In June 2003, the Bank successfully placed its 3-year Eurobonds totalling \$125 million. The bonds were placed at 9.25%, which made the placement one of the best Eurobond issues among Russian banks. The bonds were listed at the Luxemburg Stock Exchange and were traded above the par value at the end of the year.

## ■■■ TRANSACTIONS WITH CLEARING CURRENCIES

*Bank ZENIT is one of the largest operators in the market of clearing currencies used for the repayment of sovereign and commercial loans extended earlier by the former USSR and Russia, and for current settlements with a number of countries for equipment, machinery and tools supplied earlier thereto. The total amount of transactions with clearing currencies in 2003 (first and foremost, settlements with India) exceeded \$62 million equivalent.*

Bank ZENIT provides a full range of services to clients interested in using clearing currencies for settlements with their counterparties under foreign trade contracts, or in selling their export revenues in clearing currencies.

The list of such services includes: the opening and administration of accounts in clearing currencies; the implementation of documentary transactions; pre-export funding; loan extension for imports to Russia of both traditional Indian consumer goods (tea, coffee, spice, rice, tobacco, pharmaceuticals) and industrial raw materials, chemical industry products, TV tubes, etc. The Bank has established mutually beneficial business contacts with many industrial companies which generate revenues in clearing currencies (including defence industry enterprises), as well as with a number of foreign and local purchasers of goods from countries that participate in the settlements and can be, therefore, considered potential buyers of clearing currencies.

Our Bank is one of few Russian commercial banks which has established all necessary infrastructure facilities for maintaining current accounts in and conducting transactions with the clearing currency «US dollars for settlements with China under the 1995 Agreement» (Code A50), which is used in Russian-Chinese co-operation in the military

technology sphere. Bank ZENIT has opened a special correspondent account with the Bank of China, and a correspondent account in the said currency with Vneshtorgbank.

As the conditions of transactions with clearing currencies depend on public regulation and intergovernmental agreements, the Bank has established good permanent contacts with the Russian sections of the intergovernmental commissions for trade and economic co-operation with India, China, Vietnam and other countries. The Bank's representatives are closely involved in activities conducted by the Interbank Co-operation Working Groups of the Central Banks of these countries and the Russian Federation, as well as in actions taken within the framework of the Asian Pacific Economic Cooperation (APEC) Forum.

Bank ZENIT has a well-developed network of foreign correspondent banks. In addition to the largest banks from the USA and Western Europe, the Bank has correspondent relations with the largest banks of **India** (Deutsche Bank, New Delhi, Canara Bank, IndusInd Bank, ICICI Bank Ltd.), **Iran** (Bank Melli), **Jordan** (Jordan National Bank), **China** (Bank of China, Industrial and Commercial Bank of China, Construction Bank of China, Agricultural Bank of China), **UAE** (National Bank of Abu Dhabi), **Vietnam** (Vietcombank, Industrial & Commercial Bank of Vietnam, Military Bank, Asia Commercial JS Bank, Vietnam Bank for Agriculture & Rural Development), **Egypt** (National Bank of Egypt, Bank of Alexandria), **Thailand** (ExImBank, Thai Military Bank), **Malaysia** (Hong Leong Bank Berhad, Public Bank Berhad), **Indonesia** (PT Bank Central Asia), and **Brazil** (Unibanco).

Relying on its qualified staff and long history of international operation support, Bank ZENIT advises its clients on the issues of foreign trade activity, directly participates in the development of foreign trade projects, and assists its clients in establishing business contacts with the official and business circles of other countries.

## ▣▣▣ TRANSACTIONS WITH PRECIOUS METALS

*In 2003, Bank ZENIT sold over 16 tons of gold. More than 12 tons of gold were exported to Switzerland, England, and UAE.*

The Bank's turnover under the metal accounts with foreign banks exceeded 127 tons of gold in 2003.

In 2003, Bank ZENIT successfully completed a programme that envisaged fund raising among Western banks to obtain funds for seasonal lending to its clients/gold production companies. As a result, the gold production companies received over \$10 million from foreign banks. The total funding of gold production companies in 2003 was about \$15 million.

# 5

## REGIONAL DEVELOPMENT

1 2 3 4 5 6 7 8



part five

## DEVELOPING THE NETWORK OF SUBSIDIARIES

*A sustainable growth of the performance indicators of Bank ZENIT subsidiaries was a general confirmation of the expediency of further development of the regional network.*

Total assets of the Bank's subsidiaries as of the end of 2003 exceeded RUR6.48 billion, on the average, which is 67.6% higher than at the beginning of the year.

Bank ZENIT, as a universal financial institution, provides a full range of banking services to regional enterprises and organisations, promotes the introduction of modern banking technologies, helps local administrations implement real sector development programmes and attract investment.

The Bank extended strategic co-operation with coal and energy sector enterprises within the framework of its regional development in 2003.

The amount of loans extended throughout the regional network as of 31 December 2003 was RUR4.74 billion, which exceeds the figure for 2002 by 79.3%. Taking into account loans extended by the Bank in regions where it is now working to establish regional structural units, the regional loan portfolio exceeded RUR5 billion.

The amount of corporate clients' funds attracted, on the average, throughout the regional network exceeded RUR2 billion as of the year end, which means a 23.55% growth. The total number of corporate clients involved in the operation of the network increased by 29%.

Apart from their traditional relations with large regional corporate clients, the subsidiaries worked with household deposits, which was the activity that the subsidiaries continued to develop throughout the year. The total amount of household deposits exceeded RUR1.27 billion, which is 32% higher than in 2002.

The aggregate amount of clients' funds as of the year end was RUR 3.37 billion (an increase of 27.7% relative to the year beginning).

In 2003, the Bank continued its co-operation with the regional administrations, and implemented a number of successful projects with the participation of the Kemerovo, Kursk and Tula Oblasts, as well as Tatarstan and Altai Republics.

Bank ZENIT initiated and held an International Workshop on the Development of Documentary Transactions and Harmonisation of Russian and International Trade Customs, which took place in Kazan. The Organising Committee was chaired by Tatarstan Prime Minister Mr. R.N. Minnikhanov.

Pursuant to the approved Regional Network Development Concept, the Bank opened 2 new subsidiaries in Nizhny Novgorod and Rostov-on-Don, and additional office City Centre in Kazan. Thus, Bank ZENIT has the following geographic structure of its regional units:

- ⊙ Almet'yevsk;
- ⊙ Nizhnekamsk (additional office of the Almet'yevsk Subsidiary);
- ⊙ Kazan (additional office of the Almet'yevsk Subsidiary and resident mission);
- ⊙ Saint Petersburg;
- ⊙ Gorno-Altai;

- ⊙ Kemerovo;
- ⊙ Kursk;
- ⊙ Nizhny Novgorod; and
- ⊙ Rostov-on-Don.

In 2004, the Bank intends to open subsidiaries in Samara, Chelyabinsk, Novokuznetsk, and a number of other large regional centres throughout the Russian Federation.

### ■■■ ARRANGING FOR THE OPERATION OF ADDITIONAL OFFICES

*In 2003, the Bank made further steps to develop and extend the network of remote units in the Moscow Metropolitan Region.*

Pursuant to the Bank's strategy designed to enhance its influence in the Moscow Metropolitan Region and with a view to moving banking services closer to the customers and creating the most favourable service conditions for the clients, the Bank established new additional office Dobryninsky in late 2003. The office is located at 7 Pavlovskaya Street, Moscow. The new unit provides a full set of banking services to both legal entities and individuals, and has a storage vault for clients.

Throughout 2003 the Bank continued to organise a special network of remote units in Moscow City car salons and large trade centres to meet the needs of large corporate clients to the best possible extent, optimise the service time, and diversify payments for goods and services.

It completed a network consisting of an additional office and 5 operational cash offices outside the cash unit, which are located at the car salons of the Kuntsevo Vehicle Maintenance Centre. In addition to 10 operating remote units, the Bank opened 4 new remote units in Russia's largest furniture outlets (The Three Whales and Grand), and a new operational cash office outside the cash unit at one of the largest Moscow-based fitness centres (Kimberley Land).

A unified set of products and services, and operational technologies that meet modern requirements is a prerequisite for the operation of remote banking units. All additional offices perform on-line transactions during the Bank's operational day. Units located at points-of-sale have an extended working day without any days off.

## VERA IGNATYEVNA MUSINA



Born on November 8, 1935 in Smolensk. Lived under occupation in Smolensk region in 1941 through 1943. Went to school in Smolensk after the war. At the age of 18 started working as a cash machine operator at the State Bank. Combined work with studies at an extramural school of finance and economics.

### HER SON-IN-LAW MARAT TIMKIN



is a senior engineer of automation section at the Subsidiary in Almet'yevsk who is responsible for the operation of its computer network.



## UNDER OCCUPATION

Judging by our village I can say that the occupants were not so brutal with civilians. One soldier even brought bread and sweets to us children. Later we were told that he had children of his own. They treated partisans differently, of course. Two sisters who were suspected of being connected with partisans were beaten up to death. One young man, a partisan, was bitten to death by dogs. I remember how once they launched search for wounded partisans entering every home and turning everything upside down. We were hiding in the cellar. One soldier found us and threw off the lid of the cellar. We started coming out one by one and he was standing there with a grenade in his hand threatening to blast us. We thought we would die. Then someone called him, he turned his back and we ran away. When the enemies retreated they burned everything so that nothing would be left — homes, outhouses, gardens, cattle. The entire village was on fire. And then they drove young men, the stronger ones, and young women to Nazi Germany. Many of them never came back.

## RUSSIAN POLICEMEN

There were many policemen in our village like everywhere else. That is how we called the Russian villagers who collaborated with the enemies. Everyone hated them more than the occupants. And their parents were ostracized. Though some people were sorry for the parents, sympathized with them. But I think — why feel sorry? They should have brought up their children better so that they would not grow into traitors. I remember two neighbors. They had been great friends before the war and studied together. So one of them joined the partisans and the other the police. And the policeman gave away his partisan friend and the partisan was hanged immediately. Later most of the policemen left together with the occupants. That is understandable. They could not remain in the village otherwise they would have been killed immediately.



# 6

## IMPROVEMENT AND DEVELOPMENT OF BANKING TECHNOLOGIES

1 2 3 4 5 6 7 8



part six

*The establishment of a nation-wide universal bank has been the Bank's strategic priority since 2003. The Bank was developing management technologies within the framework of its updated strategy. Major results achieved in that area in 2003 are as follows:*

- ➔ Improved technologies for managing the Bank's growing regional network;
- ➔ Improved methodologies for credit and interest risk assessment and management; an improved limit structure of the Bank and a better on-line risk control system;
- ➔ A more efficient management of the Bank's assets and liabilities;
- ➔ A quicker preparation of financial and analytical information for the Bank's management;
- ➔ The introduction of instruments and tools for management function computerisation.

2003 was a benchmark for Bank ZENIT in respect of information technology development.

*The Bank commissioned a new computational centre at the headquarters. The centre is based on high-performance fail-safe servers and allows a consistent development of a computerised banking system under conditions of a continuous growth of the number of banking transactions and bank staff, and the development of the Bank's regional network.*

A high potential of the Bank's experts allowed a quick development of the information support software for the Bank's new product, OFBU. The software is logically based on the Bank's computerisation achievements in the field of accounting, document turnover, management accounting, and risk management.

The Bank designed unified software/hardware standards for its subsidiaries and additional offices. Its experts designed and introduced an automated banking system development and support technology for the Bank's network of subsidiaries, and procedures to collect and process analytical information from the subsidiaries.

In 2003, the Bank constructed an absolutely new infrastructure of the processing centre terminal network. The POS network grew from 10 to 300 points. Seven supermarkets are now connected to the Bank's processing centre via transactions concentrators that allow a high speed of clients' plastic card processing at the existing POS cash registers.

Our plans for future include the implementation of new tasks that envisage the improvement and development of management and information technologies designed to enhance the Bank's competitive advantages.

## GEORGY IVANOVICH MININ



Born on April 16, 1924 in the village of Borki, Lipetsk region. Graduated from the Dzerzhinsky Higher School of KGB. Served as a scout, later as a mortarman. After the war worked for the KGB reaching the rank of colonel.

**War-time decorations:**

Order of the Red Star.  
Two orders of Patriotic War, 2nd class.  
Medals for the defense of Moscow and Stalingrad.

HIS SON-IN-LAW  
VIKTOR ANDREYEV



is chief of the Department for Foreign Economic Projects who is responsible for the Bank's international projects, including transactions with clearing currencies.



### FIRST RECONNAISSANCE MISSION

I remember how we once took a prisoner for interrogation. I was not even 18 at the time. And, of course, I wanted to do something heroic. That night several of us joined the mission. Everything seemed to proceed normally. We took a prisoner and were returning to our own lines. We started crossing a river, not a river even but a deep dirty puddle in no man's land.

It was then that the enemy noticed our group and opened mortar and machinegun fire. Well, we fell into that dirty swamp and stayed still. We also dropped the prisoner to the ground, with his face in the dirty puddle as it turned out later. I fell on him so that he would not stick out or call for help. Neither did we want our own side to kill him. We needed the prisoner alive, only then he could be a valuable source of information. When the fire stopped, we noticed that the prisoner had choked with the mud and did not stir. I got so sore because I had failed to bring my prisoner alive to our lines. Then I saw that he stirred and started coughing. We hardly got him back to his senses.



## «BAPTISM OF FIRE»

I turned 18 on April 19, 1942. That very day we were crossing an ice-bound river. We had plenty of various heavy vehicles with us, of course. The ice was very thin because the winter had ended a long time ago. And I fell under the ice. Others helped me out, of course. They laughed and congratulated me on «the baptism of fire.»

The same night I tasted alcohol for the first time in my life celebrating having come of age. I had not drunk anything before. By the way, there was always vodka during the war or pure alcohol or homemade vodka. Warrant officers would always have some in store. The officers would get more, of course. After battle we would always get more drinks because of the killed and wounded. Their rations were divided between the survivors.



## MALINGERER

There would sometimes be cases of malingering. Not very often but sometimes. That is what you say when a serviceman wounds himself on purpose to get to a hospital and be later demobbed altogether. They hoped to stay alive that way, it was cowardice to put it in a nutshell. But often the result was the opposite because if anyone found out that it was malingering the man would be immediately sentenced to capital punishment and be executed in front of the lines. I remember that the chief of staff had an aide. A handsome tall healthy young man. We envied him because he was so handsome and striking, a true warrior. But then he took and shot his hand but so that the wound would not be dangerous. However, he had bad luck, other soldiers saw him do it by accident. So he was court-martialed and punished by death.

# 7

## CHARITY PROGRAMMES AND SPONSORSHIP

1 2 3 4 5 6 7 8



part seven

*The Bank had a broad-scale and versatile charity and sponsorship programme for 2003, with an emphasis on long-term culture and sports projects.*

The network of children's rugby schools Slava was growing rapidly with the Bank's assistance. In 2003, the schools in Almet'yevsk, Saint Petersburg, Kazan and Lipetsk were complemented by schools in the Kemerovo Oblast and Samara City. The second Bank ZENIT Rugby Cup Tournament managed to attract hundreds of children of all ages and was included in the calendar of official nation-wide competitions of the Russian Rugby Union.

The Bank co-financed the children's rafting school and men's rafting team Altai-Raft in Gorno-Altaysk (Altai Republic). The team placed first at the national rafting competition.

The Master Class Creative School founded by the Bank is attracting the ever increasing number of children. The School organised a very successful concert of young talents in Kazan, which was devoted to the 5th anniversary of the Bank's Subsidiary No. 1 in Almet'yevsk.

A concert of the Russian National Orchestra was timed to the opening of another subsidiary in Nizhny Novgorod. The concert was a central event in the city's cultural life.

Following a well established tradition, the Bank initiated a number of socially-oriented actions. In the Kemerovo Oblast, the Bank and the National Nongovernmental Pension Fund started a charity programme to provide financial support to the children of miners who died in mine accidents. The programme is planned for at least 12 years. Bank ZENIT also provided assistance to the residents of the Kosh-Agach Rayon who suffered from the earthquake in the Altai Republic.

As before, the Bank did not forget about World War II veterans. It sponsored a culture and charity action at the Moscow Home of War and Armed Forces Veterans. The action entitled True Sons of Their Motherland was devoted to the 58th anniversary of the Victory. Significant financial assistance was also provided to the unions of veterans in other Russian regions.

In 2003, Bank ZENIT took an active part in the charity programmes implemented in the Tatarstan Republic. In particular, it provided grants to the Bugulma Education Authorities; Kazan Branch of the Chelyabinsk Tank Institute; Almet'yevsk Music School; Almet'yevsk Drama Theatre; South-East Boxing Federation; Almet'yevsk secondary schools Nos. 12 and 16; Nizhnekamsk secondary school No. 10; and Nizhnekamsk Branch of the Russian National Society of the Blind, etc.

Developing its charity and sponsorship programme, Bank ZENIT observes the best traditions of Russian entrepreneurs, and supports the moral and physical health of the rising generation.

## VASILII FILIPPOVICH VASYUTCHIKOV



Born on February 15, 1924 in the village of Nikitskoye, Kaluga region.

A sniper, later a company commander in the infantry Captain at the end of the war.

**War-time decorations:**

Two Orders of the Red Star.  
Four Orders of Patriotic War (two of 1st class and two of 2nd class).  
Medal of Courage.

HIS NEPHEW  
PAVEL VASYUTCHIKOV



is a senior expert of the Department for Data Technologies responsible for developing automated banking systems.



### SHOOT THE VIPER AND THINK OF NOTHING!

I was a sniper at the beginning of the war. I simply never parted with my rifle. I shot a total of 27 enemies, mainly officers. I remember my first one as if it were today. I followed him for a long time not mustering the courage to pull the trigger. It was difficult to shoot at a live target. Even though I knew he was an enemy, knew that what I was doing was right still it was difficult to shoot. I could not sleep for two nights afterwards, it troubled me, I felt very sick. I kept on thinking: «How could I kill a man?» It is one thing when you are in open combat. Then you don't know for sure whether you have killed anyone or not. And here at first it seemed to me that it was dishonest even, doing it the sly him being unable to defend himself. My instructor who made a sniper of me told me then: «Don't worry. You killed a viper, not a man, so shoot more of them and don't even think of such things.» That's how I shot 27 of them! I received the Medal of Courage for them. I was very proud of that as few people were decorated with this medal at the beginning of the war.





### TIN STAR

There were no coffins at the war, of course. The dead were buried in their rain capes. The body would be turned in a cape several times and buried one meter below the surface. Of course, in winter if the ground were frozen through, it was impossible to dig a hole. Then we would burn a fire and then it was easier to dig. We would mark the grave with a stick stuck in the ground instead of a cross. We would attach a five-pointed star to the stick and scratch or write with a pencil the name and rank of the person buried there. Of course, such a monument could hardly survive the first strong wind. By the way we made the stars of empty meat cans. There was no other way to get tin.

### FIRST ORDER

I remember how already as a lieutenant I was on duty and patrolled the company territory. It was raining and I was wearing a rain cape. Suddenly I noticed two figures of soldiers somewhat aside. I rushed to intercept them. Who is it? What is the password? They proved to be our guys. I asked them why they were not sitting in the trenches but were wandering around. They said it was wet and dirty. «But then it is safer,» I told them. Well, they went to the trenches. And the minute I turned around to carry on my patrolling, literally a second later there came a salvo. One soldier fell into the trench and an enemy soldier dragged another one with himself. I ran up to the machinegun and shouted to the gunner: «The enemy took our man prisoner, drive them to the minefield!» He started shooting and drove them to the minefield. We heard one explosion and then another. When their bodies were retrieved we saw that both had been wearing Soviet uniforms. They turned out to be scouts from a different regiment who got lost in no man's land. In the morning the division commander summoned me. I kept thinking: «That's all. Goodbye shoulder-straps! They'll send me to the penal company.» I told the general how everything had happened and the general suddenly said: «Propose Lt. Vasyutchikov for decoration with the Order of the Red Star. He did not know that they were Soviets and offered proper resistance.»



# 8

## INSTITUTIONAL DEVELOPMENT

1

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part eight

*The Bank's institutional development in 2003 was driven by the extension of the range of products and regional network. New tasks of retail business development necessitated the establishment of a Retail Banking Department, and the opening of subsidiaries in Nizhny Novgorod and Rostov-on-Don. Total staff exceeded 1,000 employees.*

A well-balanced human resources policy allows recruiting new staff while retaining the old professional team: every third employee has been working at the Bank for 3 or more years.

The Bank's ambitious plans and aspiration for leadership in the banking market require a continuous professional improvement and development of its staff. To that end, the Bank implements for-order corporate training programmes, participates in international conferences and workshops, and organises on-the-job study of the best practice at lead European financial institutions.

The business community duly appreciated the high professional level of the Bank staff in 2003. In 2003, ZENIT won a convincing victory as a nominee for special Client-oriented Company Prize in the annual Company of the Year national competition, owing to an «efficient provision of comprehensive customised services to clients when promoting reference-level financial services in corporate, investment and retail banking, inter alia, in regions». The Bank's Annual Report for 2002 received the highest rating at the Moscow International Advertisement Festival.

Comments and analytical articles by the Bank's experts are published in leading business editions. In 2003, the Bank initiated and participated in the International Workshop on the Development of Documentary Transactions and Harmonisation of Russian and International Trade Customs, which was organised and held in Kazan.

The Bank creates competitive labour conditions for all employees and an enabling environment for the best possible utilisation of the working and creative capacity. Staff motivation programmes encourage not only a high financial performance but also an active participation in internal projects, involvement in the Bank's corporate life, and a desire to plan a long-term co-operation with the Bank.

The Bank's traditionally intense corporate life is governed by the idea of team work and competition. Based on the outcomes of each year, the Bank selects and rewards «the best among the best». In 2003, the Bank organised corporate sport tournaments for active, performance-and team-oriented staff. The Bank's sport teams took part in interbank competitions.

## ALEXANDER SIDOROVICH MNATSAKANOV



Born on February 23, 1921 in Vladikavkaz. Tank crew member. Lieutenant by the end of the war. Graduated from the Military Academy of Tank Forces and the Military Diplomatic Academy. Military diplomat.

Hero of the Soviet Union (1945). Retired Lieutenant General.

**War-time decorations:**

Golden Star of the Hero of the Soviet Union.  
Order of Lenin.  
Three Orders of the Red Star.  
Order of Patriotic War, 1st class.  
Order of Service with the USSR Armed Forces, 3rd class.  
Medal of Courage.

HIS SON  
ALEXANDER  
MNATSAKANOV

• • •  
heads the Administrative  
Department.



## INTERROGATION OF FIELD MARSHAL PAULUS

The battle of Stalingrad ended in January 1943. Fighting still continued in the outskirts but the city itself was already actually under our control. That is when the famous capturing of Field Marshal Paulus took place. I was lucky to attend the interrogation of the prominent German military leader. He was forced to leave his bunker and was driven to an ordinary village cottage in the outskirts of the city where the first interrogations were conducted. It was then that I realized how serious our enemy in that war was because the field marshal simply overpowered everyone with his might, his strong personality. He was an extremely proud and masterful man. He acted with amazing dignity as a true German aristocrat. And that is despite the fact that he had been taken prisoner and had been defeated in battle! It must be said that we officers who interrogated him tried to be expressly polite with him.

So that he would realize that cultured people not some barbarians were questioning him. It became clear to us young officers — I was a lieutenant at the time — that it was impossible for just anyone to become a field marshal in Hitler's army. That it was the very elite. And that in general our enemies were very powerful warriors. Nevertheless our love for our country proved stronger than all their military training and more advanced weaponry.





### ON AN ICE-FLOE

I remember how we crossed Lake Pskov on a tank when we fought in the direction of Pskov in 1944. It was winter. And the frost was biting as it is in north Russia where winters are cold. We drove heavy tanks on thick ice without any fear. And then suddenly we came under mortar fire of the enemy and it was so intensive that the ice started cracking and breaking into pieces. And my tank found itself on a block of ice. There were explosions around and I got scared of the water more than the shells. I thought: «That it all, my end has come because I cannot swim.» I had grown up on the banks of the unruly Terek. So my block of ice was floating along the lake and I promised myself: «If I survive, I will learn to swim. And will teach my children and grandchildren to swim from their very early childhood!» Then thank God the block of ice reached the coast and the tank happily drove to solid ground. And after the war I fulfilled the promise I had given myself and to pains to learn to swim properly.

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