



Bank and History

Historical Circular

No. 1

End of February 2003

Preface

In order to improve communication with its members, the Historical Association of Deutsche Bank has launched the publication of this historical newsletter. It is produced with simple means, and plans are to publish it three to four times a year. We would like to call to mind events from the history of Deutsche Bank that have in some way made history – on a small or large scale. I hope you'll find it enjoyable reading.

Manfred Pohl
Executive Chairman of the Board of Management

The London Debt Agreement

On February 27, 1953, representatives of nineteen nations gathered in Londonderry House in the British capital to put their signatures on a contract text which they had negotiated during long and hard debates: the agreement on the regulation of German foreign debts. The conference had begun almost exactly one year before.

However, its pre-history went back even further. As early as 1950, the occupation powers demanded the Federal Republic recognize German foreign debts. Negotiations on this were not easy, seeing as there was much to be considered, such as the question as to whether the Federal Republic of Germany would have to assume responsibility for all of the debts of the German Reich. In a coordinated exchange of correspondence, the German government and the Allied High Command came to an agreement on the recognition of debts on March 6, 1951.

The first negotiations began in July 1951. To lead the German delegation, Chancellor Adenauer had appointed Hermann J. Abs, who at that time was working for the Reconstruction Loan Corporation (KfW) on the Board of Managing Directors as the delegate member of the Board of Supervisory Directors (Abs did not officially return to Deutsche Bank until 1952). In late autumn,

a conference followed in London at which debts from the Allies' post-war economic assistance were discussed – including that of the Marshall Plan. For the Germans, there was not all that much to negotiate, seeing as the Allies had already worked out everything among themselves.

At around the same time, Adenauer took a decision promising reparations to Israel, which was to make the coming debt negotiations significantly more difficult. After that, at different locations and with different delegations, two conferences were now taking place at which Germany's ability to pay was the subject of debate: in London negotiations were being held on the regulation of pre-war debts starting at the end of February 1952; in Wassenaar near The Hague, discussions began in April between German and Israeli delegations on how much the Federal Republic of Germany could and wanted to pay to Jewish organizations for the indemnification of National Socialistic injustice.

At the end of May 1952, the two negotiations underwent a crisis. In London, the German delegation presented an offer that bowled over the creditors. For a short time, it appeared as if the negotiations would be broken off. However, informal discussions brought the parties closer to a solution until

the meetings in plenum could be started once again, and the principal features of an agreement were agreed on August 8. The originally estimated German foreign liabilities were able to be reduced by approximately one half to DM 14.5 billion.

What came next was working out the text of the agreement, which in turn still raised questions of fundamental principle. Also, the temporarily interrupted Israeli negotiations could be continued once again. The Federal Republic of Germany promised to pay DM 3.45 billion to Israel and Jewish organizations. From today's perspective, the amounts that were under dispute at that time seem comparatively small; we have, however, become used to juggling with billions. One must keep in mind, the entire budget of the Federal Republic of Germany was DM 23.2 billion in 1952. At that time, the foreign debts, according to the London Debt Agreement, amounted to almost DM 95 million, seeing as interest claims of a few German bonds from the years 1945 to 1952 were once again restored by German reunification.

The London Debt Agreement had to be forced through against domestic political opposition and short-sighted representatives of interest groups, but it once again gave the German Federal Republic creditworthiness. The debt capital was fundamentally left untouched – although the cancellation of the gold clause also reduced the amounts of principal – but allowances were achieved from the creditors regarding repayment of principal, interest and repayment period.

Based on this insightful solution, the agreement has again and again been brought forward as a model for rescheduling debt. Abs himself worked out a regulation in 1969 for the Indonesian government based on similar principles. Today, the London Debt Agreement is renowned as a role model, above all, in connection with the debt problems of developing countries, and statements to that effect will undoubtedly accompany the 50th anniversary of its signing.

In the wake of politics a hundred years ago - the Baghdad Railway

Even if during the last few weeks of high political tension in connection with the name Baghdad a railway does not necessarily come to mind, this route still fascinates: it attracted as much international attention a hundred years ago as it is today obsolete technologically and as a transportation route. No other railway had provided for so much turbulence. Wilhelminian thirst for action collided with the interests of other major powers on the territory of the Ottoman Empire. The Baghdad Railway never reached its destination under German participation.

In 1888 and 1903, the Turkish government granted a consortium under Deutsche Bank's leadership the concessions for the construction and operation of a railway that was to connect Istanbul at one end and Baghdad at the other. Although the construction of the Anatolian Railway still was able to reach Konya smoothly in 1896, from then on political opposition mounted. Negotiations on the extension of the Railway from Konya to Baghdad took up the seven years to follow. Disputes with other European powers, whose political and economic spheres of influence were now increasingly being affected,

repeatedly brought the Baghdad Railway into the center of public discussion. Its internationalization never was successful, and later, WW I put an end to all endeavors in this direction. Additionally, problems arose with financing, seeing as the government in Turkey continually found itself in need of money and the debt administrator of the Ottoman Empire, under international supervision, refused the guarantee payments. Only on March 5, 1903 could the agreement on the construction of the first section of the Baghdad Railway be signed. The concession was to run for 99 years and construction was scheduled to be completed within eight years, despite the difficult terrain. The document was signed by Arthur von Gwinner and the Turkish Minister Zihni Pascha. Gwinner later reported on his memories: "The continuation of the Asia Minor railway from Konya through the Taurus and Amanus mountains down to the Basra sea harbour should and could have become the backbone of Turkey in its entirety at that time. Reason enough that the Russians were against it. However, to provide Turkey such a benefit, we had to take up a Turkish bond and pay high baksheesh to all dignitaries.

Only the honorable old Turk Zihni Pascha, Minister for Public Works, displayed integrity. Our director had offered him the usual six-digit compensation payment. 'I am an old

man,' responded Zihni, 'I will soon appear before Allah. Should I burden my soul just before that?'"

An anniversary not taking place

On March 30, 1903, Bankers Trust Company opened for business in New York with eight staff members in two rooms of a building in Liberty Street in the financial district of Manhattan. The necessity for the foundation lay in American banking law, which prohibited commercial banks from engaging in trust business activities. Around the turn of the century, the American economy was prospering and, accordingly, the demand was growing for fiduciary services. Seeing as the trust companies doing business in the city were in competition with banks for deposits and loans, the idea was born that the trust business could be outsourced, so to speak, to a company to be founded by the banks. Thus, the name was created, which initially was sometimes even written with an apostrophe: Bankers' Trust. The driving force behind its establishment was Henry P. Davison of the First National Bank of New York. Other leading prominent figures in the first few years of Bankers Trust were Edmund C. Converse, Thomas Lamont and Benjamin Strong, who later led the Federal Reserve Bank of New York until his premature death.

The bank grew rapidly and had to look around several times for new offices. In 1912 it built the highest bank building in the world at that time on the corner of Wall Street and Nassau Street. To do so, a building that was only thirteen years old of already 19 storeys

had to be torn down. With its roof pyramid above 37 floors, the building became a trademark of Bankers Trust. The slogan "a tower of strength" was used for quite some time in its advertising. It was first in the seventies with the new construction at 130 Liberty Street – which was heavily damaged during the attack on the World Trade Center – that the old building, which had meanwhile been declared a historical landmark, was allowed to shed its indispensable character.

Through changes in legislation during WW I, Bankers Trust's original raison d'être was repealed. It thus became a "normal" bank and could be found for many years among the ten largest banks in the United States. In the fifties, a third pillar was added as Bankers Trust entered into broad-scale retail banking and set up a dense network of branches through acquisitions of other banks. This period lasted for approximately three decades. At the end of the seventies, the decision was taken to withdraw from this field of business. The branches were sold, and the bank became a wholesale bank. During the eighties this strategy was quite successful, but in the nineties Bankers Trust entered into a crisis which ultimately rendered it a takeover candidate. At the end of 1998, the acquisition by Deutsche Bank was announced – as a "merger among equals" – and completed in June 1999.

Hermann Wallich on the 75th anniversary of his death

Hermann Wallich had the mixed blessing of working for almost a quarter of a century with the gifted banker Georg von Siemens in adjacent offices. It was a blessing in that the two opposing natures were able to balance each other out in this way to the benefit of the bank, but also a curse because Wallich's name was always outshone by that of his colleague. Siemens incorporated the boldness that continually opened new fields of business for the bank in its early years; whereas Wallich, the calm, calculating banker of the old school first closely examined the risks and then made his

decisions. Siemens, who often shocked Wallich with his "bold thirst for action," called him the bank's conscience.

Born in Bonn in 1833, Wallich was a widely travelled man. But this was not to be expected from his feelings as he left his hometown at sixteen: "No one was there to accompany me as I travelled away from home for the first time and, crying silently over my loneliness, I pressed my countenance into the cushions of the railway wagon that carried me to my destination." At the Cologne Bankhaus Jacob Cassel, Wallich learned the banking business and then

moved on to Paris to Cahen d'Anvers, his uncle's bank. For a few years, he directed the offices of the Comptoir d'Escompte on Réunion, an island in the Indian Ocean, and when he saw that its economy based on sugarcane would be no match against the competition posed by European sugar beets, he made the unusual proposal that the management in Paris dissolve his own position. Shortly afterwards, he took over the direction of the Comptoir d'Escompte branch in Shanghai. He remained in China for three years and, as he himself reported, his lifestyle was of the high feudal period: "I had an entire house to myself, a coach and horses in the stable and a whole troop of servants who individually received meagre pay, but also only provided services according to their specialization, so that, for example, the dish-washer and shoe-shiner did not have anything to do with the table-setter... For my personal service, a good looking Chinese boy was appointed who cared better for me than the shrewdest valet. He waited during the day in the antechamber to my office, let in visitors and knew how to turn away nuisances. An excellent cook provided for nourishment, and my table was set daily for at least six guests."

The contrast of this world of luxury to the barren Berlin, not wholly unaffected by war, which he came to in 1870, is something he felt very strongly: "People went past each other stiffly and coldly, and I missed the cheery happiness of the cities on the Rhine... It was the first city I came to with no previous acquaintances and I remained a stranger to it for a long time. Also, the reception from the leading figures of the bank which I was to join was cool and nothing more than cordial. Abroad in a similar situation, I would have been immediately invited to dine in their company. Here, this was out of the question. I was not even offered a glass of sugar water. When I returned to my hotel room in the evenings, I could have cried I felt so lonely and deserted." Nonetheless, Wallich was successful in coming to terms with Deutsche Bank and was later able to discover a good

heart behind the frosty exterior of the Berliners.

Deutsche Bank, founded six months earlier, still "resided" in the first floor of a small house in Französische Strasse. One of the first members of the Board of Managing Directors, Wallich was the only banking professional. Without him, it would have been difficult to put the bank's ambitious plan into action considering that the turnover of personnel among its management level was initially quite high: three members of the Board of Managing Directors remained only for short periods of time. Only when Rudolf Koch, in 1872 – initially just as Deputy – and later in 1873, when the 23-year-old Max Steinthal joined, was the core of the Board of Managing Directors formed and it changed only slightly during the two decades that followed, although expanding business made new appointments necessary. Above all, Wallich was decisive in driving the bank's international expansion. Blessed with an exceptional memory, ongoing business was also his domain, and he was reported to have known – over the course of many years – the daily balance of each borrower's debts. Wallich refused to accept the title "Kommerzienrat", a title conferred on distinguished businessmen, even if he later regretted this decision: "In a country like ours, where so much value is placed on differences in rank and outward appearances, one cannot fight well enough against the current, and it would be an error in any case to refuse an award, if it is offered – especially in younger years." But he stood fast in this regard. The Berlin Police President stated for the record in 1904: "Wallich would take no pleasure in the 'Red Eagle Order 4th Class', considering much younger colleagues have already been granted the 'Order of the Crown 3rd Class'." At 95, already a legend of a bygone pioneering era in banking, but still a member of the Supervisory Board of Deutsche Bank, Hermann Wallich died in Berlin on April 30, 1928. His memoirs, written in 1904, were published by Deutsche Bank in 1929 in a private publication.