



## Bank and History

### Historical Review

No. 17

September 2008

#### Returning to the international capital market: the second step in 1958

West Germany developed from a capital-seeking to a capital-exporting country after only few years into the period known as the "economic miracle": the need for foreign capital for reconstruction was no longer in the foreground, but rather the search for investment possibilities for Germany's domestic capital. In light of the growing surpluses in Germany's balance of trade and the resulting risk of inflation, the German Federal Government promoted the export of private capital abroad in the late 1950s. It liberalized cross-border transfers of capital, discontinued the monitoring of foreign debtors' raising of capital and provided foreign bonds with tax privileges. Starting in 1956, Germans could acquire foreign securities without any restrictions, and as from 1957, foreign business investments were freed from all approval requirements. The Federal Republic of Germany was one of the few countries that had no official approval requirements and no official limit for the issuing of foreign bonds. Only a foreign exchange permit had to be obtained from Germany's Bundesbank. The full convertibility of the D-Mark in 1958 opened up Germany's capital markets definitively for international bonds.

As early as 1957, Deutsche Bank participated in the issue of a dollar-denominated bond of Petrofina (see No. 14 of the *Historical Review*). Spokesman of the Management Board Hermann J. Abs was looking for possibilities to place a DM-denominated foreign bond. In the same year, he was able to establish contact to Anglo American Corporation of South Africa, which wanted to take up such a bond.

At this time, Deutsche Bank had increased its focus on Africa. Above all due to its wealth in raw materials, Africa was considered a continent with promising economic prospects. However, the dawning decolonization was an unpredictable political factor. South

Africa drew special attention as the most highly developed country economically, with the strongest market economy. For their part, South Africa's government and sections of its business community were interested in a stronger involvement of continental European and, in particular, German companies. This was intended to mitigate the dominant economic influence in South Africa of the segment of its population of English descent. The German Federal Government expressly promoted economic relations with South Africa. Germany's export interests were also involved here, as the raising of capital for industrial developments in South Africa was often linked to the issuing of orders to the originating country's industry.

Thus done and signed on the 16th September, 1958  
in Frankfurt (Main), Germany.

For and on behalf of

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA, LIMITED

For and on behalf of

DEUTSCHE BANK AKTIENGESELLSCHAFT

The bond contract signed for the Anglo American Corporation by Harry F. Oppenheimer and Esmond C. Baring; for Deutsche Bank by Hermann J. Abs and Heinz Osterwind.

Thus, it came to be that the first foreign bond on Germany's capital market since the start of the First World War was issued by Deutsche Bank for a South African company in 1958. The Anglo American was one of the largest mining finance companies of South Africa, with a large number of subsidiaries

and shareholdings. Founded in 1917 by the Jewish businessman Ernest Oppenheimer, who came from Friedberg in Hesse, the company profited from the globally increasing demand for raw materials and the strong economic development of South Africa following the Second World War. It specialized in gold, diamond, coal and copper mining in the South African Union as well as the Federation of Rhodesia and Nyassaland. Due to reciprocal capital participations, the Anglo American was closely affiliated with the De Beers mining group. Together, they formed one of the most important private corporate groups in South Africa. With its sales organization located outside the country, the De Beers Group sold more than three-quarters of the world's annual production of raw diamonds.



Blank form of the Anglo American bond of 1958

Many years later, Abs disclosed how he had convinced his colleagues on the Management Board to approve this exposure: "One of the rules of Deutsche Bank was that a bond had to be approved by every member of the Management Board. I decided to speak to each member in turn. I telephoned after midnight with one after the other and asked whether they would approve my proposals if each other Management Board member were to do the same. Each declared

they would be prepared, and in this way I gained the approval to proceed as I had wanted to." Thus, the bond was brought onto the market by Deutsche Bank alone, without a syndicate, as Abs did not want to share the prestige of having issued the first foreign bond with other banks.



Following the signing, Abs gave an interview in his office to a reporter of the regional radio broadcaster, Hessischer Rundfunk.

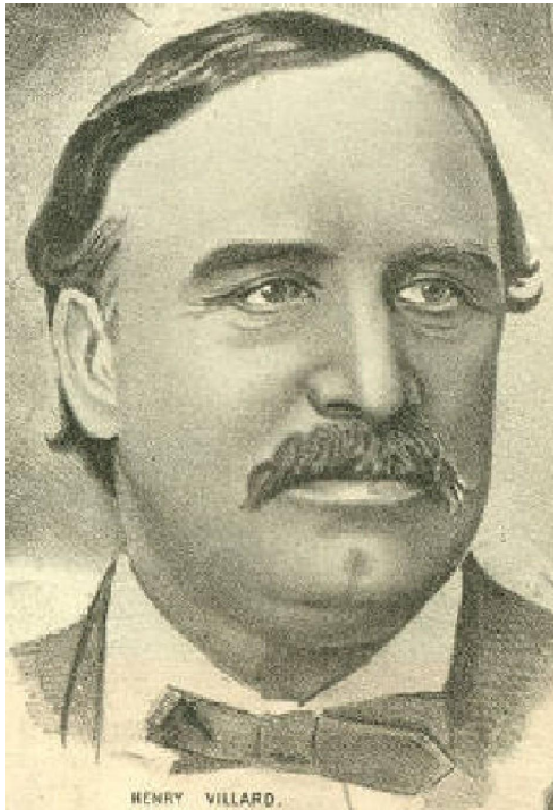
And yet the political environment surrounding the bond was controversial. At approximately the same time, Hendrik F. Verwoerd took office as Prime Minister – an "impatient Apartheid theoretician with a stunning intellect and nearly fanatic will," as the *Frankfurter Allgemeine Zeitung* portrayed him. The interests of Anglo American were not compatible with Verwoerd's policies of strict racial segregation. The company depended on its black workers, and its president Harry F. Oppenheimer criticized the government's race policies at every opportunity offered. At the general meeting of his company in 1960, he dedicated two-thirds of his speech to this topic.

At DM 50 million, the bond's volume was not of an exceptional size for Deutsche Bank. In contrast, its business-policy importance was considered to be very high, along with its influence on the development of the international capital market. Approximately one third of the bond volume was allocated to foreign banks. On October 1, 1958, Deutsche Bank placed the debenture bonds it had underwritten for sale to the public on the Frankfurt Stock Exchange. They bore interest of 5½ percent and were thus slightly above the level of the German capital market. Already on the first day, the bonds were oversubscribed several times over. Creditors were able to exchange their bond units up until maturity on September 30, 1963, for common shares of

the company – the Anglo American was the first foreign stock listed in Germany. And most bondholders ultimately did so, except for a small remainder.

### Staging an event: the completion of the Northern Pacific in 1883

On September 8, 1883, an illustrious group of politicians, businessmen, military leaders, railwaymen and journalists gathered near a small town in the wilds of Montana in America. They came to celebrate the conclusion of a large project: Henry Villard, President of the Northern Pacific Railway, had sent invitations around the world to persuade this thoroughly mixed group of people to travel to an isolated location. As he was no fan of half-hearted undertakings, the invitation was part of a three-week trip across the United States with the assurance: "It is the company's wish that its guests should not have any personal expenses during the entire journey."



Henry Villard in 1883: "He is tall and burly with broad shoulders, a big chest and strong neck. The profile of his gentlemanly face has noble features. His already greyed, well-groomed hair lays close to his head. Under the high smart forehead clear, open eyes shine brightly. His mouth and chin show an unusual energy." (Paul Lindau)

At this time, Deutsche Bank did not yet have any business relations with the Northern Pacific. But Friedrich Kapp, member of the

Supervisory Board of the bank and a veteran of the 1848 revolution, was friends with Villard, having returned to Germany in 1870 after two decades spent in the United States. Kapp procured the invitation to the trip for the Management Board Spokesman Georg Siemens. Another member of the group was Herman Marcuse, another influential member of the Supervisory Board.

The German travel group, approximately thirty people, left Bremerhaven on *Norddeutsche Lloyd's* steamer the "Elbe" on August 15, 1883. The ship reached its destination with a delay so that Villard, who had wanted to welcome his guests as early as possible, had sailed towards them on the preceding evening in a yacht to no avail. After the arrival in Hoboken, he accompanied them on a ferry chartered especially for this to New York. The German visitors presented Villard with a handcrafted, magnificently designed book containing their signed photographs that weighed about 30 pounds.

After a comprehensive sightseeing tour, trains with several additional special wagons left the city on the evening of August 29, heading west. Here, too, there was no lack of sightseeing tours, in order to demonstrate the progress in settling and economically developing the Wild West. And Villard knew how to make the journey a triumph march. Thus, as they gradually approached from the East, additional trains came from the West Coast, heading for the destination near today's Gold Creek – which was registered one hundred years later as a historic site of the State of Montana.

The stretch of track had in fact already been completed on August 22. A newspaper article reported that work had begun at five in the morning and was completed at three in

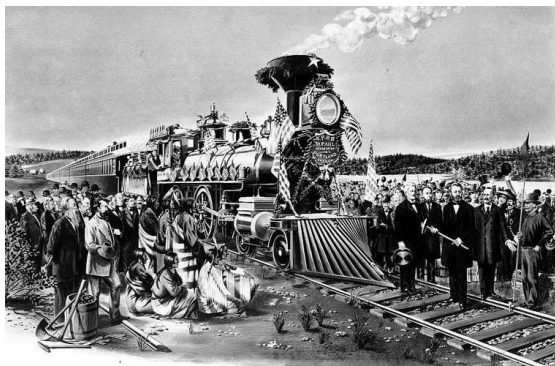


Laying track in Montana circa 1882

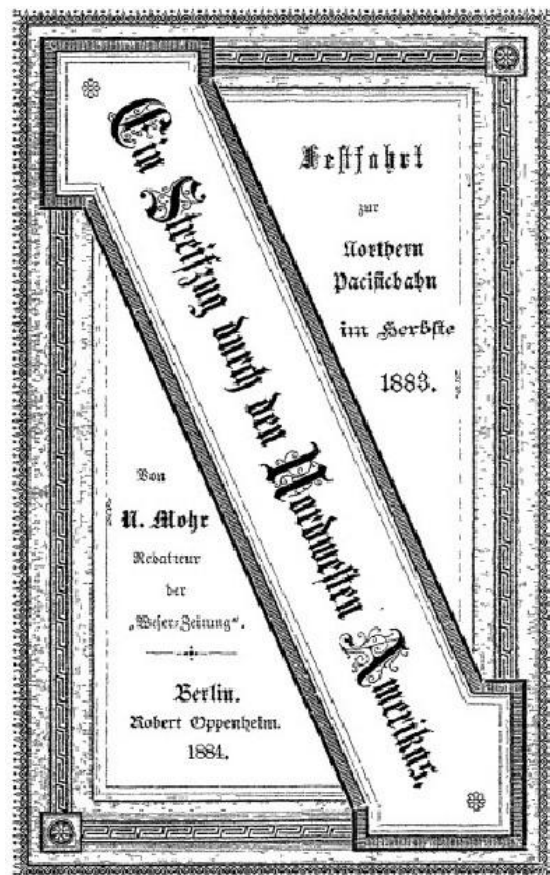


the afternoon, after five miles of track had been laid – from each direction, both the West and the East – the largest daily performance since the beginning of the Northern Pacific's construction. However, in order to make the planned celebration a demonstration of the technical skill of the track construction crew, the two stretches were not laid in their final location, but only temporarily over several hundred metres. As the train coming from the West was delayed, it was late in the afternoon, after numerous speeches, before the last railway spike could be set. But, contrary to most reports, it was not a golden or even a gilded spike, as was customary at such ceremonies, that was driven in as the hammer went from hand to hand, from the former U.S. President Ulysses S. Grant to Villard's little son, but rather a plain old iron spike. However, this does not mean that it was an ordinary one: reportedly, it was the exact same railway spike that had first been hammered in when the Northern Pacific's construction started, and consequently the last person to drive the spike in was H. C. Davis, who had done so thirteen years previously with the first one. In addition to the invited guests, a larger group of viewers had found their way to the isolated location, estimated at 3,000 to 5,000 attendees, and their enthusiasm must have been indescribable: "The heights reverberated with their cheers."

Anton von Werner, known for his large-scale paintings of important events from the history of the German Empire, had received an invitation from Villard to paint a large-sized picture of the celebration. Although he was keen on the prospects of undertaking a trip to America in the company of so many prominent people, the painter had to decline because of his recently completed monumental work, as he had learned that the



An artistic presentation, probably slightly modified, of the joining of the track in 1883



The completion of the Northern Pacific was echoed in numerous press articles; furthermore, in Germany two extensive travel reports were published soon afterwards.

Emperor intended to lend the honour of his presence to the ceremonial unveiling of the panorama on the memorial day of the Battle of Sedan. Werner thus recommended his colleague Konrad Dietz for the work, who then actually travelled to America. *The New York Times* was already able to report that the size of the "monster painting" would be 20 by 15 feet and that the princely sum of 20,000 dollars had been agreed upon; however, the picture never came to pass as the client was no longer in the services of the Northern Pacific only a few months after the completion of the railway. The immensely exceeded construction costs had brought the company into a state of crisis.

As to Deutsche Bank, the extravagance that Villard had undertaken to impress his guests did not go unrewarded: the bank participated in the financing of the Northern Pacific – an exposure which was to cause several headaches during the next two decades, but which ultimately turned out well.

## Remembering Paul Millington-Herrmann

Paul Herrmann was born in Hamburg on November 10, 1858. His father was the director of *De Chapeaurouge & Co. Succ.*, a traditional bank with Huguenot roots, where the books were still kept in French. Against expectations, Paul, who had not always been a convincing pupil, decided to take up the same profession. He remembered for the rest of his life how his father on the morning of April 11, 1876, took leave of him at the door of his apprenticeship master's with tears in his eyes saying, »now, try to be a respectable chap! I'm afraid nothing will come of it«. He completed his apprenticeship at *Haller Söhle & Co.*, then one of the richest private banks in Hamburg, however, it had to cease payments in 1907 following mismanagement by the subsequent generation. At the end of his apprenticeship, Herrmann worked for six months at the Hamburg branch of *Mendelssohn & Co.* and completed his military service before going to Spain, where he met the subsequent Spokesman of Deutsche Bank's Management Board, Arthur Gwinner, then still Director of the *Banco General de Madrid*, who invited him to go to a bull fight with him. Trips to England and France followed.

Back in Germany, after his father had been able to form a better opinion of him, in 1883, he became first an authorized signatory and



In the late 1920s

### In his own words I

*Each exchange transaction of this kind brings about a vast amount of technical procedures in our bank and as all executive and senior staff are up to their ears in work as a result of the enormous stock market, foreign exchange, loan and discounting business, it is technically impossible to carry out these new transactions with a reasonable amount of integrity and to manage the adjustment of the newly integrated (procedures) to the head office successfully. Therefore, we have to be honest and open with ourselves, that we must not carry out any transactions which are technically difficult to execute [...].*

Letter to Philipp Martens dated October 12, 1922, on a takeover of the Lübecker Privatbank

then a partner in his father's company. Due to inconvenience and annoyance owing to his sharing the same name with a Brunswick-based company, in 1891 he applied to the Hamburg Senate to have his name changed. From then on, he added his English wife's maiden name and called himself Millington-Herrmann.

When the German Stock Exchange Act increased the risk associated with arbitrage operations in the mid-1890s, in which *De Chapeaurouge & Co. Succ.* was predominantly active, Millington-Herrmann left the company, which went into liquidation shortly after. He rekindled his acquaintance with Arthur Gwinner, with the result that *Deutsche Ueberseeische Bank* sent him to Chile, where it was intending to expand its operations. Almost simultaneously, the *Disconto-Gesellschaft* founded the *Bank für Chile und Deutschland*, with the result that instead of one, there were now two German foreign banks looking for business in Chile. *Deutsche Ueberseeische Bank* was ahead by a nose in this increasingly stiff competition. A merger of both banks was considered only two years later but nothing came of it. These were difficult years both economically and politically for Chile, a situation which posed many obstacles to the creation of a new bank. Nevertheless, with the exception of Valparaíso, where Millington-Herrmann was working, branches were opened in four other cities. He also embarked on a study trip to Peru and Bolivia, the results of which were useful for

the further expansion of the bank. »I found it very gratifying to create something new and wholesome from nothing«, recalled Millington-Herrmann decades later. However, this was not without risk: in 1897 he contracted typhoid fever, but contrary to all the doctors' expectations, he recovered; »the tin box in which my remains were to be laid was already in the cellar«.

After returning to Germany, Millington-Herrmann was appointed member of the



Overseas trip to South America in 1929

Management Board of *Deutsche Ueberseeische Bank* in 1899. He left the bank in 1901, when, following the collapse of the *Leipziger Bank*, he organised the opening of a branch of Deutsche Bank in Leipzig in the space of a day. This was followed shortly after by a branch in Dresden, where he took over the management. The bank rewarded his success in Saxony by appointing him to the Management Board in 1911, where he was responsible for overseas business. He only left the bank at the end of 1928 at the age of 70, thereafter joining the Supervisory Board of Deutsche Bank until 1934. Paul Millington-Herrmann died on May 24, 1935.

#### In his own words II

*As to your proposals for a better identification of our branch using company signs, I agree to the name of Deutsche Bank also being placed perpendicular to the front of the building. It will most certainly be advantageous if the sign can be seen and read at eye level and also from a distance, thus making it easier to find the way to the bank. I am less enamoured of your suggestion to affix an automatic neon sign, as I believe this kind of advertising lies somewhere beyond the limits of what is suitable for a bank. In the evening, the public is less likely to devote its attention to the opportunities that a bank can offer and tends more to seek out places of recreation whose bright lights cannot be overlooked.*

Letter to Wilhelm Wilke (Magdeburg Branch) dated June 14, 1928

## Lost & Found

### Strict conventions

»Employees who are found to have removed crockery or cutlery belonging to the Club or canteen will in future be excluded from

attending these charitable institutions.« (Deutsche Bank Head Office Berlin circular dated August 3, 1922)