



Annual Report 2004

BANK ZENIT

ANNUAL REPORT
2004



MOSCOW, 2004

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STATEMENT OF OJSC BANK ZENIT'S COUNCIL OF DIRECTORS



D E A R S H A R E H O L D E R S , C L I E N T S , A N D P A R T N E R S ,

The year 2004 was a serious robustness test for the entire banking system in Russia. However, it is in such difficult circumstances that the Bank can verify its viability and identify its actual growth capacity.

Responding to the challenges of the day, Bank ZENIT reached radically new milestones.

The Bank successfully implemented the key strategic task to double the authorised capital up to RUR4 billion. Its total assets reached \$2 billion or RUR58.8 billion while the 2004 net profit exceeded RUR1 billion. Lending to Russia's real sector exceeded \$1 billion, and the Bank succeeded in maintaining a diversified loan portfolio.

In 2004, ZENIT made an important step towards the extension and diversification of its sources of financing by placing its rouble-denominated bonds totalling RUR1 billion.

The Bank's continued regional expansion was an important achievement which laid the foundation for its stable development for many years ahead: branches in Kazan, Rostov-on-Don, Samara and Chelyabinsk and an additional office of Kemerovsky Branch in Novokuznetsk became operational in 2004. A new additional office was opened in Moscow.

The year 2004 was a qualitative breakthrough in retail banking: the Bank introduced a full range of retail lending products, including auto lending, mortgage lending, and credit and fuel cards issued under the System of Values programme.

A balanced lending policy initially incorporated in the Bank's philosophy, a high performance demonstrated by Bank ZENIT in 2004, and the thoroughness of its responses to challenges in the banking sector allows being confident that ZENIT is meeting 2005, the Bank's jubilee year, with a better "immunity" to changes in the financial environment, and good development outlooks.

I would like to thank the Bank's Members, Clients and Partners for a high degree of trust, and express hope for further mutually beneficial co-operation.

Sh. F. Takhautdinov

A handwritten signature in black ink, consisting of a long, sweeping horizontal line that curves upwards at the end, followed by several smaller, more intricate strokes below it.

Chairman, Council of Directors

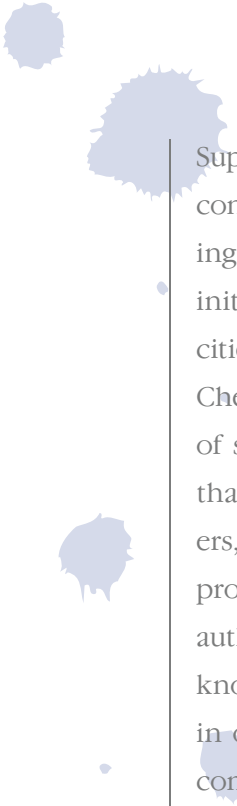


My Sunrise

Elizaveta Ditkovskaya

(Nizhnekamsk,
Tatarstan Republic)

14 years



Support of young talents is one of the Bank's priorities in the charity sphere. In that context, we collaborate with the Master Class Creative School which has been collecting young talents all over Russia for the last five years. In 2004, the Creative School initiated art competition *My Sunrise*. Over 300 underage (18) artists from 23 Russian cities presented their works, each characterized by its own colour. People in Kemerovo, Chelyabinsk, Kazan, Lipetsk, and Saint Petersburg have absolutely different impressions of sunrise. However, it is not only geographic or nature peculiarities of the regions that make the difference. The point is that each finalist, guided by experienced teachers, has found his/her own style and has his/her own vision of life. Moscow-based professors who selected paintings for the finalist competition believe that the young authors of the best works are very promising artists whose names may soon become known well outside their places residence. We are publishing some of the best works in our Annual Report, and hope that the new talents who started rising during the competition with the support of the Creative School would be able to reach the end of the long way to the zenith of glory.

1. BASIC INFORMATION ON BANK ZENIT



E S T A B L I S H M E N T :

Bank ZENIT was established as a Limited Liability Company in December 1994. In June 1995, the Bank obtained the license to conduct banking transactions in roubles and foreign currencies.

The Bank was reorganised into an Open Joint Stock Company in December 1999.

T H E B A N K ' S P R O F I L E :

Full name: Bank ZENIT (Open Joint Stock Company)

Short name: OJSC Bank ZENIT

Address (location): 9 Banny Pereulok, 129110 Moscow, Russian Federation

Principal State Registration Number: 1027739056927

Date of entry into the Single State Register of Legal Entities: 09/08/2002

General License of the Issuing Bank (Bank of Russia): 3255

Date of registration with the Bank of Russia: 22/06/1995

The Bank was included in the list of banks participating in the obligatory Insurance System of Individuals' Deposits on 2 December 2004 (number 249).



Winter Morning
Elizaveta Chistyakova
(Saint Petersburg)
14 years

STRUCTURE OF THE MANAGEMENT BODIES:

1. The General Shareholder Meeting
2. The Council of Directors
3. The Board (a collective executive body)
4. The Chairman of the Board (a sole executive body)

1. The General Shareholder Meeting

The Bank's major shareholders:

- 🇷🇺 Tatneft (Open Joint Stock Company), Tatarstan Republic, Russian Federation
- 🇨🇭 Tatneft Oil AG, Switzerland
- 🇷🇺 Stinol Invest (Closed Joint Stock Company), Russian Federation (a nominal holder)
- 🇷🇺 RUDPROM (Limited Liability Company), Russian Federation
- 🇬🇧 SGI ENTERPRISES LIMITED, UK

2. The Council of Directors

Mr. Takhautdinov, Sh. F.	General Director, OJSC Tatneft, Chairman of the Council of Directors, OJSC Bank ZENIT
Mr. Avanesyan, I. G.	General Director, CJSC CENTER-CAPITAL
Mr. Chelyadin, S. V.	Director Responsible for Real Estate and Securities Management, OJSC Novolipetsk Iron and Steel Plant
Mr. Garifullin, I. G.	Chief Accountant, OJSC Tatneft
Mr. Ghosh, S.	Director, SGI ENTERPRISES LIMITED;
Mr. Fedorov, V.P.	Chairman of the Council of Directors, OJSC Lipetskcombank
Mr. Feldman, S. A.	Adviser to the General Director, OJSC Tatneft
Mr. Kravchenko, A. I.	Director Responsible for Legal Issues, OJSC Novolipetsk Iron and Steel Plant
Mr. Maganov, N. U.	First Deputy Director, OJSC Tatneft
Mr. Musin, R. R.	Chairman of the Supervisory Board, OJSC AK BARS
Mr. Proshechkin, A. I.	Chairman of the Council of Directors, OJSC ALNAS
Mr. Smolyansky, A. S.	General Director, LLC RUMELKO
Mr. Sokolov, A. A.	Chairman of the Board, OJSC Bank ZENIT
Mr. Sulimov, E. P.	Deputy Director Responsible for Economy and Finance, OJSC Novolipetsk Iron and Steel Plant
Mr. Tikhturov, E. A.	Head of Finance Department, OJSC Tatneft

3. The Board (a collective executive body)

Mr. Sokolov, Alexey Arkadievich

Chairman

Mr. Gubaidullin, Rashit Shaikhullovich

First Deputy Chairman

Mrs. Shishkina, Tatiana Petrovna

First Deputy Chairman

Mrs. Ainulova, Valeria Viktorovna

Deputy Chairman

Mr. Bolshakov, Anton Alexandrovich

Deputy Chairman

Mrs. Gornaya, Elena Vladimirovna

Deputy Chairman

Mr. Gorovoy, Rodion Vladimirovich

Deputy Chairman

Mr. Paschenko, Stanislav Sergeevich

Deputy Chairman

Mr. Shpigun, Kirill Olegovich

Deputy Chairman

Mr. Fedorov, Vyacheslav Petrovich

Member

4. The Chairman of the Board (a sole executive body)

Mr. Sokolov, Alexey Arkadievich

Chairman of the Board



Young Geologists

(South Ural)

Fedor Krasnik

(Kopeisk,

Chelyabinsk Oblast)

16 years



TYPES OF LICENCES GRANTED TO THE BANK:

- ☛ General banking licence
- ☛ General licence for precious metal transactions
- ☛ Gold export licence
- ☛ Silver export licence
- ☛ Capital market professional agent licence for depositary operations
- ☛ Capital market professional agent licence for brokerage
- ☛ Capital market professional agent licence for dealing
- ☛ Capital market professional agent licence for securities management
- ☛ Licence to exchange traded futures and options in the Russian Federation
- ☛ Licence of a specialised depositary of investment funds and mutual investment funds
- ☛ Licence for operations with data classified as state secret
- ☛ Licence to provide encoding/decoding services to S.W.I.F.T. users in respect of data, which are not classified as state secret
- ☛ Licence to maintain encoders/decoders for S.W.I.F.T. operations
- ☛ 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
- ☛ Licence to maintain encoders/decoders for international payment systems that use bank cards
- ☛ 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
- ☛ Licence to encode/decode data, which are not classified as state secret, within the Bank's electronic document turnover system
- ☛ Encoder/decoder dissemination licence

S T A T U S :

- ☛ Authorised issuer of guarantees in favour of the State Customs Committee (importers' transactions with excised goods);
- ☛ Banking for federal companies exporting military products;
- ☛ Authorised bank of the Moscow City Government;
- ☛ Moscow Oblast Government partner bank in the area of external economic relations;
- ☛ Authorised bank of the Tatarstan Ministry of Finance and the Tatarstan Ministry of Economy and Industry;
- ☛ Authorised agent and underwriter as well as the market-maker for Moscow City OGOVZ;
- ☛ Official dealer for Saint Petersburg OGOVZ.

P A R T I C I P A T I O N

I N I N T E R N A T I O N A L P A Y M E N T A N D C L E A R I N G S Y S T E M S ;
M E M B E R S H I P I N A S S O C I A T I O N S , E X C H A N G E S ,
A N D U N I O N S :

- ☛ Member of ARB, Non-commercial Partnership *ARB National Bureau of Credit Histories*, ACRB, NCMA, NAUFOR, RTS, AUVER, MSE, SPCE, Tatarstan Republic Chamber of Commerce and Industry, RUPE, and Gold Producer Union;
- ☛ Principal member of Europay International and VISA International;
- ☛ Member of S.W.I.F.T. and Clearstream Banking.

A U D I T O R S :

- ☛ CJSC Energy Consulting: Russian Accounting Standards;
- ☛ CJSC Deloitte & Touche CIS: International Accounting Standards.

M A J O R F I N A N C I A L P E R F O R M A N C E I N D I C A T O R S A S O F 3 1 D E C E M B E R 2 0 0 4 :

Total assets	RUR 58,818,734,000
Equity	RUR 6,977,562,000
Profit	RUR 1,443,440,000

C L I E N T E L E :

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

- ☛ Oil production and refinery;
- ☛ Petrochemical and chemical industries;
- ☛ Metal production;
- ☛ Coal production;
- ☛ Gold production;
- ☛ Mechanical engineering, including international co-operation in the military technology sector (production and export of military goods);
- ☛ Construction;
- ☛ Automobile production;
- ☛ Consumer goods production;
- ☛ Food industry;
- ☛ Wholesale and retail trade;
- ☛ Energy;
- ☛ Pharmaceutical industry;
- ☛ Financial institutions.





Sunrise in Novoshakhtinsk
Lilia Tolochkova
(Novoshakhtinsk, Rostov Oblast)
15 years



A C T I V I T I E S :

- ☛ Financial support of the clients' export/import transactions;
- ☛ Raising funds in external markets (issue of Eurobonds, obtaining syndicated loans, issue of Credit Linked Notes);
- ☛ Commercial lending;
- ☛ Project and trade finance using a large-scale documentary transactions;
- ☛ Raising funds 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;
- ☛ A&M funding arrangement;
- ☛ Transactions with clearing currencies;
- ☛ Transactions with government and municipal securities, Eurobonds, and London Club debts, including the composition and management of the clients' and counterparty banks' securities portfolios;
- ☛ Transactions with corporate securities (shares, ADR, bonds, veksels);
- ☛ 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;
- ☛ Transactions with plastic cards: card issue and servicing, acquiring arrangements for trade and service centres, and programme to co-operate with counterparty banks;
- ☛ Private Banking: provision of comprehensive services to individuals including their assets' management.

M A J O R F O R E I G N P A R T N E R B A N K S :

Dresdner Bank AG	Frankfurt am Main, Germany
Commerzbank AG.	Frankfurt am Main, Germany
Deutsche Bank AG	Frankfurt am Main, Germany
Ost-West Handelsbank AG	Frankfurt am Main, Germany
BHF-Bank AG	Frankfurt am Main, Germany
Bayerische Hypo- und Vereinsbank AG	Munich, Germany
BankGesellschaft Berlin AG	Berlin, Germany
Rabobank Nederland	Amsterdam, The Netherlands
ING Bank NV	Amsterdam, The Netherlands
UBS AG.	Zurich, Switzerland
Deutsche Bank Trust Company Americas	New York, USA
JPMorgan Chase Bank	New York, USA
Citibank	New York, USA
American Express Bank Ltd.	New York, USA
Raiffeisen Zentralbank Oesterreich AG.	Vienna, Austria
Bank Austria Creditanstalt AG	Vienna, Austria
Donau-Bank AG	Vienna, Austria
HSBC Bank plc	London, UK
Credit Suisse First Boston	London, UK
Standard Bank.	London, UK
Salomon Smith Barney	London, UK
Moscow Narodny Bank Ltd.	London, UK
Royal Bank of Scotland plc	London, UK
BNP Paribas	Paris, France
BCEN-Eurobank	Paris, France
Natexis Banques Populaires	Paris, France
BRED Banque Populaire	Paris, France
Bank of China	Beijing, China
Industrial and Commercial Bank of China	Beijing, China
Canara Bank	New Delhi, India
Kazkommertzbank	Alma-Aty, Kazakhstan
TuranAlem Bank	Alma-Aty, Kazakhstan
Aval Bank	Kiev, Ukraine
UkrSibbank	Kiev, Ukraine

2. MAJOR DEVELOPMENT OUTCOMES



S T A T U S

- The Bank's assets by year-end 2004 exceeded \$2 billion.
- The Bank registered an additional issue of its shares totalling RUR2 billion.
- The Bank was included in the Insurance System of Individuals' Deposits in December 2004.
- The Bank placed its own rouble-denominated bonds totalling RUR1 billion.
- The Bank continued close co-operation with the key international rating agencies. Moody's confirmed the Bank's current ratings in the second half of 2004. In early 2005, Fitch Ratings also confirmed its assessment of the Bank's 2004 development dynamics.

AGENCY	LONG-TERM RATING	SHORT-TERM RATING	OUTLOOK
Fitch Ratings	B-	B	Stable
Moody's	B1	NP	Stable

- Pursuant to the Regional Development Concept, the Bank opened 4 branches and 1 additional office in 2004:
 - Rostovsky Branch in Rostov-on-Don;
 - Chelyabinsky Branch;
 - Kazansky Branch;
 - Samarsky Branch;
 - Additional office of Kemerovsky Branch in Novokuznetsk.





Dawn over Tuskar River
Natalia Udalova
(Kursk)
15 years



B U S I N E S S

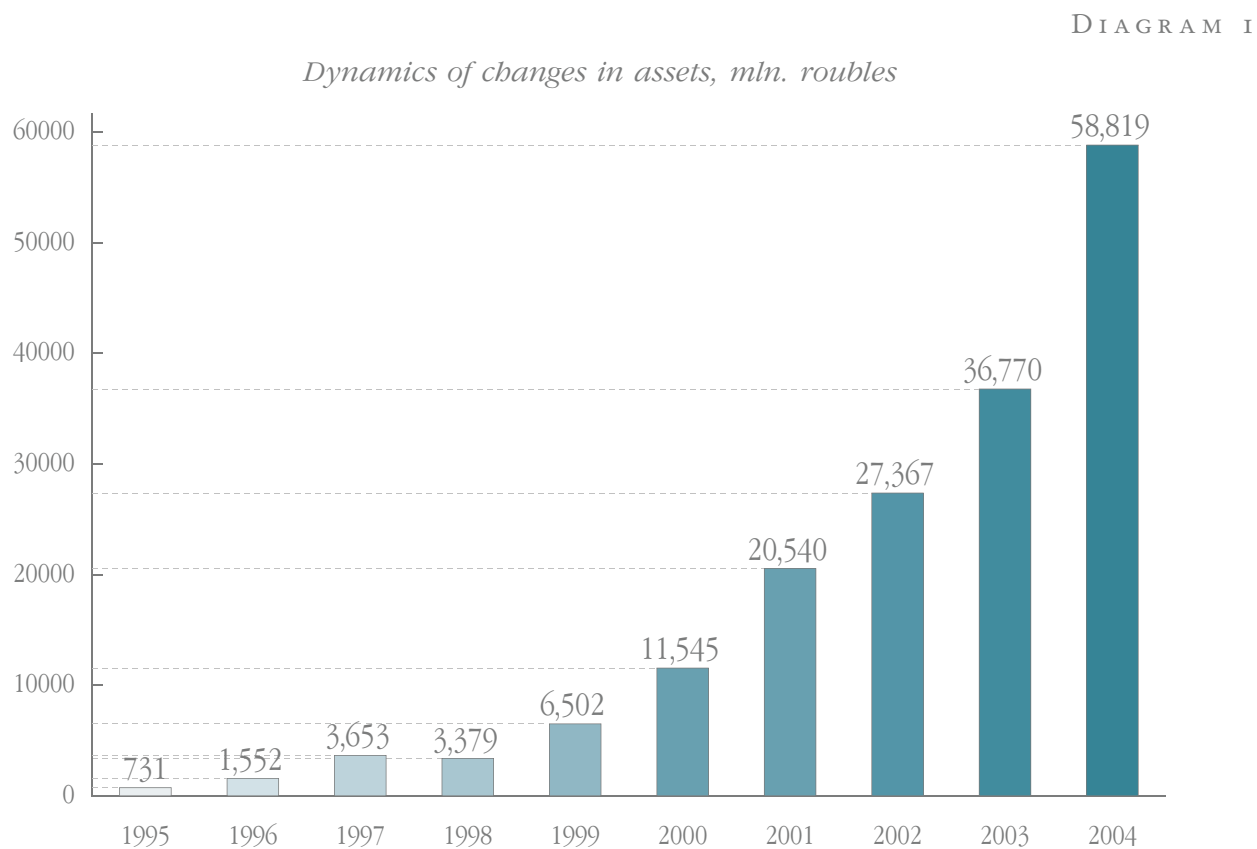
- As an underwriter and co-manager, the Bank participated in 20 issues of corporate and municipal bonds and 8 issues of currency-denominated bonds.
- The Bank was invariably included in the TOP-10 list of the largest underwriters in the rouble bond market, as rated by Russia's lead news agencies by the outcomes of 2004.
- The Bank implemented a project to finance agricultural imports from the USA under the Commodity Credit Corporation's GSM-102 Programme via Rabobank New York.
- The Bank implemented a project to finance imports under the USA Eximbank Programme via Commerzbank New York.
- The amount of individuals' deposits exceeded RUR4,4 billion, which is over 10% of the Bank's liabilities.
- The Bank introduced a full range of retail lending products, including auto lending, mortgage lending, credit and fuel cards issued under the System of Values programme, and express lending.

VOLUME OF OPERATIONS

The Bank's operations in terms of total assets increased by 60% in 2004. As of 31 December 2004, the Bank ranked 16th among Russia's largest banks by total assets.

The increase of the Bank's operations was triggered mainly by a 152-percent growth of securities portfolios (from 3,024 million roubles to 7,606 million roubles) and a 43-percent growth of lending transactions (net loans to customers increased from 20,123 million roubles to 28,733 million roubles).

Changes in the Bank's assets are shown in Diagram 1.







Morning
Maria Odinochenkova
(Naberezhnye Chelny, Tatarstan Republic)
14 years

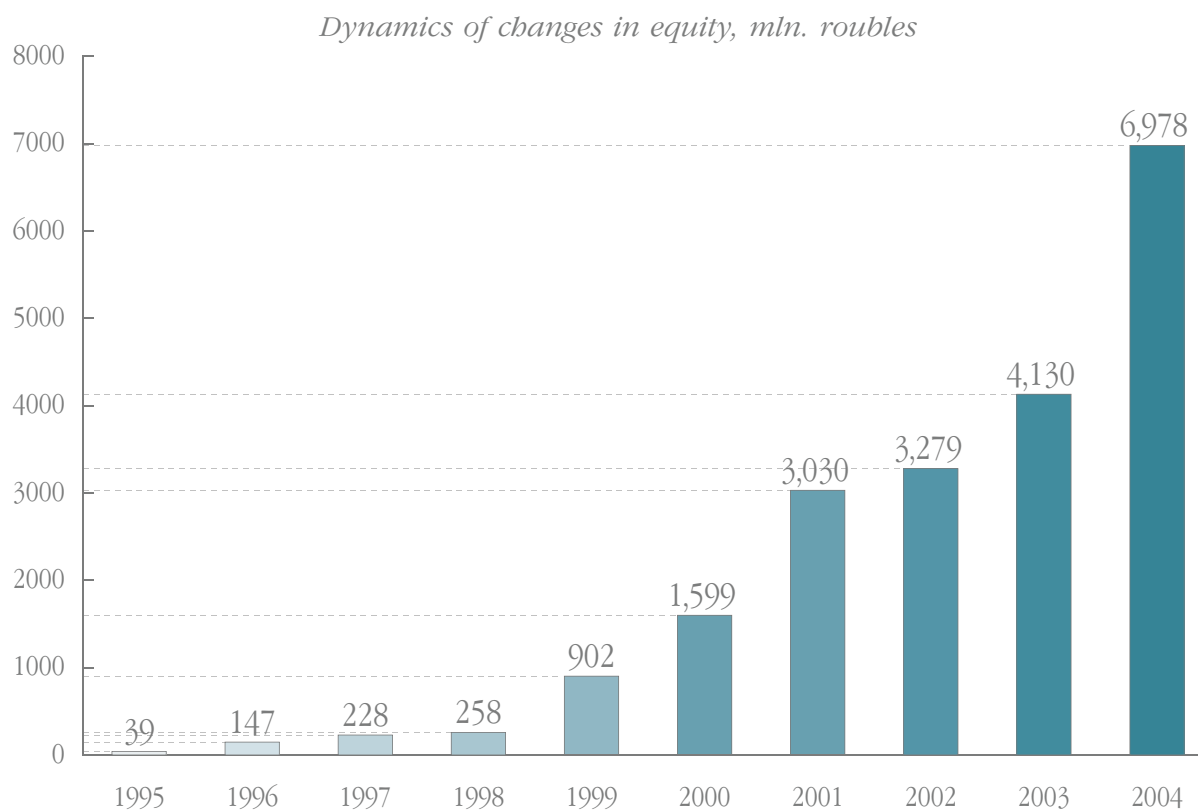


E Q U I T Y

By the end of 2004, the Bank's equity amounted to RUR 6,978 million, which enabled it to be ranked 19th (by equity size) among Russia's largest banks.

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

D I A G R A M 2

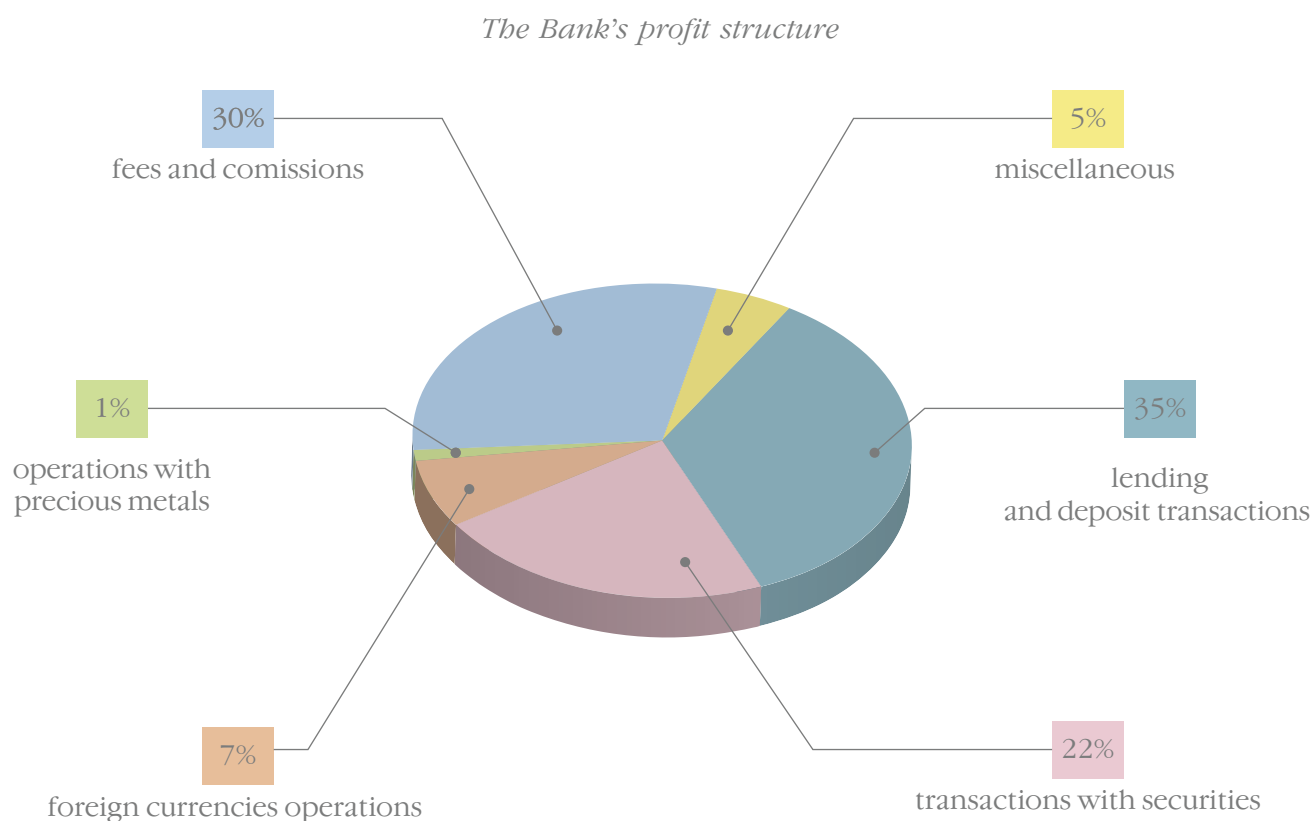


PROFIT

The 2004 balance sheet profit amounted to RUR1,443,440 thousand. By the outcomes of the year, the Bank ranked 17th among the most profitable Russian banks. Its net profit being RUR1,038,911 thousand represents a 47-percent increase compared to 2003.

The profit structure is shown in Diagram 3. Lending and deposit transactions account for the bulk of the Bank's profit. Banking fees and income from securities transactions also make a significant contribution.

DIAGRAM 3



3. CUSTOMER BASE DEVELOPMENT,
EXTENDING THE RANGE OF BANKING SERVICES



C O R P O R A T E B A N K I N G

Corporate banking is a key aspect of the Bank's business.

A high financial sustainability, equity size that makes it possible to assume large financial risks, an efficient interaction with western financial institutions, a wide range of world-class banking services, a high technological and intellectual capacity, a unified corporate banking management system, and a significant extension of the regional network—all these characteristics enable the Bank to take leading positions rather than just compete in the Russian banking market.

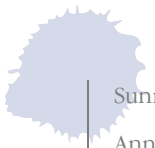
The Bank's relations with clients continue to rely on a customised approach to addressing the clients' specific tasks that is based on a number of personal managers (whose efficiency was confirmed in 2004) and on improving the quality of banking services provided.

The Bank's growth capacity is largely dependent on its clientele. Bank ZENIT is often chosen as the principal service bank by "real sector" enterprises (predominantly large and medium businesses).

Customer base grew in 2004 by 30.1%. The Bank opened accounts to more than 1,600 companies, including coal, energy, consumer products and automobile producing industries, wholesale and retail trade companies, petrochemical and metal enterprises, as well as construction and financial companies.

External turnover on the clients' settlement and current accounts increased by 63.4% and exceeded \$15 billion. "New" clients accounted for 5.95% of average chronological balances in settlement and current accounts and 11.14% of the turnover. In total, corporate clients' funds amounted to about \$750 million in the 4th quarter 2004 which represents more than a 51% growth compared to the same period in 2003. A successful implementation of the Bank's strategic development tasks is largely dependent on the "real sector" and client business development rate. As a party interested in business development of all its





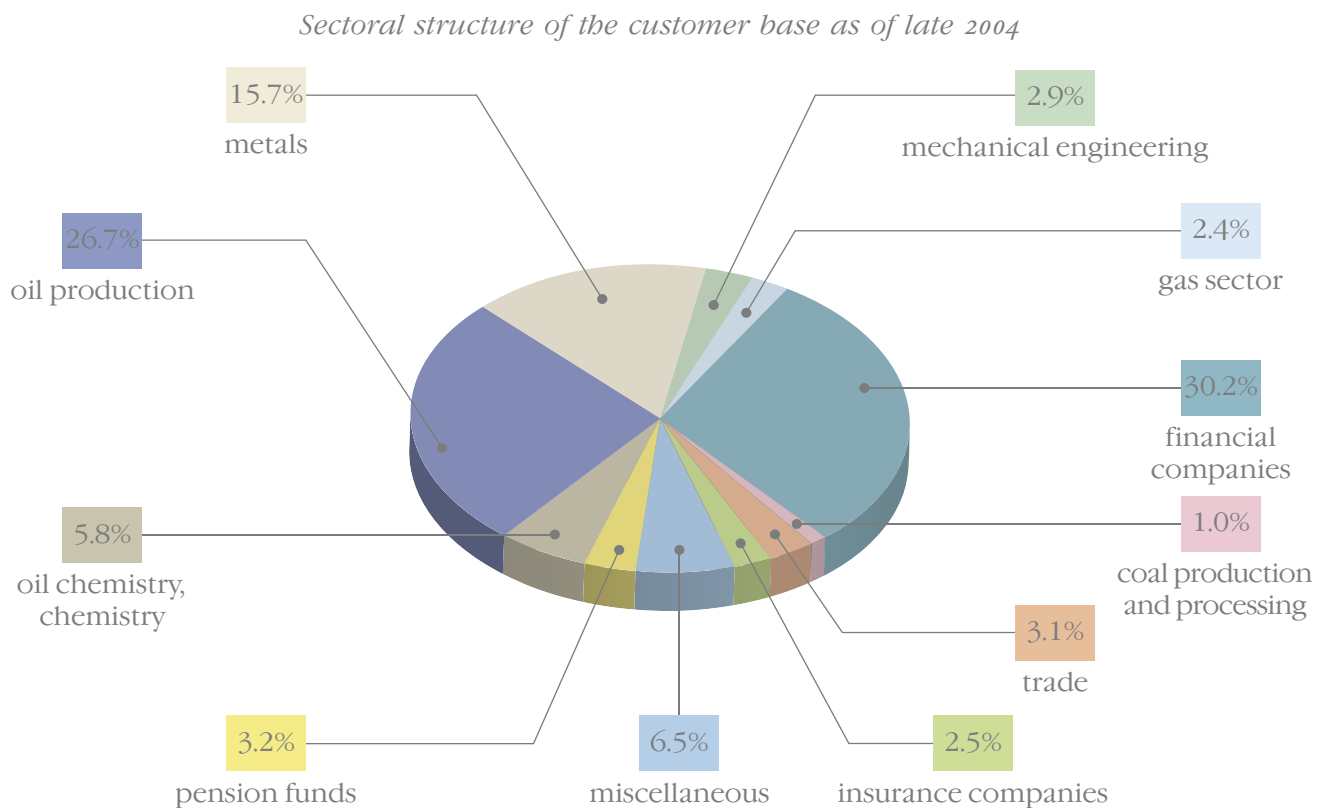
Sunrise in Chkalovsk
Anna Sorovegina
(Chkalovsk, Nizhny Novgorod Oblast)
15 years



clients, the Bank acts as a financial adviser trying to select a mix of banking products and additional services that is most suitable to the client's business development objectives. Such comprehensive customised banking makes it possible to extend the range of products and services provided by the Bank to each client, as well as leasing and nongovernmental pension support services provided by the Bank's partners.

The Bank's purpose-oriented activity in 2004 enabled it not only to increase the customer base but also to maintain its sectoral diversity, which is shown in Diagram 4.

DIAGRAM 4



R E T A I L B A N K I N G

The Bank considers retail banking as a self-standing segment of the banking market that significantly extends the customer base and generates a stable income.

The Retail Banking Department, which was established with a view to focused implementation of the Bank's retail banking development policy made further steps in that direction. Issues efficiently addressed by this division include the development and introduction of new retail (and, in particular, retail lending) products and services, offering a full range of retail banking services in all regions where the Bank is represented, and search for new approaches and arrangements in order to bring banking services offering to clients to a qualitatively new level. In 2004 the Bank conducted an active marketing campaign allowing a large number of clients to learn about services offered by the Bank. A high degree of clients' trust is reflected in the balances in individuals' accounts that increased by more than 30% over the past year and reached RUR 4.4 billion, including balances in card accounts that increased by 80% to more than RUR 430 million.

The Bank's Retail Banking Department continued an efficient introduction of new market products in 2004, the System of Values credit card being one of the most interesting among them. VISA System of Values is a chip card combining the functions of a credit, fuel and discount cards. The holders of VISA System of Values can buy goods and services on credit terms and conditions at trade and service centres all over the world within a few seconds. The card's "Fuel Application" provides for discount to purchase petrol at more than 500 petrol stations throughout Russia. The project participants include well-known petrol station networks such as TNK, YUKOS, EKA and MEGAOIL. Besides, the System of Values is a club of the Bank's partners. The card holders are able to get discounts and bonuses at well-known trade and service centres such as National Insurance Group (an insurance company), Aromatny Mir (a network of wine supermarkets), Doctor Loder (a network of elite fitness clubs), Tinkoff restaurants in Moscow and Saint Petersburg, INCOM-AUTO (a network of car showrooms and maintenance centres), and Kuntsevo car maintenance centre. It is expected that the System of Values credit cards will soon be distributed in all regions where the Bank is represented.



At the Well

Anastasia Antipova

(Samara)

14 years



In early 2004, the Bank launched intensive auto and mortgage lending programmes. Pursuant to a special arrangement, the clients of the Kuntsevo car maintenance centre can obtain a loan to buy a car on relatively privileged terms and conditions.

The Tri Kita Trade Centre introduced an express consumer lending programme for individuals in late 2004. Anyone buying furniture at this largest trade centre can now get a loan from Bank ZENIT within one hour.

In 2004, turnover on acquiring services at trade and service centres having contacts with Bank ZENIT increased almost in 3,5 times up to RUR1.27 billion. The total number of trade centres serviced by the Bank in all regions where ZENIT is represented grew by more than 43%.

Last year, Bank ZENIT offered a new service, SMS-Info, to the Bank card holders. It provides for online account monitoring via SMS messages containing information on transactions and account balance sent to the account holder's mobile.

In early 2004, the Bank started making Western Union cash transfers via its branches and additional offices.

Bank ZENIT installed additional ATMs in Moscow and other Russian regions, extending the network to about 100 ATMs by year-end 2004. In Moscow, for example, the Bank's ATMs were installed in RAMSTOR supermarkets.

In 2004, Bank ZENIT continued to sponsor other banks to enter into Visa International and MasterCard International.

Further introduction of various individuals' lending programmes in regions will be a priority for the Bank's retail business in 2005. The Bank's branches have launched the auto lending programme and are about to start the distribution of the System of Values credit cards in all regions where the Bank is represented.

The Department of Private Banking (DPB) made a significant contribution into the development of the Bank's retail business, and provided convincing evidence to the effect that service provision to wealthy individuals enjoys strong demand, and not only saves capital but also generates a stable income.

In 2004, the Department's clientele increased by 23% compared to the beginning of the year (17% for the DPB regional divisions).

Management of the clients' assets—fiduciary management (FM) of securities portfolios and general bank management funds (GBMF)—was the most dynamic activity during the past year. Interest in GBMF was increasing throughout the year, and the 2004 growth of investment in such instruments



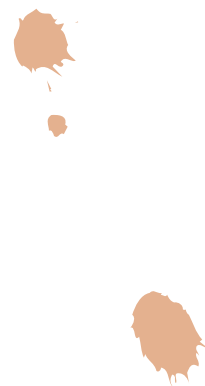
My Sunrise

(Autumn in City)

Regina Musina

(Naberezhnye Chelny,
Tatarstan Republic)

13 years



was 118% in Moscow and 116% in regions. By the end of 2004, the profitability of GBMF *Universalny* and *Dokhodny* was 14.7%, and 31%, respectively.

Last year, the Bank offered its clients a new instrument to make alternative investment in the “real sector”: placing funds into the shares of a closed-end mutual investment fund. The funds are invested in a Moscow-based office complex under construction then.

A well thought-out and focused approach to establish a scale of income-generating instruments was the basis for the transition from VIP-service to Asset Management in 2004. A significant share of the DPB clients learned from their personal experience what it means to “live on interest” on capital put under a bank management.

Seeking to improve client service technologies, the DPB started developing the FAMILY OFFICE Concept. It is a broader concept than just asset management because, in addition to investment services, it includes addressing a rather wide range of personal issues such as asset management in the case of death and/or divorce, tax planning, and many other issues. When offered to our clients, the product confirmed our assumption that such service may be of interest, enjoy demand and shall be further developed in 2005.

The DPB completed the establishment of its regional network in 2004. Private Banking Units were established at the Bank’s branches in Almeteyevsk and Kazan. Authorised DPB staff arranged the provision of services to VIP clients at the other branches.

As regards international private banking, ZENIT established partner relations with 11 foreign banks and agreed to share private banking experience with some of these banks.

The fact that the Bank strengthened its positions as one of the leaders of private banking in Russia is the critical operational outcome for the Department of Private Banking in 2004.

INTERACTION WITH FINANCIAL INSTITUTIONS, DEVELOPMENT OF THE CORRESPONDING ACCOUNTS NETWORK

The Bank's cooperation with financial institutions reached a qualitatively new level in 2004. The Bank continued to optimise and strengthen its corresponding accounts network, and expand geography of co-operation with foreign and local partners by establishing new business relations required by both clients' and Bank's own needs.

Interaction with Financial Institutions in Russia, CIS and Baltic States

In 2004, the Bank started conducting transactions in various financial market segments with 120 new financial institutions in Russia and former Soviet Union countries (FSU), and increased the number of its counterparties to more than 500 by the end of 2004. The counterparty growth rate maintained over the last 3 years provided for an increase in the amount of transactions with financial institutions in Bank ZENIT's priority areas: interbank loans, documentary deals, and transactions with securities and plastic cards.

As of early 2005, total mutual interbank commitments amounted to \$500 million and that represents more than a 30% growth.

It should also be noted that there was a significant increase in the amount of trade finance deals between Russian companies and their FSU partners in 2004. The group of traditional partners such as Ukraine and Belarus now includes Kazakhstan.

The Bank continued to implement procedures on current liquidity management and on interbank transactions carried out by its branches in regional markets. In accordance with the needs of the branches (the Bank has 10 branches at the moment), partner relations were established with a number of regional banks and regional branches of Moscow-based banks.

Development of Relations with Financial Institutions Outside FSU

Corresponding Accounts

By the end of 2004, the Bank had direct corresponding account agreements with more than 70 largest international institutions representing over 30 European, American and Asian countries.

The Bank's current corresponding accounts network provides for the most efficient settlement procedures, wire transfers to various parts of the world, and lower banking fees. Due to interaction with foreign banks, ZENIT can make immediate transfers in the currencies of their countries using all opportunities provided by their domestic payment systems, and ensure settlements in more than 55 currencies of countries both in and outside FSU.

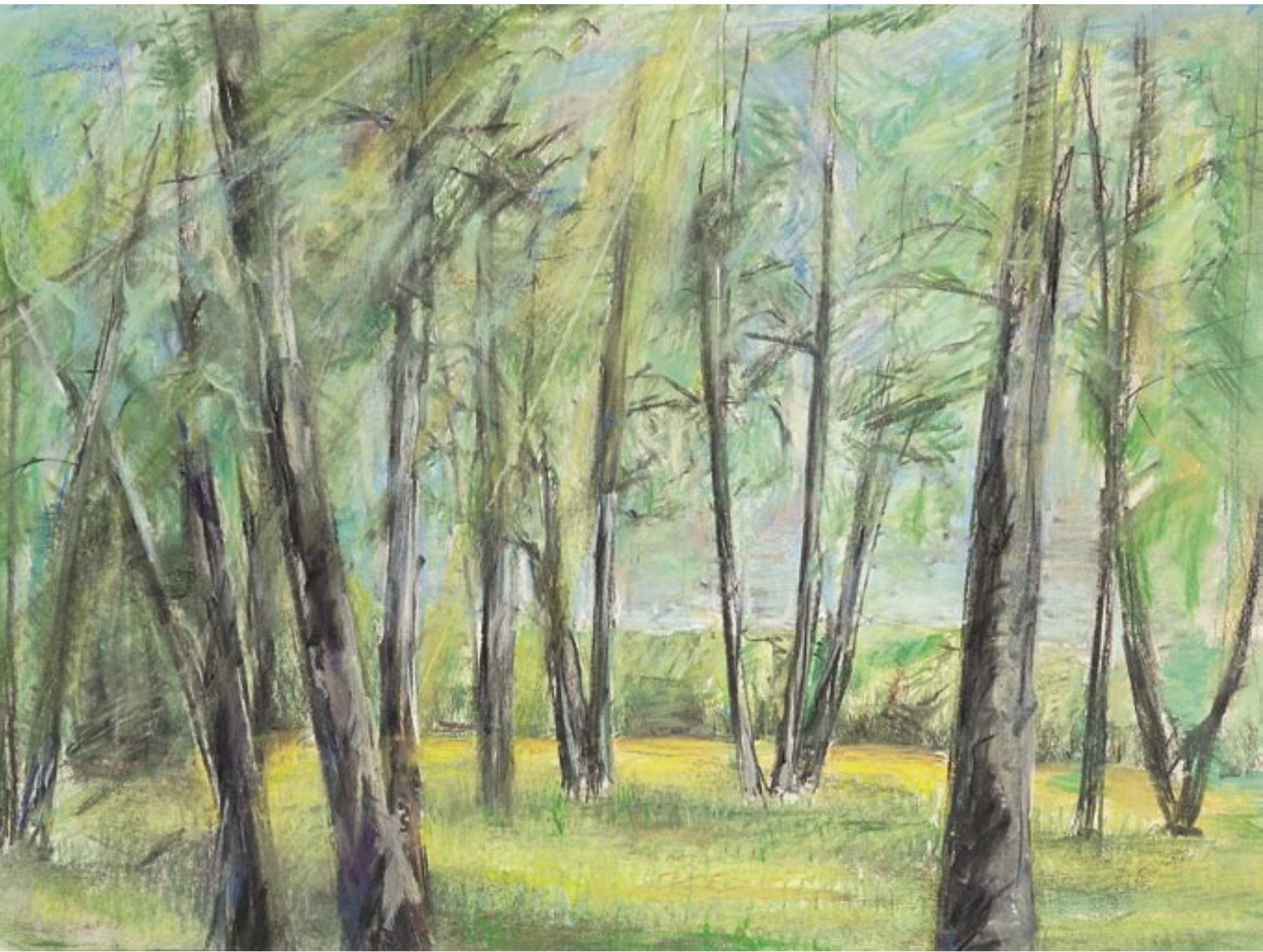
The Bank opened US dollar accounts with American Express Bank Ltd. and GB pound accounts with the Royal Bank of Scotland.

Documentary Transactions

Despite the negative trends in the Russian banking sector in mid-2004, the Bank's documentary credit commitments almost doubled in 2004. Maturity of many limits increased up to 2 years. Our new counterparty banks include BCP (Banque de Commerce et de Placements), SanPaolo IMI SpA, Nordea Bank, UBS AG, and WGZ-Bank.

Financial Markets

Bank ZENIT continued to develop relations with foreign financial institutions to meet the demand for transactions in securities, debt and interbank markets. As a result, the Bank established new partner relations with more than 20 banks and brokerage companies in Western, Central and Eastern Europe, Asia, and America. The Bank signed a number of ISMA agreements to carry out REPO transactions in the securities market. Interbank transaction limits increased to \$180 million.





Birch Coppice
Arseny Belov
(Moscow)
14 years

S U P P O R T O F F O R E I G N T R A D E C O N T A C T S

Pursuant to the new Federal Law on Currency Regulation and Control that became effective on 18 June 2004, Bank ZENIT was closely involved in working groups and consultations organized by the Bank of Russia and the Association of Russian Banks with a view to develop a new regulatory framework, identify and address difficult issues of currency regulation and control. The Bank repeatedly submitted its opinions and proposals on new draft regulations.

Bank ZENIT, together with the Bank of Russia Department of Currency Regulation and Control, held workshops for its clients and partners, conducting a detailed review of the new currency legislation and giving answers to numerous questions.

In 2004, the Bank increased the number of branches and additional offices performing the functions of a currency control agent, which enabled the regional clients to increase the volume of and speed up foreign trade operations.

In 2004, the Bank executed about 2,000 transaction passports in the following areas:

- ✎ Export of goods: to the total amount of \$1.6 billion;
- ✎ Import of goods: to the total amount of \$1.1 billion;
- ✎ Export of works and services: to the total amount of \$124 million;
- ✎ Import of works and services: to the total amount of \$607 million; and
- ✎ Credits/loans: to the total amount of \$1.4 billion.

4. DEVELOPMENT DYNAMICS OF THE BANK'S OPERATIONS



LENDING TRANSACTIONS

“Real sector” funding is the Bank’s strategic priority.

Net loans to customers increased by 43% in 2004 and exceeded RUR 28.7 billion as of the year end. The growth of the Bank’s loan portfolio is related, first and foremost, to the successful implementation of the Bank’s Regional Development Concept and to the increase in investment lending.

The Bank continued to create a diversified customer base initiating co-operation in the lending area with more than 150 new borrowers. The largest new borrowers include mechanical engineering, auto producing, food and construction companies. The Bank increased total credit limits for many strategic borrowers and established additional limits for the clients’ subsidiaries.

Taking into account the growing demand for investment loans in the Russian economy, the Bank enhanced its lending activity with respect to companies primarily oriented to the domestic market. The structure of the Bank’s loan portfolio was changing throughout the reporting year in favour of rouble-denominated funding whose share amounted to 52.2% of the entire loan portfolio by the year end. Funds allocated by Bank ZENIT were used by Russian companies for the development of new production facilities, diversification of production, and establishment of sales networks.

The Bank’s major activities relating to corporate client funding:

Investment Lending

Investment lending increased significantly in 2004 reaching \$354 million by the year end vs. \$180 million by the end of preceding year. Bank ZENIT launched 19 new investment projects in 2004. Altogether,

it extended loans to more than 50 Russian companies in various sectors of economy, including seven companies financed by using of funds provided by Western creditors.

The Bank was active in introducing new technologies to finance leasing projects: the Bank financed more than 300 leasing deals under the vehicle leasing and small leasing project programmes taken alone. The level of leasing project funding increased up to \$54 million.

In addition to further development of the project finance activity in 2004, Bank ZENIT introduced new approaches to finance complicated investment projects for its clients using a range of banking instruments and financial services. Such projects include the construction of breweries, large trade centres, supermarket and petrol station networks, and manufacturing enterprises.

Trade Finance and Documentary Business

Bank ZENIT was active in the trade finance and documentary transaction market in 2004. The total amount of letters of credit issued over the last year exceeded \$110 million (70% of them were issued using credit lines opened for Bank ZENIT by Western banks).

The annual amount of issued guarantees exceeded \$255 million, which is \$100 million higher than the 2003 figure. The Bank's limit for guarantees to be issued for the benefit of the customs authorities increased to €40 million in 2004 and, consequently, the Bank was able to increase the amount of customs guarantees issued in 2004 by 28% compared to the preceding year.

In 2004, the Bank implemented the first US agricultural import funding project within the limit established for Bank ZENIT under the Commodity Credit Corporations' GSM-102 Programme, and began transactions to finance import deals using the limit under the short-term insurance coverage provided by Eximbank USA.



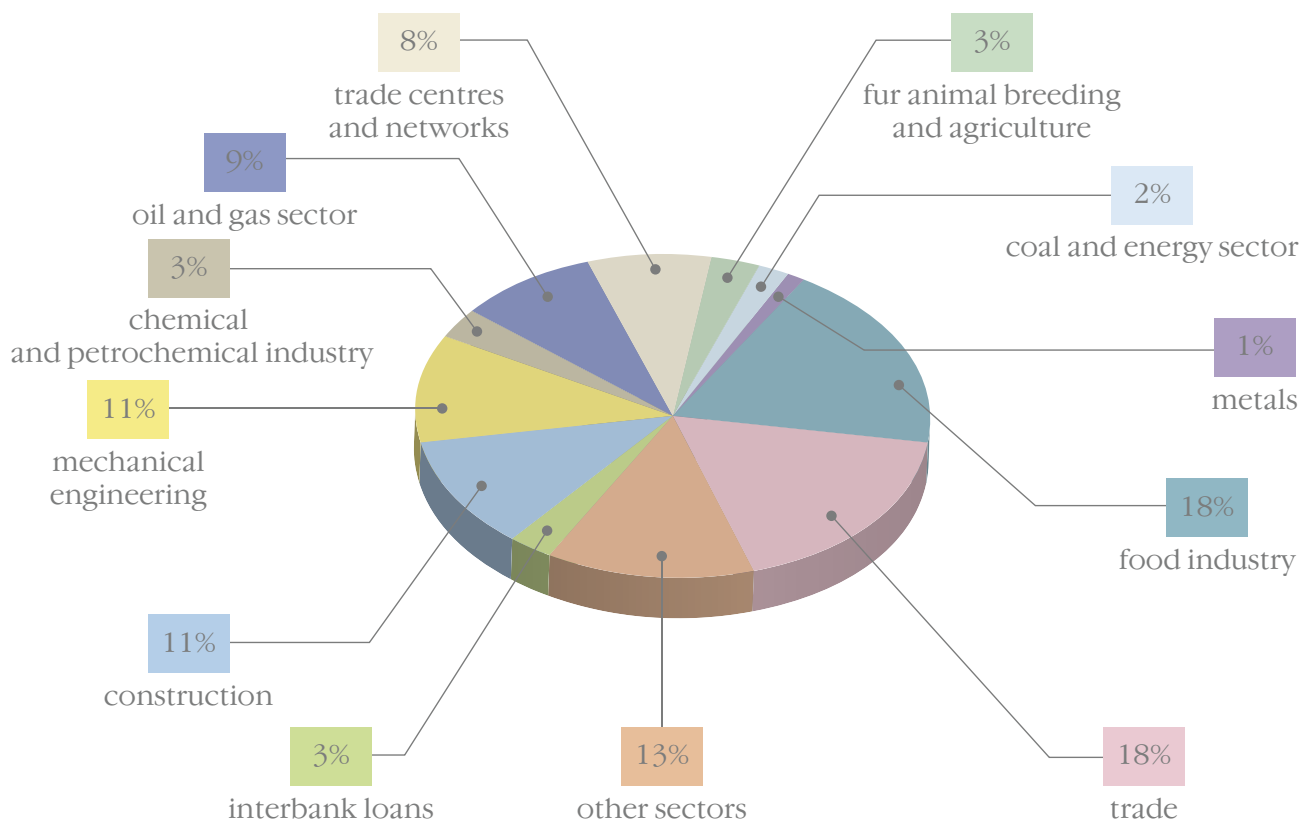


Dawn over Streletskaya Steppe
Victoria Kurbatova
(Kursk)
16 years



Western banks—UBS, Banque de Commerce et de Placement, AKA Bank, etc.—established new documentary credit lines for Bank ZENIT in 2004. At the same time, the majority of correspondent banks, including Raiffeisen Zentralbank Oesterreich AG, Dresdner Bank AG, ING Group, Bank Austria Creditanstalt, BNP Paribas, Finansbank N.V., Kazkommertzbank and others, increased the existing limits. The total amount of credit lines established for Bank ZENIT by foreign financial institutions increased by more than \$100 million, which confirms a high level of trust in the Bank in the international market.

DIAGRAM 5

Loan portfolio structure by the end of 2004

Working Capital Loans

When extending working capital loans in 2004, the Bank focused on the promotion of banking products and services in the financial market which was largely facilitated by the development of its regional network. The average growth of the Bank's regional loan portfolio in 2004 was 79%, partly due to four new branches opened in 2004.

The level of overdraft lending increased by 46% compared to 2003. The average annual growth of total working capital loans was 30%. Most working capital loans were extended to food, mechanical engineering (including military complex), petrochemical, and oil companies.

S E C U R I T I E S T R A N S A C T I O N S

In 2004, the Bank's turnover on MICEX stock market was more than RUR42 billion, and that on futures market over RUR4 billion, a growth of 2.2 and 3.3 times, respectively, compared to 2003.

The Bank's specialists are experienced in investment portfolio management and can work not only in a growing market but also in a unfavourable market situation, which was demonstrated by two general bank management funds (GBMF) with different strategies that were operating successfully throughout the year. The value of the Bank's GBMF net assets increased during the year to RUR783 million (*Dokhodny* RUR662 million, and *Universalny* RUR121 million). By the end of 2004, the profitability of GBMF *Dokhodny* (an aggressive management strategy) was 31% and that of GBMF *Universalny* (a low-risk management strategy) 14.7% (*cf.* the RTS index growth was only 8.26%).

Arranging debt financing remained one of the Bank's priorities in 2004. Bank ZENIT has long been among Russia's largest lead managers of bond issues, and has become a reliable partner for its clients as regards the implementation of large-scale debt programmes. Last year, the Bank lead managed bond issues (total nominal value RUR6.4 billion) for OJSC Salavatnefteorgsintez, OJSC Krasny Vostok—Solodovpivo Brewery, OJSC Nefis Cosmetics, and OJCS Ak Bars Bank, and co-lead managed 15 other bond issues (total nominal value in excess of RUR43 billion).





The Wind
Ekaterina Babanova
(Moscow)
16 years



Besides, Bank ZENIT was an official co-lead manager of 8 Eurobond issues launched by corporate issuers from Russia, Ukraine and Kazakhstan. The total nominal value of the issues exceeded \$1.7 billion, and it was the most representative co-lead management of such issues by Bank ZENIT over the entire period of its operation.

FUND RAISING TO FINANCE THE BANK'S OPERATIONS

The Bank's first rouble-denominated bond issue in the amount of RUR1 billion placed at an attractive rate was one of the most significant events of the year. The widest possible range of investors and a large-scale support in the secondary market helped to achieve a high liquidity of the issue and provided for the minimum falling in prices compared to other bank's securities in the context of banking sector instability in summer 2004.

The fact that the Bank managed to take an unsecured syndicated loan of \$20 million at LIBOR+3% was another undoubted success.

TRANSACTIONS WITH THE BANK'S VEKSELS AND DEPOSIT CERTIFICATES

In 2004, Bank ZENIT paid much attention to establishing a sustainable liability framework using its own debentures for the purposes of long-term investment programmes, lending programmes and project financing for corporate clients. Average balances in the Bank's debt instruments were about RUR5 billion and \$74 million, i.e. over 1.8 times more than in 2003. At the same time, total fund raising reached RUR9 billion and \$190 million. The Bank had counterparties among petrochemical, auto production, construction, and military complex companies, as well as financial institutions such as banks, and insurance, investment and management companies.

Due to the stability of sources of financing, the Bank was able to perform purchase-sale transactions to support its own veksel market, including early buy-back, lending against pledge of veksel, and REPO deals. The volume of such transactions grew in 1.7 times over the year up to more than RUR1.2 billion.

The Bank's veksel remained a useful and convenient instrument for the counterparties to execute settlements for the supply of products and provision of services. The clients purchased the veksel for settlement purposes both with their own money and through veksel credits. Compared to 2003, the total amount of extended veksel credits increased by 117% up to RUR2.1 billion.

In 2004, the Bank was active in arranging veksel programmes for oil, auto producing, food and trade companies offering domiciliation services in respect of the companies' veksel. The total amount of domiciled veksel redeemed in 2004 was RUR575 million while the total value of all domiciled veksel was RUR1.9 billion.

Using veksel the Bank attracted from its Western counterparties more than \$7 million under the programme to finance foreign trade contracts.

Increased volume of veksel lending in regions, extended geography of veksel circulation, and the establishment of stable longer-term liabilities due to an active co-operation between the Bank (its branches) and the counterparties was the Bank's major performance indicator in respect of its own debentures in 2004.

F O R E I G N T R A D E P R O J E C T S A N D T R A N S A C T I O N S W I T H C L E A R I N G C U R R E N C I E S

Relying on its qualified staff and vast experience in supporting international operations, Bank ZENIT advises its clients on foreign trade issues, directly participates in foreign trade project design, and assists its clients in establishing business contacts with the official and business circles in other countries.



Sunrise in Birch's Grove

Evgenia Agafonova

(Novoshakhtinsk

Rostov Oblast)

16 years



Seeking to provide the best possible terms and conditions to its clients, Bank ZENIT established correspondent relations not only with the largest US and Western European banks, but also 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, Abu Dhabi Commercial Bank), 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), Sudan (Omdurman National Bank, Tadamon Islamic Bank), Tunisia (Banque de l'Habitat), Thailand (ExImBank, Thai Military Bank), Malaysia (Hong Leong Bank Berhad, Public Bank Berhad), Indonesia (PT Bank Central Asia), South Korea (Shinhan Bank), and Brazil (Unibanco).

Besides, the Bank established good long-term 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 CBR, as well as in actions taken within the framework of the Asian Pacific Economic Cooperation (APEC) Forum.

In 2004, as during the last few years, Bank ZENIT, seeking to meet the requirements of its clients, Bank was one of the largest market operators 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 value of deals with clearing currencies transacted by Bank ZENIT in 2004 (first and foremost, settlements with India) exceeded \$40 million equivalent.

Clients interested in using clearing currencies for settlements with their counterparties under foreign trade contracts, or in selling their export revenues in clearing currencies are offered a full range of services that include, in particular, opening and administration of accounts in clearing currencies, transaction of documentary deals, pre-export financing, and extension of loans to finance import of Indian goods to Russia.

D E P O S I T A R Y S E R V I C E S

Bank ZENIT has been offering its clients a broad range of services in the securities market for nearly 10 years. Depositary services that provide for the registration, certification and execution of securities holders' rights are one of the components of that activity.

The Bank's depositary is a large facility which is ranked 25th by the market value of depositors' securities held in custody, as assessed by the last depositary survey conducted in 2004 by the INFI Foundation together with the Professional Association of Registrars, Transfer Agents and Depositaries.

Bank ZENIT depositary represents the interests of its clients in almost all segments of the domestic and international securities markets and can conduct transactions of any degree of complexity.

The value of securities which have a market value and were deposited with the depositary has exceeded RUR 11 billion. Altogether 539 corporate issuers (companies and institutions) deposited their securities with the Bank, and the number of transactions increased up to 640,000 a year.

A positive shift in major performance indicators of Bank ZENIT's depositary was accounted for by an increased flow of assets deposited in the Bank's custody which due to the attraction of new clients and a quantitative growth of transactions conducted, which is another confirmation of a high level of trust in and clients' satisfaction with the quality of the Bank's depositary services (two principal performance assessment criteria).

The Bank's depositary provides services to both professional participants of the securities market (other depositaries, brokers, nongovernmental pension funds and their management companies, banks, and investment companies), and private investors.

The users of Bank ZENIT's depositary services have an opportunity to trade securities on all large trading sites in Russia: RTS Stock Exchange, Saint Petersburg Currency Exchange, Saint Petersburg

Stock Exchange, and MICEX. Besides, Bank ZENIT is a nominal holder in the registers of more than 100 issuers.

To improve the reliability and efficiency of its depositary Bank ZENIT took further efforts last year to update the depositary operating system. The new system would make it possible to optimise the current document processing procedures and create a basis for further technological development of the depositary.

T R A N S A C T I O N S W I T H P R E C I O U S M E T A L S

Bank ZENIT sold over 13 tons of gold in 2004. Practically all gold was exported to Switzerland, England, and UAE. The turnover on Bank ZENIT metal accounts with foreign banks exceeded 55 tons of gold.

The precious metal market in 2004 was characterised by significant upward and downward changes in gold prices. In that context, the Department of Precious Metal Transactions hedged the clients' gold in the most efficient way as a result of which the clients generated additional profit from gold sales.

5. ASSET AND LIABILITY MANAGEMENT



In 2004, the banking system as a whole was characterised by a lower growth rate compared to 2003. Nevertheless, 2004 was a year of outstripping development for Bank ZENIT in terms of major business indicators and activities.

The Bank's asset/liability and liquidity management concept is based on the proposals of the Basel Committee on Banking Supervision and the recommendations of the Bank of Russia.

The principal goal of the asset/liability management system is to maximise the Bank's profit (ROA, ROE) at a given level of the overall risk, and to ensure that the Bank meets all commitments to the shareholders and clients (liquidity maintenance) in a timely manner.

Liquidity risk is the most significant risk for a commercial bank operating in the Russian financial sector. Therefore, liquidity management plays a system-base role in the Bank's asset/liability management.

Given a trend towards decreasing bank margin and an increasing competition in the bank market in 2004, Bank ZENIT focused on the modernisation of its resource management system. An improved internal pricing methodology, a better system to analyse the Bank's resource value, and well organised analytical work allowed a timely response to external changes in the resource management.

It should be noted that timely actions enabled the Bank to balance its asset/liability structure and rather easily overcome the negative consequences of banking sector instability observed in summer 2004.

There were positive trends in mid- and long-term resource management. Using a dynamic system of interest margin assessment, the Bank succeeded in taking timely response actions to market changes and maintaining a stable interest margin at a moderate level of interest risk.

Thus, efforts taken last year, combined with the impacts of earlier implemented procedures, allowed improving the efficiency of the asset/liability management system. As a result, the Bank was able to maintain its competitive market position, on the one hand, and improve the bank margin relative to the average market level, on the other hand.





Rural Life
Ekaterina Gemanova
(Kemerovo)
14 years



6. RISK MANAGEMENT



Since the very beginning, the Bank has been paying increased attention to the development of integrated risk management.

The risk management system is based on two fundamental principles:

- Risk assumption shall be a collective decision made by the Asset and Liability Management Committee and the Credit Committee.
- The Risk Management Department shall be positioned as a division responsible for independent assessment and control of the Bank's risks, and for the development of risk reduction proposals. In order to comply with this principle, the Bank has an organisational structure where the Risk Management Department is separated from divisions that initiate risk assumption.

The Bank's activity is associated with traditional banking risks, including the credit, market and operational risks. Special importance is being attached to the assessment and management of the Bank's reputational risk now that the share of funds raised in open capital markets is growing rapidly.

The risk management policy is now applicable to all divisions of the Bank, from the headquarters' departments to the branches, and is based on the current guidelines for the assumption of risks, the approval and carrying out deals, as well as on approved limits and other operating rules. The existing guidelines for the assumption of risks and approval of deals include the reaching an agreement with the Risk Management Department. The risk management tools include:

- A continuous rating system for corporate clients, and borrowers' allowable ratings dependent on their default probability ratings;
- A model to calculate default probability of debt securities issuers based on the analysis of quotation spread distribution for non-risk securities;
- Statistical estimates of the probability of losses and bad debt recovery from borrowers of the same quality category;
- Procedures to estimate market risks using the Value-At-Risk method (and its common modifications); use of sensitivity analysis; and stress testing;
- Risk estimates for the Bank's retail business development programmes (loans to individuals); and setting and monitoring the use of allowable risk limits;
- Estimates of the Bank's structural risks (liquidity, interest and currency risks) by separating and analysing the stability of attracted funds and their placement using the relevant market indicators, by the Bank's client and counterparty;
- Approved maximum allowable losses under the Bank's consumer lending programmes, securities portfolios, and specific positions;





Morning on the Volga

Marina Evstropova

(Samara)

14 years

- A flexible and well-developed structure of limits for the Bank's operations designed to diversify and reduce the Bank's risks, including continuous monitoring and control procedures; and
- Regulation of interaction between the Bank's divisions in critical situations.

The risk concept and risk management procedures shall change dynamically with the development of the Bank's customer base and regional network, diversification of transactions, growth of volume indicators, and changes in business environment. Further development of the Bank's risk management system is related to the need to improve the adequacy of risk assessments, address the issue of dynamic capital distribution with due regard for risks and the penetration (integration) of risk management policies and procedures into all areas of the Bank's activity, including transactions, portfolios, procedures and organisational structure, with a view to sustainable income generation.

7. REGIONAL DEVELOPMENT



DEVELOPING THE NETWORK OF BRANCHES

The year 2004 was characterised by a steady growth of major performance indicators of the Bank's regional divisions.

Within the approved Regional Development Concept, Bank ZENIT opened 4 new branches in Rostov-on-Don, Kazan, Chelyabinsk and Samara, and an additional office in Novokuznetsk (Kemerovo Oblast).

Therefore, the Bank has the following geography of regional divisions:

- ☛ Kazan
- ☛ Almetyevsk
- ☛ Nizhnekamsk (*additional office of the Almetyevsky Branch*)
- ☛ Saint Petersburg
- ☛ Gorno-Altaiisk
- ☛ Kemerovo
- ☛ Novokuznetsk (*additional office of the Kemerovsky Branch*)
- ☛ Kursk
- ☛ Nizhny Novgorod
- ☛ Rostov-on-Don
- ☛ Chelyabinsk
- ☛ Samara.

In 2004, the total assets of the Bank's branches increased by 68.8% up to approximately RUR 11 billion. The amount of loans extended throughout the regional network was more than RUR 6 billion by the end of 2004, that exceeds the 2003 indicator by 27%. As of late 2004, the regional loan portfolio was 27% of the Bank's aggregate loans.

Funds attracted by the regional divisions from corporate clients amounted to approximately RUR 3,5 billion by the year end that represents more than a 70% growth.

All new subsidiaries of Bank ZENIT generated profit in 2004.

Within the framework of regional business development and based on the 2004 performance indicators, the regional branches were active in servicing clients treated by the Bank as strategic customers, particularly those representing coal, auto production, energy, construction, chemical and food industries.

Apart from their traditional relations with large regional corporate clients, the branches continued to focus on the development of the retail business. In particular, aggregate individuals' deposits in 2004 amounted to about RUR 1.6 billion which is 24.5% higher than in 2003. The branches launched mortgage and auto lending programmes for individuals.

The total amount of clients' funds as of the year end exceeded RUR 5 billion, a 46% growth compared to 2003.

In 2004, the Bank continued its co-operation with Russia's regional administrations. It is implementing a number of projects with the participation of the Tatarstan and Altai Republics, Altai Krai, and Tula and Rostov Oblasts.

In 2005, the Bank intends to establish its divisions in the Tumen Oblast, and participate in various projects in a number of other large regional centres throughout the Russian Federation.





My Sunrise
Aidar Galimov
(Kazan)
18 years



8. IMPROVEMENT AND DEVELOPMENT
OF BANKING TECHNOLOGIES



The Bank of Russia adopted a number of important documents in 2004 which significantly affected the Bank's operating technologies, including the requirement of daily control of obligatory ratios, changes in establishing loan loss provisions, and participation in the Insurance System of Individuals' Deposits. Bank ZENIT completed the test and successfully introduced new technologies that met the CBR's requirements.

As far as information technologies are concerned, 2004 was a year of the Bank's corporate computer network improvement.

Computer networks of the new branches in Rostov, Samara, Chelyabinsk and Kazan were put into operation as part of the Bank's integrated corporate network. There were significant qualitative changes in the corporate network, as well: it started using the technology of private virtual networks, including Internet, a fault-resistant remote file system, and Microsoft Directory Service.

To improve the readiness of its information resources the Bank updated the server fleet, developed new contingency plans, and organised training sessions on how to activate the stand-by sets of equipment of the Bank's principal information systems.

An extensive experience of the Bank's IT experts provided for a quick development of software for the new line of the Bank's consumer lending products (mortgage, auto and express loans). The software is based on the developments of the Bank staff in the field of accounting, document flow and risk management computerisation.

In the future, we are planning to address new tasks relating to further improvement and development of management and information technologies designed to enhance the Bank's competitive advantages.

9. CHARITY PROGRAMMES AND SPONSORSHIP



In 2004, Bank ZENIT continued to develop its charity and sponsorship programme in accordance with the best traditions of Russian art patronage.

Much attention was paid to children both in the context of various creative and sport projects, and, unfortunately, in conjunction with sorrowful events.

The agony of the Beslan tragedy echoed in the heart of every Russian citizen, and the Bank staff were no exception. Voluntary donations by Bank ZENIT personnel and allocations made by the decision of the Board formed a fund to aid the victims of the act of terrorism. To ensure targeted delivery of the aid to the most affected children and the use of funds for eligible purposes the Bank sent its representatives to Rostov-on-Don where the injured were staying at local health facilities.

The Third Bank ZENIT Rugby Cup Tournament was kind of performance review of children's rugby schools *Slava* established by the cognominal Moscow-based club and the Bank. *Slava* (Kazan) and *Slava* (Almetyevsk) were among the top winners in the tournament that attracted 18 teams from 11 Russia regions.

Bank ZENIT, together with Operation Smile, an international charity health organisation, financed free reconstructive surgery on children with facial deformities. Unique surgical operations were performed by qualified international experts.

As part of the celebratory campaign devoted to the coming 10th anniversary of the Bank, ZENIT sponsored large-scale festival Russia's Young Talents organised by the Master Class Creative School. It also supported master classes, creative competitions and concerts in Almetyevsk, Nizhny Novgorod and Kursk that were held within the framework of the festival and enjoyed great success.

The older generation did not remain unnoticed by the Bank either: on the occasion of the V-Day, Bank ZENIT organised the already traditional charity actions in support of World War II veterans that took place from 6 to 21 May 2004 in Moscow.





A Quiet Dawn on the River
Alexandr Dovydenkov
(Lipetsk)
15 years



10. INSTITUTIONAL DEVELOPMENT



The Bank's institutional development in 2004 was consistent with the selected strategic priorities. In connection with the introduction of a number of new retail products, the Bank opened a few additional divisions to provide services to clients. The Bank's regional network continued to expand, and by the end of 2004 ZENIT had a total of 1,249 staff.

Staffing its growing divisions by qualified personnel was a priority of the Bank's human resources policy in 2004. The development of modern and more complicated bank products, and enhanced competition in the market dictated more stringent recruitment requirements. Special emphasis was made on theoretical knowledge of relevant banking issues, as well as to practical experience and specific achievements. Besides, the Bank was taking continuous efforts to select promising university graduates and undergraduates. In addition to a structured interview, the candidate selection process involved professional testing on various aspects of banking operations.

In 2004, the Bank staff took part in various training activities to improve their qualifications. Over 200 people were trained under more than 100 programmes. In view of significant changes in the regulatory framework and regulators' requirements, training focused on information distribution activities with the participation of the key experts of the public regulators, as well as on the receipt of obligatory professional certificates. Much attention was paid to the Bank's staff participation in meetings, including international conferences, to share knowledge on the "best practices" banking technologies and products. The Bank has many specialists who enjoy a high reputation in the banking market, have spoken at the most representative forums and published articles in prestigious business editions. The Bank also increased the number of internal staff secondments to train the personnel of newly opened branches, additional offices and operating cash desks.

Improving the motivation system was the key aspect of the human resources policy in 2004. The most valuable and promising staff were classified as the Bank's personnel reserve. The best staff received awards and valuable gifts. The Bank was developing a system of benefits and remunerations, including health insurance, loans on relatively privileged terms and conditions (inter alia, overdraft loans), and corporate events, including staff children's parties and activities. The Bank, together with the National Nongovernmental Pension Fund, developed a nongovernmental pension program for the Bank staff.

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