

*Salomatina S.A.* Investment banking in Russia, 1890-1917. From Pioneering Finance to Universal Banking // Investment Banking History: National and Comparative Issues (19th-21st centuries) / Ed. by Hubert Bonin and Carlo Brambilla. — (Euroclio Etudes et Documents/Studies and Documents: Vol. 78 ) — Bruxelles, Bern, Berlin, Frankfurt am Main, New York, Oxford, Wien: Peter Lang, 2014. — P. 347-380.

## **Investment Banking in Russia, 1890-1917: From Pioneering Finance to Universal Banking**

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The chapter analyses investment banking in pre-revolutionary Russia. In the focus of its attention there are banking services on initial public offering for private companies' securities. This activity became a mass phenomenon in the 1890s for the first time. This research is an attempt to investigate making and evolution of Russian investment banking in the aspect of banking models' development. It proves that investment banking for private companies appeared throughout traditional activity of several commercial banks in St. Petersburg, dealing with services to public and mortgage bond market and intensive currency speculation caused by fiduciary standard. However, private companies' demand for investment banking appeared persistently in the peak of pre-revolutionary economic growth by 1895, and the Petersburg banks switched over to private stock as a new subject for exchange transactions. In the beginning of the 20th century the crisis revealed weak points of the 1890s investment banking, and they were overcome by universal banking development by the 1910s.

This chapter analyses investment banking in pre-revolutionary Russia. In the focus of its attention there are banking services on initial public offering for private companies' securities. This activity became a mass phenomenon in the 1890s for the first time. Our study reveals prerequisites of this trend stemming into the 1860s — the 1880s, peculiarities of Russian investment banking in the 1890s, this banking model's hardships in the crisis and depression period in 1899-1908, as well as integration of Russian investment banking into universal banking in the 1910s.

This research is an attempt to investigate making and evolution of Russian investment banking in the aspect of banking models' development. It proves that investment banking for private companies appeared throughout traditional activity of several commercial banks in St. Petersburg, dealing with services to public and mortgage bond market and intensive currency speculation caused by fiduciary standard. However, private companies' demand for investment banking appeared persistently in the peak of pre-revolutionary economic growth by 1895, and the Petersburg banks switched over to private stock as a new subject for exchange transactions. Investment banking in "Petersburg style" was also observed outside St. Petersburg, but rarely. In the beginning of the 20th century the crisis revealed weak points of the 1890s investment banking, and they were overcome by universal banking development by the 1910s.

The chapter summarises findings of investigations in several fields of Russian economic history: the studies of economic and industrial growth by Paul Gregory, Lev Kafengauz;<sup>1</sup> the

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<sup>1</sup> Paul R. Gregory, "Poisk istiny v istoricheskikh dannyh", in Valery I. Bovykin (ed.), *Jekonomicheskaja istorija. Ezhegodnik, 1999*, Moskva, Rossijskaia politicheskaja entsiklopedija (ROSSPEN), 1999, pp. 471-500. P.R. Gregory, "Jekonomicheskaja istorija Rossii: chto my o nej znaem i chego ne znaem. Ocenka jekonomista", in Valery Bovykin and Yuri A. Petrov (eds.), *Jekonomicheskaja istorija, op. cit.*, pp. 7-97 (English version of article's title: "Russian economic history: What we know and do not know. An economical appraisal"; Lev Borisovich

equity market research by Iosif Gindin and Valery Bovykin;<sup>2</sup> studies of international banks' syndicates on issues of Russian securities in Russia and abroad by Boris Ananych and Sergey Lebedev.<sup>3</sup> The government's struggle for currency stabilisation in the period 1880s-1895 is analysed under Pavel Lizunov's monograph.<sup>4</sup> The principal tendencies of relations between banks and industrial companies are derived from Bovykin's research<sup>5</sup>; the facts and trends of Petersburg and Moscow banking are obtained from Bovykin's and Yuri Petrov's studies<sup>6</sup>. Summaries on Russian banks' models are based on Sofya Salomatina's research<sup>7</sup> as well as on analysis of Russian banks' public reports. A special attention has to be paid to a role of state in history of Russian investment banking. In what degree did banks rely on the government support or state participation in their projects? In what degree did these accounts come true? The current findings of investigations cover this issue relatively in a new way.

The four parts of the chapter analyse, firstly, the preconditions of investment banking spurt in the 1890s; secondly, Russian banking models in the period of flourishing investment banking in the 1890s; thirdly, investment banking difficulties in crisis period, and fourthly, qualitative changes in banking models in connection with transition to universal banking in the 1910s.

### 1. The factor of investment banking origin

This section analyses the necessary factors, concurred in the 1890s for the first time and created circumstances for spurt of investment banking for private companies. These factors can be divided into four groups for convenience. Firstly, there were industrial and banking growth; secondly, development of equity market; thirdly, making of banks, specialised on equity market services; fourthly, successful pressure on currency speculation on the Russian government's part. These factors have to be examined thoroughly for understanding of economic circumstances in which investment banking became apparent tendency.

#### A. Industrial and banking growth resumption in the 1890s

The modern economic growth occurred in Russia since the 1880s. General tendencies of this stage are industrial growth, reduction of agriculture percentage and growth in service percentage; population growth increased firstly then slowed down; an income distribution's model gradually changed.<sup>8</sup> Russian industrial production rate was extremely fast for the last 25 years before WWI. Rate estimations varied from 5.1 per cent per Raymond Goldsmith's index to

Kafengauz, *Jevoljucijapromysh- lennogoproizvodstva Rossii*, Moscow, Epifaniia, 1994, p. 22-23, 70.

<sup>2</sup> Iosif Frolovich Gindin, *Russkie kommercheskie banki: iz istorii finansovogo kapitala v Rossii*, Moscow, Gosfinizdat, 1948, pp. 391-405, 444-447. Valery Bovykin, *Finansovyj kapital v Rossii nakanune Pervoj mirovoj vojny*, Moscow, Rossiiskaia politicheskaia entsiklopediia (ROSSPEN), 2001, pp. 93-111.

<sup>3</sup> Sergei K. Lebedev, *S.-Peterburgskij Mezhdunarodnyj kommercheskij bank vo vtoroj polovine xix veka: evropejskie i russkie svjazi*, Moscow, Rossiiskaia politicheskaia entsiklopediia (ROSSPEN), 2003, pp. 213-346, 462-475. Boris V. Anan'ich and Sergei K. Lebedev, "Uchastie bankov v vypuske obligatsii zheleznodorozhnykh obshchestv (1860-1914 gg.)", in Sergei Ivanovich Potolov (ed.), *Monopolii i ekonomicheskaja politika tsarizma v kontse XIX — nachale XX v.: K probl. ist. predposylok Velikoi Okt. sots. revoliutsii*, Leningrad, Nauka, Leningr. Otd-nie, 1987, pp. 3-41.

<sup>4</sup> Pavel V. Lizunov, *Sankt-Peterburgskaja birzha i rossijskij rynek cennyh bumag (1703-1917gg.)*, St. Petersburg, Izdatel'stvo 'Russko-Baltiiskii informatsionnyi tsentr "Blits"', 2004, pp. 241-251.

<sup>5</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala v Rossii*, Moskva, Izd. Mosk. un- ta, 1967, pp. 203-291. Valery Bovykin, *Formirovanie finansovogo kapitala v Rossii. Konets XIX v. — 1908 g.*, Moscow, Nauka, 1984, pp. 128-156.

<sup>6</sup> Valery Bovykin and Yuri Petrov, *Kommercheskie banki Rossijskoj imperii*, Moskva, Perspektiva, 1994.

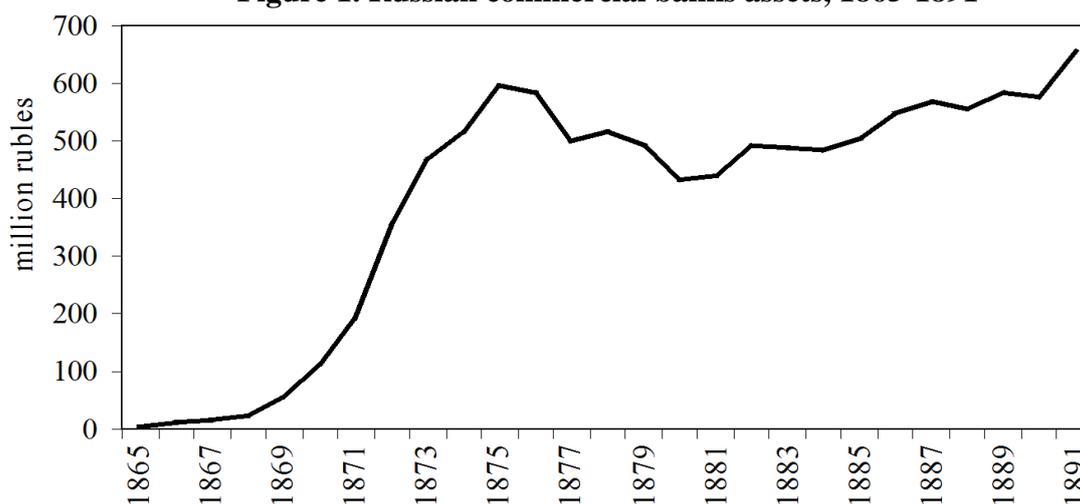
<sup>7</sup> Sofya Salomatina, *Kommercheskie banki v Rossii: dinamika i struktura operacij, 1864-1917 gg.*, Moskva, Rossiiskaia politicheskaia entsiklopediia (ROSSPEN), 2001. Sofya Salomatina, "Modeli kommercheskikh bankov v Sankt-Peterburge i Moskve, 1864-1917 gg.", in Boris Anan'ich (ed.), *Kredit i banki v Rossii do nachala XX v.: Sankt-Peterburg i Moskva*, St. Petersburg, Izd-vo SPbGU, 2005, pp. 328-343.

<sup>8</sup> Paul Gregory, "Jekonomicheskaja istorija Rossii: chto my o nej znaem i chego ne znaem. Ocenka jekonomista", pp. 9, 13-23.

6.65 per cent per L. Kafengauz' index.<sup>9</sup> By the first estimation Russian growth of large-scale industry competed with main rapidly growing countries, by the second one Russian industry grew more rapidly. But then Russia was still substantially backward in economic and social per capita indicators, although growth rates per capita revenue remained just 85 per cent from average European measure.<sup>10</sup>

The most rapid development was in the period from 1889-1892 to 1901-1904. These years the drastic industrial alterations were based on machinery, mechanical transport, mineral fuel, coke, cement, modern chemical materials, although this process had been started even in the middle of the 19th century. The most intensive reconstruction was held in railroad facilities, industrial engineering and urban development. Before the 1890s this growth was caused by import of metals and intermediate products to a considerable degree. The demand for heavy industry production was reliably provided and the domestic heavy industry appeared at last in the 1890s.<sup>11</sup>

**Figure 1. Russian commercial banks assets, 1865-1891**



The banking system resumed growth only in the 1890s. Earlier Russian banking history had the following milestones. The modern banking system started to develop in Russia since the 1860s. The first joint-stock commercial bank was established in 1864, by 1873 there were about forty commercial banks, and roughly the same number of banks was kept until 1917. Before 1875 a situation at financial market had been relatively favourable, but since 1875 the period of crisis and long depression began. Total commercial banks' assets<sup>12</sup> in 1875 were exceeded only in 1891 (see Figures<sup>13</sup> 1 and 2). The development of earlier decades found vent in a quantitative and qualitative spurt in the 1890s. This decade became one of the most striking periods in Russian economic history before 1917.

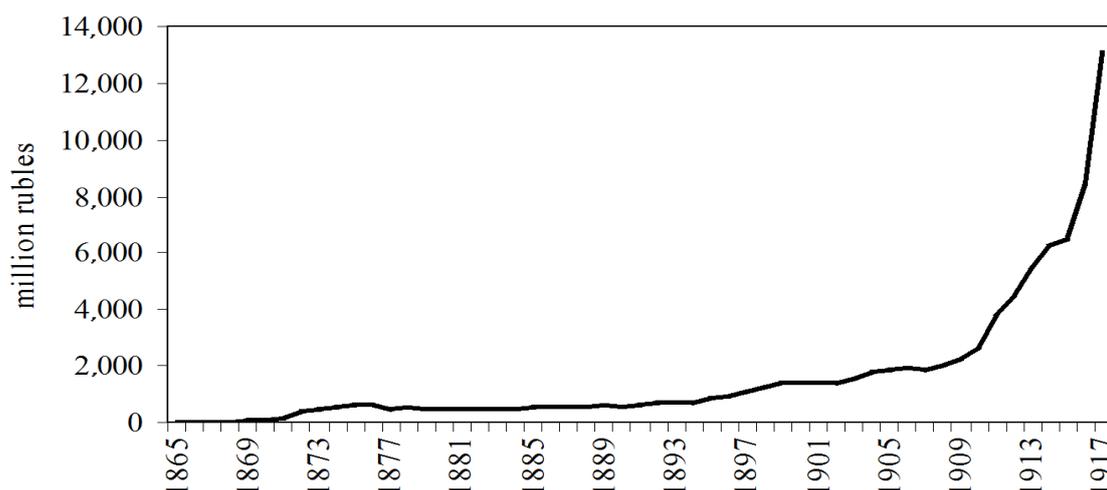
<sup>9</sup> Paul Gregory, "Poisk istiny v istoricheskikh dannyh", p. 478.

<sup>10</sup> Paul Gregory, "Jekonomicheskaja Istorija Rossii: chto my o nej znaem i chego ne znaem. Ocenka jekonomista", p. 18.

<sup>11</sup> Lev Borisovich Kafengauz, *Jevoljucija promyshlennogo, op. cit.*, pp. 22-23. Valery Bovykin, *Zarozhdenie finansovogo kapitala, op. cit.*, p. 201.

<sup>12</sup> Sofya Salomatina, *Kommercheskie banki, op. cit.*, p. 105.

<sup>13</sup> Sources: 1 January 1865-1916. Russkie akcionemye kommercheskie banki v cifrovych dannyh za 1915 g. v sravnenii s 1914 g., Petrograd, Kom. s'ezdov predstavitelei akts. kom. Bankov, 1916, pp. 54-55. 1 January 1917. Svodnyj balans akcionemyh bankov kommercheskogo kredita, deistvuiushchikh v Rossii na 1 janvarja 1917 g., Petrograd. Kom. s'ezdov predstavitelei akts. kom. bankov, 1917, p. 2.

**Figure 2. Russian commercial banks assets, 1865-1917****B. The Russian equity market in the 1860s-1880s**

The exchange upturn occurred at the well-established equity market in the 1890s. Thereupon Russian domestic and overseas capital issues have to be kept in mind. The market gradually developed since the beginning of the 19th century, but the critical period lasted from the end of the 1850s to the middle of the 1870s, when principal exchange institutions, all types of issuers and investors came into being as well as first exchange upturns and downfalls in up-to-date sense of the word.

**Table 1. Russian securities in 1893 and 1900**

	Russian issuers' securities		Russian issuers' securities, placed in Russia		Russian issuers' securities, placed abroad	
	1893	1900	1893	1900	1893	1900
Par value, million rubles	8,231	11,990	5,369	7,445	2,862	4,545
State bonds and securities, guaranteed by state, except state mortgage bonds, %	71.1	60.9	58.4	45.8	94.8	85.7
State mortgage bonds, %	2.5	4.7	3.9	6.2	0	2.2
Private mortgage bonds, %	14.9	14.9	22.8	24.0	0	0
Municipal bonds, %	0.2	0.7	0.3	1.1	0	0.1
Private companies shares, %	11.3	18.8	14.6	22.9	5.2	12.0
Total, %	100	100	100	100	100	100

Calculated on: V.I. Bovykin, *Finansovyj kapital v Rossii nakanune Pervoj mirovoj vojny*, Moskva, Rossiiskaia politicheskaia entsiklopediia (ROSSPEN), 2001, pp. 102-104. These data on equity market development in 1893-1900 arranged in table 1 were put together and corrected by I. Gindin and then V. Bovykin: I. Gindin, *Russkie kommercheskie banki*, *op. cit.*, pp. 444-452; V.I. Bovykin, *Finansovyj kapital*, *op. cit.*, pp. 102-105.

Russian equity market's main features were an abundance of government and mortgage securities and a slight portion of private companies' shares, which was gradually increasing. Long-term state bonds amounted 60/70 per cent of Russian issues in the second part of the 19th century. A particular part of these securities were railway loans — state and private. The fact of the matter is that almost 90 per cent of private railway stock was guaranteed by the government in various forms,<sup>14</sup> therefore these securities were essentially equal to state bonds. There were two large state issuers at Russian mortgage bond market — State Peasant Land Bank (since 1882) and State Land Bank of the Nobility (since 1885).<sup>15</sup> Outside state equity market there was a large domestic market of private mortgage bonds, developed in the 1860s-1870s. The portion

<sup>14</sup> Sergei Lebedev, *S.-Peterburgskij Mezhdunarodnyj*, *op. cit.*, p. 214.

<sup>15</sup> From here and so on - the list of original Russian banks' names in transliteration in Appendix 1.

of securities of land banks and urban mortgage institutions amounted 22.8/24 per cent of domestic market in 1893-1900. Private companies' securities amounted only 11.3 per cent of Russian equity market in 1893 but this sector was just ready to grow.

In the second part of the 19th century the securities were traded at Russian exchanges: in Petersburg — at the leading Russian exchange, as well as in Warsaw, Moscow, Riga, Odessa and in some other cities. However, Petersburg exchange and Petersburg equity market played absolutely prevailing role in Russian empire, and differentiation between the metropolis and regions was considerable. Russian securities circulated also at European markets. British and French markets prevailed in the 1860s-1870s. Then, since 1884, after Rothschilds' boycott against Russian capitals these securities shifted from Britain to Europe, especially in Germany. But since 1887 tariff and trade war between Germany and Russia had begun and the role of French and Russian domestic markets started to grow. In the beginning of the 1890s unfavourable state of market impeded to amount of Russian issues, desirable by government, so positions of the domestic equity market became still stronger.<sup>16</sup>

The Russian market was filled with new issues. Thus there were about ten issues of long-term loans in the 1860s-1870s and six of them were distributed abroad.<sup>17</sup> More than ten issues took place also in the 1880s-1894, and a considerable part of them were conversions, conducted in Europe in the end of the 1880s in favourable conditions of reduction in discount rate and upsurge of securities rate.<sup>18</sup> The railway securities, guaranteed by state in a majority, were massively launched into market in addition to state funds. There were fifty one issues of Russian railway companies' bonds in the 1860s — the 1890s,<sup>19</sup> and these securities had parity with hard European currencies. In addition to that, twenty six railway companies' loans were distributed in rubles in 1886-1893.<sup>20</sup> By 1 January 1893 the total sum of general-purpose state loans amounted 3,178 million rubles where of 595 millions were placed abroad. Russian guaranteed railway securities amounted 2,671m rubles including 2,118m abroad.<sup>21</sup> Thus Russian equity market developed more than thirty years by the 1890s, though government securities, railway bonds with government guarantees and mortgage bonds dominated at this market for a while. However this market was favourable for making of commercial banks, specialised in equity market services. The next subsection deals with this trend.

### ***C. The making of Petersburg banks' investment specialisation in the 1880s***

Several commercial banks acquired wide experience from securities transactions by the 1890s. These banks' development in the 1880s has to be scrutinised. Russian commercial banks amounted 58.6 per cent of shortterm credit system on 1 January 1893.<sup>22</sup> The largest part of them included discount banks, dealing with services to local trade and industrial firms; some of them had deposit specialisation.<sup>23</sup> However Petersburg, as a centre of Russian equity market, affected some metropolitan banks deeply. In the first place it concerned Petersburg International Commercial Bank and Petersburg Discount and Loan Bank — the future investment banking leaders in the 1890s. Since the 1880s these banks took part in all Russian issues — state, railway

<sup>16</sup> Sergei Lebedev, *S.-Peterburgskij Mezhdunarodnyj, op. cit.*, pp. 233, 235-236, 249, 252-255, 261, 267-272, 344-346.

<sup>17</sup> Estimated on: A. K. Sorokin, "Zaimy", in *Ekonomicheskaja istorija Rossii (s drev-neishikh vremen do 1917 g.): Entsiklopedija*, Moscow, Rossijskaja politicheskaja entsiklopedija (ROSSPEN), 2008, Vol. 1, pp. 798-800.

<sup>18</sup> Estimated on: Sergei Lebedev, *S.-Peterburgskij Mezhdunarodnyj, op. cit.*, pp. 462-466.

<sup>19</sup> Estimated on: Boris Anan'ich and Sergei Lebedev, "Uchastie bankov v vypuske obli-gatsii zheleznodorozhnykh obshchestv (1860-1914 gg.)", pp. 3-41.

<sup>20</sup> Estimated on: Sergei Lebedev, "Peterburgskii Mezhdunarodnyi kommercheskii bank v konsortsiiumakh po vypusku chastnykh zheleznodorozhnykh zaimov 1880-kh-nachala 1890-kh gg.", in S. I. Potolov (ed.), *Monopolii i ekonomicheskaja politika tsarizma v kontse XIX — nachale XX v.: K probl. ist. predposylok Velikoi Okt. sots. Revoliutsii*, Leningrad, Nauka, Leningr. Otd-nie, 1987, pp. 41-65.

<sup>21</sup> Valery Bovykin, *Formirovanie finansovogo kapitala*, op. cit., p. 105.

<sup>22</sup> Iosif Frolovich Gindin, *Russkie kommercheskie banki*, op. cit., p. 69.

<sup>23</sup> Data on Russian banks' participation in international syndicates: Sergei Lebedev, *S.-Peterburgskij Mezhdunarodnyj, op. cit.*, pp. 213-346. 462-475.

and mortgage, domestic and foreign. Russian banking system adopted techniques of paper issue via these banks. Their partners were Russian Bank for Foreign Trade and Volga-Kama Commercial Bank. A number of regional commercial banks acted as sub-participants in syndicates, and a part of them would develop investment banking later in the 1890s, but another part would not progress in this field. The most active sub-participants were following: Petersburg Private Commercial Bank, Moscow Merchant Bank, Warsaw Commercial Bank, Riga Exchange Bank, Petersburg-Moscow Commercial bank, Moscow Trade bank, and Riga Municipal Discount Bank.

In general the Russian equity market may be said to develop as a bank- oriented institution. International banking syndicates distributed Russian securities. Every consortium included a lot of participants and one of the powerful European banks led them. Before the 1880s Russian banks acted as just technical intermediaries. But since the 1880s they gradually became full-fledged participants having real influence on conditions of issues.

It was since the 1880s that international contacts of Russian banks are systematically revealed due to archive of Petersburg International Bank, remained relatively intact for this period in Russian State Historical Archive in Petersburg. Particularly the archive includes correspondence of bank's leaders in the 1880s-1890s. In the issue the international activity of Russian bankers can be investigated in details on these materials. S. Lebedev revealed the particularities of these secret negotiations on syndicates' questions.<sup>24</sup>

In the first part of the 1880s two banking groups competed for Russian issues, and it makes sense to specify just the principal participants. The first group's leader was *Disconto-Gesellschaft*, the other active members being Mendelssohn & Co, Robert Warschauer & Co. and *Deutsche Bank*. The group included Petersburg International Bank and Russian Bank for Foreign Trade from Russian side. Their rivals may be called as "Rothschilds' group",<sup>25</sup> including besides Rothschilds their allies: S. Bleichröder, *Berliner Handels-Gesellschaft* and Lippmann, Rothenthal & Co. In this alliance the Russian side was presented by Petersburg Discount and Loan Bank and sometimes by Volga-Kama Commercial Bank. These groups united in 1887. Russian banks' share amounted usually on third of issue in joint group. Petersburg International Bank and Petersburg Discount and Loan Bank had approximately equal shares, although International bank usually acted as a leader of Russian group and kept syndicates' accounts in Russia.

In 1888-1891 owing to barriers to Russian equities at German market the French group, led by Paribas, joined to Russian issues due to active role of banking house Hoskier E. & Cie, which had been able to open French market for Russian equity throughout intermediary of International Bank in negotiation with the Russian Ministry of Finance. The Russian share in French syndicates was about 20 per cent with International Bank as the leader again. The French side included *Comptoir national d'escompte de Paris* (CNEP), *Société générale*, *Banque d'escompte de Paris*, *Crédit lyonnais* and *Crédit industriel et commercial* (CIC).

As a rule, a syndicate was usually led by bank, in which country the largest part of issue was distributed. However Petersburg International Bank and Petersburg Discount and Loan Bank acted as intermediaries between the syndicate and the Russian government, railway companies, mortgage institutions. This role provided these banks with an ample opportunity to influence on syndicates' affairs. This tendency gained strength as far as importance of domestic market was increasing. The members of the "syndicates for Russian equity" waged a fierce struggle against competitive European banking groups striven to obtain admittance to Russian issues. However serious competition occurred inside the Russian syndicates themselves: between foreign and Russian groups, inside foreign group, between International Bank and Discount and Loan Bank. The reasons why two leading Russian banks clashed against each other consisted in the same field of activity. Both banks had the similar model of operations and single-type customers.

They were simultaneously closed to the Ministry of Finance. International Bank's director

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<sup>24</sup> See reference 23.

<sup>25</sup> Rothschild Frères (Paris), M.A. von Rothschild (Frankfurt am Main), N.M. Rothschild & Son (London).

Vladislav Ljasskij (1831-1889) and Discount and Loan Bank's director Abram Zak (d. 1893) played the roles of financial advisers of Ivan Vyshnegradsky, the Russian minister of Finance in 1888-1892. The minister was suspected of close connections with "Rothschilds' group". His no less close ties with International Bank arose before his appointment to ministerial post, when Vyshnegradsky executed duty of vice-chairman of the South-West Railways Society's board. International Bank provided the company with banking services. Sergei Witte, the successor of Vyshnegradsky as the minister of finance, began his private career at this railway company. International Bank enjoyed support or even auspices of government, and the bank enabled even to bring into play of the State bank's machinery for securities placement at domestic market. After Ljasskij's death in 1889 Adolf Rothstein was assigned to director's position and he enabled to retain bank's privileged positions in the time of the Witte's ministry in 1892-1903. Thus, by the 1890s Russian banking system adopted syndicate's technique. There were at least two banks which were deeply involved in international and domestic issuing transactions. The other Russian banks gradually joined to these operations, led by Petersburg International Bank and Petersburg Discount and Loan Bank.

#### ***D. The end of speculation in ruble***

Russian commercial banks played an active role not only at capital market but at foreign exchange market. A fierce speculation in ruble flourished at some European financial centers in the end of the 1880s and in the beginning of the 1890s. Totals of pre-revolutionary and modern analytics on this phenomenon were summarised by P. Lizunov.<sup>26</sup> This period Russian currency system was based on fiduciary standard. In the first half of the 1880s paper ruble cost 0.63 conventional gold ruble or so called "credit ruble" for international transactions. Since 1885 the exchange rate was dropping until 0.50 by 16 February 1888, then it came up to 0.82 in autumn 1890 and fell again until 0.58 by 7 November 1891. The Russian currency fluctuations were very intensive even in the course of one trading session. The leading speculative centres were Peterburg and Berlin exchange. Several German banking firms specialised in ruble speculation and kept their representatives in Petersburg. The press charged banking institutions with exportation of rubles for speculation. Russian foreign economic activity suffered from unstable currency.

The Russian Ministry of Finance played European currency traders intensively. For improvement in exchange the ministry issued bills of exchange from abroad to Russia and bought up rubles at European exchanges. These operations were provided by foreign agents of the Russian government, for instance the house S. Bleichröder in 1888. The ministry carried out additional issues of rubles for drop in rate. In Vyshnegradsky's period the government didn't step in exchange affairs straightly, but after Witte's accession to office the pressure on speculators began in connection with preparation to transition to golden standard, occurred in 1897. This new course against speculation had been declared since 1893. It's important to note that bargains on term were officially prohibited in Russia, but this practice flourished informally. But in 1893 some new legislative acts reaffirmed illegality of currency transaction on term, they restricted all operations, used for currency speculation, empowered the ministry of Finance to conduct an audit of banking institution, suspected in currency speculation, the minister enabled to put pressure on exchange brokers, board members and directors of banking institutions up to liquidation of business. A custom duty on currency export was imposed on 29 March 1893.

There is no evidence on victims of acts against speculation in contemporary literature, but analysts described quiet conditions at Petersburg exchange in 1893, there were no possibilities for currency gamble any more. The struggle for stabilisation yielded results whether by economic or political measures. The fluctuations of the exchange rate from London to Petersburg amounted 28 per cent in 1891, 9.6 per cent in 1892, 6 per cent in 1893, 1.94 per cent in 1894 and 0.54 per cent in 1895. Petersburg bankers conversed about coming gold standard. Rothstein,

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<sup>26</sup> The subsection is based on: Pavel Lizunov, *Sankt-Peterbureskaja birzha, op. cit.*, pp. 241-251.

International bank's director, wrote a letter to S. Bleichroder in Berlin in April 1895 and outlined alternatives of gold standard reform, known him from contacts in the ministry of Finance, and retold local rumours on this subject.<sup>27</sup> The epoch of fierce currency speculations came to an end.

A new trend occurred at Petersburg exchange since October 1893: the banks' stock price began to come up, then the stock of industrial companies joined to this process.<sup>28</sup> The 1890s upsurge had begun, and activity at the exchange resumed. This rise was concentrated on private shares unlike previous decades. Incidentally, the 1893 acts did not only prohibited futures currency transactions, but permitted bargains on term with private shares for the first time. Thereby the market trend and the economic policy delimited in 1893 two periods of equity market development in Russian empire. Thus, by 1893-1895 some factors, important for investment banking, concurred in Russia: economic growth peak; banking growth resumption; sufficiently developed equity market, where banks, experienced in domestic and even international equity market, prevailed; fiduciary standard period was at its end and set of stockjobber's tools had to be changed.

## 2. The boom of investment banking in the 1890s

Investment banking became a symbol of the 1890s. It evinced in mass private shares issues through intermediary of commercial banks. As a result, the period 1893-1899 became the most striking years of banks' participation in financing of Russian economic growth.

It should be noted that there were no special investment banks in Russia in the 19th century and in the beginning of the 20th century. Investment operations became one of the fields of merchant banks' activity. But in the 1890s several banks, having head offices in Petersburg, had developed investment banking so essentially, that it influenced negatively on their stability in crisis 1899-1903. The peculiarities of Russian investment banking are in the focus of this section's attention. Table 2 includes all data, concerning general estimation of investment banking in comparison with total investment in stock capital from 1893 to 1900. The rapid stock market growth applied to private shares in the first place in the 1890s. This peculiarity occurred for the first time. The total increase in Russian securities at the domestic market consisted of about 30 per cent (see table 1), the increase in private companies' shares amounted almost 140 per cent, and 168.4 per cent — in trade and industrial companies' shares (see table 2). In the issue, the private shares' percentage rose from 14.6 to 22.9 at the domestic market (see table 1). The largest part of private shares consisted of trade and industrial securities — 62.7 per cent (see table 2).

**Table 2. Stock capital in Russia in 1893 and 1900**

	1.01.1893	1.01.1900	Increase front 1893 to 1900
(1) Russian stock capital, million rubles	852.9	2,037.1	1,184.2
<i>Including</i>	476	1,277.5	801.5
(2) Russian trade and industrial stock capital, million rubles			
(2)/(1),%	55.8	62.7	6,9 pct
Heavy industry stock capital's increase, placed in Russia, million rubles			300*
<i>Including</i>			150**
Heavy industry stock capital's increase, placed through intermediary of commercial banks, million rubles			
Stock capital of foreign trade and industrial companies, operating in Russia, million rubles	69.9	281.4	211.5

Source: V. I. Bovykin, *Zarozhdenie finansovogo kapitala v Rossii*, Moskva, Izd. Mosk. un-ta, 1967, pp. 202-203,

<sup>27</sup> A. Rothstein to house S. Bleichroder (Berlin), 11/23 April 1895 (*Rossii i mirovoi biznes: dela i sud'by: A. Nobel', A. Rotshtein, G. Spittser, R. Dizel': Sbornik arkh. dok.*, ed. by Valery Bovykin, translated by I. A. D'iakonova, Moskva, Rossiiskaia politicheskaia entsiklopediia (ROSSPEN), 1996, pp. 84-87.

<sup>28</sup> Pavel Lizunov, *Sankt-Peterburgskaja birzha*, op. cit., pp. 254-255.

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\* — Estimation of V. I. Bovykin.

\*\* — Estimation of I. F. Gindin, *Russkie kommercheskie banki: iz istorii finansovogo kapitala v Rossii*, Moskva, Gosfinizdat, 1948, pp. 90-91.

The leading issuers were mining, metallurgical, metalworking and chemical companies. These shares became the main subjects for speculative transactions at Petersburg exchange and the most popular shares for stockjobbers were following: Society of Bryansk rail-rolling, iron and engineering works,<sup>29</sup> Society of Putilov plants in Petersburg (metalworking), Partnership of Sergino-Ufaleysk mining and metallurgical plants in Urals, Society of Russo-Baltic wagon works in Riga, Society of iron, steel and engineering works *Sormovo* in Nizhny Novgorod, Society of Maltsov plants in Kaluga province (metalworking), Oil company “Caspian partnership” and Baku oil refining society.<sup>30</sup> By I. Gindin’s estimation, confirmed and developed by Bovykin, Russian banks took part in 150 million rubles of industrial issues from approximately 300 million of heavy industry stock, placed in Russia<sup>31</sup> in 1893-1900.

This figure of 150 million rubles is a rough estimate, obtained by I. Gindin by an analysis of banks’ financial statements. The same publications can be used for estimation of investment activity in every bank. But unfortunately, the Russian financial statements didn’t include definite investment items, therefore historians are forced to use indirect indicators. The investment activity can be studied through accounts, registered transactions with securities “not guaranteed by the Russian Government”.<sup>32</sup>

In prerevolutionary Russia securities were usually divided into two groups: firstly, the securities, guaranteed by the government, i.e. securities of government loans, government mortgage bonds, as well as numerous railway shares and bonds, and secondly, the securities, not guaranteed by the government, i.e. all shares of industry, transport, trade and other companies, private mortgage and municipal bonds. These two groups of securities are called “guaranteed securities” and “non-guaranteed securities” in this text for convenience. Debit accounts, concerned to “non-guaranteed securities”, included four items: non-guaranteed portfolio; short-term loans and credit accounts (“on call loans”) against these securities, as well as correspondent *loro* accounts against them. Term loans were usually commercial credits to entrepreneurs. Credit accounts were used both by enterprises and by stock gamblers. Correspondent accounts were used for various settlements between banks, particularly *loro* accounts registered syndicates’ transactions with shares.

However, three principal drawbacks should be taken into account if the investment activity is considered as the sum of non-guaranteed securities’ transactions. Firstly, above-mentioned accounts were substantially broader than necessary for study of investment banking, because they included a large share of short-term commercial loans. Credit accounts were particularly controversial thereupon. For instance it is well known that credit accounts have been actively used for security trading in St. Petersburg, and for lending to manufacturers against their own shares in Moscow.<sup>33</sup> A researcher may divide credit accounts by the types of customers’ activities only on ledgers in banks’ archives, but not on published financial statements.

Secondly, there was no separation by types of securities in published financial statements except concept of “guaranteed/non-guaranteed”, therefore we aren’t able to separate trade and industrial shares, mortgage and municipal bonds inside non-guaranteed portfolio. Thirdly, and perhaps it’s the main problem, not all banks indicated separately operations with government and

<sup>29</sup> From here and so on — the list of original Russian companies’ names in transliteration in Appendix 2.

<sup>30</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala*, *op. cit.*, p. 203.

<sup>31</sup> *Ibidem*, p. 207.

<sup>32</sup> This principle underlies the analysis of banks’ statements, developed by I. Gindin, *Russkie kommercheskie banki*, *op. cit.*, p. 385-386.

<sup>33</sup> Information on credit accounts as a tool for stock market game see: Pavel Lizunov, *Sankt-Peterburgskaja birzha*, *op. cit.*, pp. 263-287. The importance of credit accounts for lending to enterprises in Central Russia see: Yuri A. Petrov, *Kommercheskie banki Moskvy. Konets XIX v. -1914 g.*, Moskva, Rossiiskaia politicheskaia entsiklopediia (ROSSPEN), 1998, pp. 57-80.

private securities. A separate accounting of pledges required some changes in accounting practices; therefore it would make sense only when private securities became mass assets. It happened in St. Petersburg only in the late 1890s. This difference between St. Petersburg and provincial banking is indicated in table 3. The data for calculations were derived from the consolidated balance of joint stock commercial banks<sup>34</sup> on January 1st, 1898. This date applied to the heyday of the industrial boom of the 1890s. The balance included data on all forty commercial banks of the Russian Empire except of the Russo-Chinese Bank, because its financial statement was not sufficiently diversified by various pledges.

Table 3 surveys the accounts, registered non-guaranteed securities. However, direct comparison of these accounts in St. Petersburg and the rest of Russia appears difficult, because the provincial banks didn't provide separate accounting of pledges, as it was already mentioned. Consequently, it is obvious that private securities are underestimated in some banks. It concerns uppermost to huge credit accounts of the Volga-Kama Bank, undivided by pledges, as well as all Moscow banks, except for the Moscow Merchant Bank. But this regional comparison will be possible for operations concerning all types of securities (guaranteed and non-guaranteed by the government). In this case the result is more correct but more general because it reveals the bank's involvement in capital market as a whole. But in any case table 3 reveals that the operations with non-guaranteed securities were much larger in St. Petersburg as compared to provincial banks. It concerned three accounts, decisive for investment banking: security portfolio, credit and correspondent *loro* accounts against non-guaranteed securities. Ten banks, invested the largest assets in private (non-guaranteed) securities and all types of securities, are represented in tables 4a and 4b, and three important conclusions follow from the tables.

**Table 3. The average percentage of securities operations in banks' regional assets on January 1, 1898**

	Security portfolio		Pledges on term loans		Pledges on credit accounts ("on call loans")		Pledges on correspondent <i>loro</i> account		Total	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
St. Petersburg banks*	2	10	0,2	1	19	24	12	19	33,2	54
Outside of St. Petersburg:										
Provincial divisions of Petersburg banks	1	4	2	5	13	17	2	3	18	29
Entirely provincial banks**	1	8	4	8	***	9	1	2	***	27

Notes:

The table contains the average values, weighted by the regional banks' assets.

(1) — Private (non-guaranteed by the government) securities for banks that reported this item in their statements.

(2) — Government and private securities (all types of securities).

\* Data on 11 head offices and branches in St. Petersburg. Head offices: Petersburg International Commercial Bank, Petersburg Loan and Discount Bank, Petersburg Private Commercial Bank, Petersburg-Azov Commercial Bank, Petersburg-Moscow Commercial Bank, Russian Bank for Foreign Trade, Russian Trade and Industrial Bank, Crédit lyonnais (Russian headquarters). Petersburg branches: Moscow Merchant Bank, Warsaw Commercial Bank. The data on the head office of the Volga-Kama Commercial Bank were included only in calculations on all types of securities.

\*\* 29 banks except 11 specified in note \*.

\*\*\* The item was published in reports of 2 banks of 29, which is insufficient for correct calculation.

Calculated on: *Svodnyj balans akcionemyh kommercheskih bankov na 1 janvarja 1898 g.*, Sankt-Peterburg, Korn, s'ezdov predstavitelei akts. kom. bankov, 1898, pp. 1-7.

Firstly, the leading of role of head offices of Petersburg International Commercial Bank (PICB) and Petersburg Discount and Loan Bank (PDLB) is clearly revealed in any grouping of statistical data, despite the fact that they ranked second and sixth Russian banks, respectively, in terms of assets. The top ten includes banks, close to the model of operations of PICB and PDLB: Petersburg Private Commercial Bank; Petersburg-Moscow Commercial Bank; Petersburg-Azov

<sup>34</sup> *Svodnyj balans akcionemyh kommercheskih bankov na 1 janvarja 1898 g.*, St. Petersburg, Kom. s'ezdov predstavitelei akts. kom. bankov, 1898, pp. 1-7.

Commercial Bank (table 4a). These five banks concentrated in investment activity 33- 39 per cent of their Petersburg assets. They operated in Petersburg, having minimal number of branches in the provinces. The press and contemporary analysts started a tradition to call these banks “investment banks” or even “speculative banks”. Surely this cliché made hints about *Crédit mobilier*, but it was reminiscence but not proper used term.

**Table 4a. Commercial banks, placed the largest assets in private securities (non-guaranteed by the government) on 1 January 1898\***

#	Banks	Operations with private securities, thousand rubles	% in bank's regional assets	Rating of assets, 1 — max
1	Petersburg International Commercial Bank (head office)	32 363	37	2
2	Petersburg Loan and Discount Bank (head office)	24 885	39	6
3	Moscow Merchant Bank (outside Petersburg)	18 636	23	3
4	Russian Bank for Foreign Trade (Petersburg head office)	14 023	28	8
5	Petersburg-Azov Commercial Bank (head office)	10 628	38	16
6	Petersburg-Moscow Commercial Bank (head office)	10 178	37	18
7	Russian Trade and Industrial Bank (Petersburg head office)	9 863	29	11
8	Petersburg Private Commercial Bank (head office)	8 931	33	19
9	Petersburg International Commercial Bank (branches)	7 438	24	14
10	Moscow Merchant Bank (Petersburg branch)	7 054	43	26

Secondly, large banks with numerous branches — Russian Bank for Foreign Trade and Russian Trade and Industrial Bank — developed investment activities in St. Petersburg in a slightly smaller share than “the investment banks” — 28/9 per cent of regional assets. Thirdly, it’s curiously enough, but the two largest Russian deposit and discount banks — Volga- Kama Commercial bank and Moscow Merchant bank — dealt with investment in Petersburg in the 1890s, while in general these banks focused on lending to trade and industrial customers. The high position of these two banks in tables 4a and 4b are due to a large amount of their credit accounts, but they related mostly to the entrepreneurial lending, as other studies argue.<sup>35</sup> But their Petersburg divisions were statistically more similar to “investment banks” than to provincial banks. Thus, the statistics of securities transactions places on top the Petersburg banks. However, the leading Russian banks are known not only from the statistical data, but from other sources, created a broad context to the quantitative data.

**Table 4b. Commercial banks, placed the largest assets in all types of securities on 1 January 1898**

#	Banks	Operations with all securities, thousand rubles	% in bank's regional assets	Rating of assets, 1 — max
1	Petersburg International Commercial Bank (head office)	48 789	55	2
2	Petersburg Loan and Discount Bank (head office)	40 045	63	6
3	Moscow Merchant Bank (outside Petersburg)	31 799	40	3
4	Volga-Kama Commercial Bank (Petersburg head office)	31 118	59	7
5	Volga-Kama Commercial Bank (outside Petersburg)	27 460	26	1
6	Russian Bank for Foreign Trade (Petersburg head office)	20 062	41	8
7	Russian Trade and Industrial Bank (Petersburg head office)	17 518	51	11
8	Petersburg Private Commercial Bank (head office)	16 220	58	16
9	Petersburg International Commercial Bank (branches)	15 982	58	18
10	Azov-Don Commercial Bank (outside Petersburg)	13 400	20	5

\* for banks that reported this item in their statements.

Calculated on: *Svodnyj balans akcioneryh kommercheskih bankov na 1 janvarja 1898 g.*, nkt-Peterburg: Kom.

<sup>35</sup> Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, op. cit., pp. 117-125, 190-211.

<sup>35</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala*, op. cit., pp. 208-260, 276-291. Bovykin and Y. Petrov, *Kommercheskie banki*, op. cit., pp. 102-105. Sergei Lebedev, *S.-Peterburgskij Mezhdunarodnyj*, op. cit., pp. 336-388.

s'ezdov predstavitelei akts. kom. bankov, 1898.

The leader of investment banking in the 1890s became Petersburg International Bank. By the 20th century tens of industrial companies — in metallurgical, mining, oil, machinery, electrical, glass industries — entered the Petersburg stock market through this bank. At least six famous Russian companies were kept under bank's control: Russian society of Hartmann engineering works, Nikopol-Mariupol mining and metallurgical society, Russian gold mining society, Bibi-Eibat oil society, Moscow glass society, Partnership of Revel distillery. Moreover there were at least ten ascertained personal union between the banks and well-known companies, such as above-mentioned Society of Bryansk works and Society of Putilov plants, as well as Society of Tula copper-rolling and cartridge factories, Society of Russian electrotechnical works Siemens & Halske.<sup>36</sup>

Petersburg Discount and Loan bank — the junior partner and simultaneously rival of International bank — kept up with the leader. It was revealed active transactions with large holdings of stock of more than 20 industrial companies, including Baku oil refining society, Society of Gluhoozersk Portland cement plant, Doneck-Jur'evs metallurgical society, Stock-company of engineering, iron foundry and cable works 'Lessner G.A., Oil production and refining companies Mazut and Mantashev A.I. & Co., above-mentioned Nikopol-Mariupol and Sormovo societies and Russo-Belgian metallurgical society.<sup>37</sup>

The other three small Petersburg "investment banks" conducted the similar operations. Petersburg Private Commercial Bank was usually a partner of International or Discount and Loan banks.<sup>38</sup> The other two Petersburg banks belonged to quick-growing financial and industrial group of well-known businessman and banker Lazar Polyakov (1842- 1914). He was a chairman of council in Petersburg-Moscow Bank and a principal shareholder in Petersburg-Azov Bank. The core of the group was Polyakov's banking house in Moscow.<sup>39</sup>

These five banks had a resembling model of operations in the 1890s. Security transactions brought at the average 25 per cent of gross profit per year to the banks, although this percentage could increase up to 30/35 per cent in some banks. In general, their non-credit profit (that is profit from exchange transactions and commissions) amounted 40/50 per cent of gross profit.<sup>40</sup>

As a rule, the resources of Russian "investment banks" included, as a rule, sizable own funds (equity and reserves): for instance in 1898 the own funds of International bank amounted 38 per cent of liabilities, Discount and Loan Bank — 23 per cent, Private Bank — 36 per cent. The other resources, used by these banks, were interbank short-term credits as well as customers' current accounts, but these banks did not attract time deposits.<sup>41</sup>

The term "investment bank" was also applied to Russian Bank for Foreign Trade and Russian Trade and Industrial Bank, but this cliché characterised their Petersburg head offices and it was irrelevant to their model of operations in general. These two large banks had wide branch networks in provinces (13 and 39 branches, respectively), where crediting of trade and industrial customers brought the principal profit. Bank for Foreign Trade took part in foreign economic activity through branches in London, Paris and Genoa.

In the 1890s Russian Bank for Foreign Trade was a principal founder of Sormovo company, Russo-Belgian society, Balakhany oil society and Mantashev A. I. & Co. The bank

<sup>36</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala v Rossii*, pp. 208–260, 276–291; Bovykin and Petrov, *Kommercheskie banki*, op. cit., pp. 102–105. Sergei Lebedev, *S.-Peterburgskij Mezhdunarodnyj*, op. cit., pp. 336–388.

<sup>37</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala*, op. cit., pp. 270–272. Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, op. cit., pp. 103–105.

<sup>38</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala*, op. cit., pp. 260–269. Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, op. cit., pp. 85–88.

<sup>39</sup> Valery Bovykin, *Zarozhdenie finansovogo*, op. cit., pp. 273–274. Valery Bovykin, *Formirovanie finansovogo kapitala v Rossii. Konets XIX v. — 1908 g.*, pp. 141–142.

<sup>40</sup> Sofya Salomatina, *Kommercheskie banki v Rossii*, op. cit., pp. 174–181.

<sup>41</sup> *Ibidem*, pp. 164–171.

was a partner of International bank since the 1880s. In the 1890s it collaborated in the issue of Hartmann works' shares and stock of Kolomna society of engineering works and Revel distillery.<sup>42</sup> Investment activity of Russian Trade and Industrial Banks was due to projects of controlling shareholders — brothers Pavel and Sergey von Derwies (von Derviz) — entrepreneurs, philanthropists and sponsors. They were sons of Pavel von Derwies — a large railway contractor at the age of Alexander II. The brothers used bank's resources for stock floatation and stock market games. The family had shares in some railway; steamship and industrial companies, including Society of Moscow electro-mechanical and engineering works (former K.A. Vejheldt), Society of Gluhoozersk Portland cement plant.<sup>43</sup>

The strong growth of Petersburg stock market did not skirt banks traditionally associated with deposit model in the 1890s. It concerned two banks — Volga-Kama Bank and Moscow Merchant Bank. Both banks were among the top three Russian banks together with Petersburg International Bank. Volga-Kama bank possessed numerous branches. The bank's leading operations was discount of trade bills; amounted 35/40 per cent of assets, and discount in provinces was twice as much than in Petersburg. All peculiarities of operations indicated discount and deposit bank. Its time deposits amounted 25 per cent of liabilities, and the largest part of deposits was attracted in regions. Bank had a very small stock in comparison with "investment banks" — 12 per cent of liabilities, therefore its return on equity was the largest in Russian — 34/36 per cent in the 1890s. In addition to that the bank paid the biggest dividends and market value of its stock was the highest — more than 1,000 rubles for share with nominal price 250 rubles.<sup>44</sup> In spite of deposit and discount model in whole, Petersburg head office was active enough at the equity market and the scale of these transactions was comparable with small "investment banks" in absolute value, but their percentage numbered just in 6.5 per cent of total assets. In the 1880s-1890s, Volga-Kama Bank took part in railway issues. Bank was not involved in promotion of industrial companies, but equity market brought 11/13 per cent of bank's gross profit.<sup>45</sup>

The Moscow Merchant bank was an old-fashioned and respectable institution for Moscow business elite, first of all for textile manufacturers of Central Industrial Region, included several provinces around Moscow. Bank possessed one of the largest bill holdings in Russia, the percentage of discount varied from 30 per cent to 50 per cent of assets in different periods. The basis of the bank's resources was time deposits (the same 30/50 per cent of liabilities). Since the 1890s the bank's Petersburg branch acted at equity market. The bank could be included in top ten banks developed investment activity, but this field was not very important for the bank in percentage — just 7.8 per cent of assets.<sup>46</sup>

Thus, the analysis of banks' annual financial reports for the 1890s permits to draw a conclusion that this decade the banking specialisation, related to equity market, were showed up, although there were no pure investment banks in Russia. This specialisation had evident traces in reports. Particularly, profit from exchange and commission transactions exceeded profit from short-term crediting of customers. Thereafter the assets associated with holding of securities, crediting security trading and syndicates' transactions displaced discount of bills of exchange and short-term crediting of business in whole. For instance, discount amounted in the average 14 per cent in Petersburg International Bank in 1895-1899, in Petersburg Discount and Loan Bank

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<sup>42</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala*, op. cit., p. 270. Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, op. cit., pp. 144-147.

<sup>43</sup> Valery Bovykin, *Zarozhdenie finansovogo kapitala*, op. cit., pp. 272-273. Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, op. cit., pp. 147-149.

<sup>44</sup> Sofya Salomatina, *Kommercheskie banki*, op. cit., pp. 129-135, 143, 152, 165-167, 177. Andrei Golubev (ed.), *Russkie banki: Sprav. i stat. svedeniya o vseh dejstvuju-wih v Rossii gos., chast. i obwestv. kredit. uchrezhdenijah. God 1*, Sankt-Peterburg, Kom. s'ezdov predstavitelei akts. kom. Bankov, 1896, pp. 23-24.

<sup>45</sup> Sofya Salomatina, *Kommercheskie banki*, op. cit., pp. 158-160. Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, op. cit., pp. 122-123.

<sup>46</sup> Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, op. cit., pp. 190-201. Sofya Salomatina, *Kommercheskie banki*, op. cit., pp. 129-135, 165-167.

— 11 per cent, in Petersburg Private Commercial Bank — 15 per cent, whereas average rate for Russian merchant banks was in the range 25/35 per cent.<sup>47</sup> The same trends could be observed in liabilities: “investment banks” increased stock and reserves, refused from time deposits’ development, the half of resources these banks attracted came via credits from correspondents.<sup>48</sup> This tendency was showed up at most in the model of Petersburg “investment banks”, this disposition was less evident in the structure of operations of other banks, possessed Petersburg offices, and the most of regional banks were not affected by the trend at all.

It’s important to note that Russian “investment banks” developed the most profitable banking model in the 1890s, even according to their public reports. For instance, the ratio of net profit to average annual assets amounted 3/4 per cent in “investment banks” in 1898. Particularly, Private Bank — 4.18 per cent, International Bank — 3.79 per cent, Discount and Loan Bank and Bank for Foreign Trade -3.11 per cent each. This indicator for deposit banks was below 3 per cent, for instance, 2.82 per cent in Volga-Kama Bank and 2.27 per cent in Moscow Merchant Bank, and these figures were typical for regional banks. It is obvious, that in 1890s investment banks took up an option to draw profit from equity market as much as possible.<sup>49</sup>

Private companies stock was greatly integrated in model of “investment banks” geared the banks to rate of these securities. By the 1900s the new companies stock was kept in banks’ portfolios, in pledges on customers’ credit accounts and on correspondent accounts. So far there is no evidence, that some of bankers worried about possible drop in prices in the end of the 1890s; although in some way growing stock and reserves of Petersburg banks indicated the attempt to secure themselves against critical juncture.<sup>50</sup> It is interesting that in autumn 1898 Rothstein wrote to A. Rothschild about stress of money on Russian market, appeared these months. Particularly Rothstein mentioned that Russia “is in financial straits, as Europe”, but “industry needs vast sums of money”. He meant that numerous new enterprises, founded with assistance of banks, were still in their infancy. Rothstein was aware that all large plants had exhausted considerable sums on their accounts in International bank very soon and turned into bank’s debtors “in absolutely unnoticeable way”. Nevertheless Rothstein drew a curiously optimistic conclusion and declared that these companies had just spent their first credits and they would attract new funds through issues of bonds or shares soon.<sup>51</sup>

### 3. Investment banking difficulties in crisis, 1899-1903

However the stress of money was one of the first crisis warnings in autumn 1898.<sup>52</sup> In spring 1899 a tendency to price fall appeared at Petersburg exchange. In summer public opinion was agitated by bankruptcies of some well-known entrepreneurs.<sup>53</sup> At the end of September 1899 the general collapse was happened at Petersburg exchange. Since 1900 the total economic crisis gradually came after exchange downfall. An economic crisis had broken out in Russia in 1899-1903, it was a part of European economic recession. The hardest period fell on 1901-1902, when deep industrial fall spread to maximal number of industries. The signs of improvement had appeared since 1903, but unsuccessful Russo-Japanese War (1904-1905) and Revolution (1905-1907) did not make possible economic recovery, these events disrupted money and credit market and in the issue the recession continued until 1908-1909 in some industries.<sup>54</sup> In fact the crisis was a breakdown of a new economy arisen in previous decade. The new enterprises bore the downturn especially hardly. These plants appeared in connection with railway construction and railroading, they were often founded with an assistance of foreign capital and, unfortunately,

<sup>47</sup> Sofya Salomatina, *Kommercheskie banki*, op. cit., pp. 129-135.

<sup>48</sup> *Ibidem*, pp. 164-170.

<sup>49</sup> *Ibidem*, p. 170.

<sup>50</sup> *Ibidem*, pp. 165-166.

<sup>51</sup> A. Rothstein to A. Rothschild, 26 October/7 November 1898, in *Rossia i mirovoi biznes*, op. cit., p. 146.

<sup>52</sup> Sergei Lebedev, *S.-Peterburgskij Mezhdunarodnyj*, op. cit., pp. 388-391.

<sup>53</sup> Valery Bovykin, *Formirovanie finansovogo kapitala*, op. cit., pp. 128-129.

<sup>54</sup> Lev Borisovich Kafengauz, *Jevoljucija promyshlennogo proizvodstva Rossii*, p. 70.

they accumulated large inventories under favourable conditions for trade and industry<sup>55</sup> in the 1890s.

The banks, taken part in foundation of the new economy, suffered together with their customers. Devalued stock of new companies had stuck tightly in banks' portfolios and ledgers, and suddenly banks appeared to be tied to industry in literal sense. Thereby the basis was laid for longterm relations between banks and issuers. Since the beginning of the crisis the striking wave of drops in prices, estimates of loss, banking panics and crashes washed over Russia. These events had deep public resonance. The crisis didn't confine itself to stock market downfall, but it revealed problem banks by several characteristics, including liquidity, quality of stock and credit portfolio. By 1903 the stock market had flattened at moderate level, but unfavourable events, associated with war, revolution, difficulties of state and mortgage bond market,<sup>56</sup> would be to follow in 1904-1908.

The Petersburg International Bank took the hardest blow of crisis. The bank's report for 1900 showed the largest loss in banking system associated with stock market downfall — 1,487.9 thousand rubles or 22 per cent of gross value in that year.<sup>57</sup> But general losses on various accounts amounted no less than 3.98 million rubles in 1901-1903, according public reports.<sup>58</sup> The bank appeared an owner of large stock holdings, particularly of Nikopol-Mariupol society and Hartmann engineering works.<sup>59</sup> In 1901 the audit of the ministry of Finance revealed large debts of industrial companies to the bank. The major debtors were five companies, having total debt in 14 million rubles. This list included the same Nikopol- Mariupol society, Russian gold mining society, Tula copper-rolling and cartridge factories, Moscow glass society and Zhilovskoe society of coal and iron ore mines. The audit recorded that “bank had violated its charter, placed considerable sums in arisen industrial enterprises through purchase of their stock and opening credits to them”.<sup>60</sup>

Public opinion charged the bank with passion for industrial securities, which were regarded by small shareholders as the root of all evil. Sergei Lebedev gathered striking illustrations of public hysteria concerning 1900 report at stockholders' meeting in spring 1901. *Russkie Vedomosti* (*Russian Gazette*)<sup>61</sup> wrote that the bank had set an example of “the most groundless, thoughtless, ignorant *Gründertum*”.<sup>62</sup> “Every business looks like a contrivance to obtain another sinecure, material for stockbrokers' gambling and source of profiteering for syndicates headed by the same financial geniuses.”<sup>63</sup> Small shareholders charged the directory with purchases of inflated shares, implied securities without state guarantee unlike state equity, customary for Russian *rentier*. They were made appeals to “clean the portfolios from dummy securities”, purporting the same private stock and industrial capital in the first place.<sup>64</sup>

The State Bank relieved Petersburg International Bank and open to it the preferential credit, though the favourable attitude of minister Witte toward director Rothstein were finally damaged. Nevertheless the bank obtained a permit to keep this credit account not as separate balance account, but inside total correspondent account in the liabilities. The bank owed to report for this credit account to the Credit Office of the ministry every month. The government

<sup>55</sup> *Ibidem*, p. 70.

<sup>56</sup> Valery Bovykin, *Formirovanie finansovogo kapitala*, *op. cit.*, pp. 121-156.

<sup>57</sup> Calculated on: *Vestnikfinansov, promyshlennosti i trgovli*, 1901, No. 17, p. 498.

<sup>58</sup> Calculated on 1900-1903 annual reports, published in *Vestnikfinansov, promyshlennosti i trgovli* (1901 - 1904).

<sup>59</sup> Valery Bovykin and Yuri Petrov, *Kommercheskie banki*, *op. cit.*, p. 105.

<sup>60</sup> *Ibidem*, p. 105.

<sup>61</sup> *Russkie Vedomosti* (*Russian Newspaper*, 1863-1918), represented liberal opposition to government in the end of the 19th century.

<sup>62</sup> *Gründertum* was a period of feverish promotion of companies in Germany after Franco-Prussian war (1870-1871), a very popular term, concerning any intensive economical promotion in Russian pre-revolutionary journalism.

<sup>63</sup> *Russkie Vedomosti*, 1901, 19 February, No. 106 (from: Serguei Lebedev, *S.-Peterburgskij Mezhdunarodnyj*, *op. cit.*, p. 394).

<sup>64</sup> Serguei Lebedev, *S.-Peterburgskij Mezhdunarodnyj*, *op. cit.*, p. 395.

promised to render assistance in recovery of railway companies' accounts, which had been withdrawn because of reputation problems of International Bank. Before railway accounts would be returned the government intended to "transfer some money from the State Bank's account to the International Bank's current account for temperate interest".<sup>65</sup>

The situation in other "investment banks" was the same as that of Petersburg International Bank in many details, but differences also deserved consideration. Thus, Russian Bank for Foreign Trade carried out reappraisal of portfolio and revealed 1,058.24 thousand rubles of loss or 20 per cent of gross profit<sup>66</sup> in 1900. The bank's total loss amounted no less than 3,418.98 thousand rubles<sup>67</sup> in 1899-1901. Nevertheless the bank restored stability due to branch network since 1902. In exactly the same way the small "investment banks" — Petersburg Discount and Loan Bank and Petersburg Private Commercial Bank — evaluated amount of loss from drop in prices and from bad credits.<sup>68</sup> The case of Private Bank appeared much more difficult. The bank failed to improve its assets without assistance in the 1900s. In 1910 the bank was reorganised by foreign banking group including *Crédit mobilier français*, *J. Loste & Co.*, *Mrs Thalmann & Co.* and *L. Hirsch & Co.* through intermediary of the Ministry of Finance.<sup>69</sup>

The case of Russian Trade and Industrial Bank drew a wide public response, although the bank was not deeply involved in investment banking in comparison with the other Petersburg banks. In summer 1899 the bank's owner Pavel von Derwies became insolvent. As soon as the news had ran all over Petersburg, the bank became a victim of panic withdrawal of deposits. The bank's crush was prevented by interference of the State Bank. Later Trade and Industrial Bank recovered losses and stockholders' meeting made a decision to abandon speculation in stock and shift to trade crediting, mainly in regions<sup>70</sup> since 1902. The Volga-Kama Bank's total loss amounted considerable sum — 793,440 rubles in 1900, but it was just 8 per cent of gross profit.<sup>71</sup> The Moscow Merchant Bank's reports didn't display any serious losses in crisis period.

The Lazar Polyakov's banks turned out in the tightest situation. In 1901 it became clear, that Polykov and his banking house in Moscow were bankrupts. The Polyakov's many-millioned debts burdened his banks, and the situation appeared the worst in Petersburg. Petersburg-Azov Bank collapsed in 1902 and Petersburg-Moscow Bank shut down operations in 1904. Polyakov's banks in Russian Central Industrial Region — Moscow International Trade Bank, Orel Commercial Bank and South Russian Industrial Bank — passed under control of the State Bank, which bought out their debts. In state auditors' opinion, these three banks were considered as viable institutions albeit burdened with their owner's debts. In the 1900s the persistent attempts to find any European investor for Polyakov's group failed, and in 1908-1909 the Ministry of Finance and the State Bank conducted a merging of three banks into new Union Bank, but 17.5m rubles from 25m of total fixed capital of three banks was spent on cover of loss. Nevertheless a part of Polyakov's debts remained on State bank's accounts.<sup>72</sup>

In order to summarise the banks' difficulties in 1899-1903 it is important to underline that any bank endured drops in stock prices easier if it had kept large credit customers' network outside head office. The role of banks' reserves remains still underestimated by economic historians in risk management at the turn of the 20th century. In other words, some banks, dealing with investment banking, tried to diversify operations and accumulate reserves. Bankruptcies usually happened to not large banks, bunched various drawbacks in management,

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<sup>65</sup> I.I. Levin, *Aktsionerные kommercheskie banki v Rossii*, Vol. 1, Petrograd, tip. T-va Ptgr. pech. pr-va I.R. BelopoPskogo i Ko, 1917, p. 283 (from: Serguei Lebedev, *S.- Peterburgskij Mezhdunarodnyj, op. cit.*, p. 398).

<sup>66</sup> Calculated on: *Vestnik finansov, promyshlennosti i trgovli*, 1901, No. 15, p. 397.

<sup>67</sup> Calculated on 1899-1901 annual reports, published in *Vestnik finansov, promyshlennosti i trgovli* (1900-1902).

<sup>68</sup> Valery Bovykin and Yuri Petrov, *Kommercheskie banki, op. cit.*, pp. 88-89, pp. 105-106.

<sup>69</sup> *Ibidem*, pp. 91-95.

<sup>70</sup> *Ibidem*, pp. 148-149.

<sup>71</sup> Calculated on: *Vestnik finansov, promyshlennosti i trgovli*, 1901, No. 16, p. 470.

<sup>72</sup> Valery Bovykin, *Formirovanie finansovogo kapitala, op. cit.*, pp. 141-142. Valery Bovykin and Yuri Petrov, *Kommercheskie banki, op. cit.*, pp. 243-248.

and banks which had not been saved by the State Bank.

At the same time the large banks survived crisis due to ample informal opportunities to obtain crediting of the State Bank, subordinated to the Ministry of Finance. The fact is that the Russian government always aimed to exclude crashes of large banks by all means. This policy went back to the 1870s when unfavourable juncture and problems in banking system in 1873-1875 had crystallised the government approach to banking regulation. Since then banking founding was provided with a lot of state restrictions and financial institutions were under particular control in comparison with Western Europe in the second half of the 19th century. The government considered bankruptcy as undesirable shock to domestic financial market, and they found insolvency conceivable for minor banks only, unencumbered with the large-scale liabilities to various sectors of economy.

The State Bank not only credited banks urgently at the turn of the 20th century, but it took part in syndicate, organised for interventions in Petersburg exchange. It was formed on Witte's initiative in October 1899 and it included fifteen Petersburg banks and banking houses. By June 1900 syndicate spent 4 million rubles, although its effectiveness has not studied well yet. Among the other State Bank's measures worthy of being noted there was a decision to buy shares of viable enterprises or to take their stock in pledge. This measure developed into mass urgent crediting of industrial customers of large banks.<sup>73</sup> Thus, the crisis revealed the principal investment banks' weaknesses: insufficient assets' diversification and lack of experience in stock market risk management. In short-term perspective the main factors in crisis management were banks' reserves and the State Bank's policy of banking liquidity support and prevention of financial panic. In middle- and long-term perspectives the banking system's recovery was provided by banks themselves. It took all the 1900s to integrate investment banking into a more stable structure of operations.

#### **4. Towards the universalisation of banking**

Before WWI, the Russian banking system had noticeably changed. The process, caused these changes, was launched by the crisis at the turn of the 20th century, revealed risks of intensive investment activity. In the 1900s the banks had to deal with crisis management and to develop new foundations for services to industrial customers and their stock. Credit portfolios' readjustment took eight years and cost banks a lot of efforts. The banks worked out a counterbalance to stock market operations, wherefore they partly returned to traditional discount customers' networks. These customers were attracted in regions, where the metropolitan banks had rushed to build up branch networks in the 1900s. In the 1910s since the new economical upturn the percentage of discount began to drop again due to increase in stock transactions but it would not lead to the disparity observed in the 1890s.

In the pre-war period a universal bank became a prevailing model in the Russian banking system. This type of bank distributed the assets more or less evenly between discount, credit accounts and transactions with securities. The universal bank credited trade and industrial companies and simultaneously took part in new paper issues. Its liabilities included not large stock and reserves, deposits (the share of current accounts prevailed over the share of time deposits) and credits from the other Russian and European banks. The large-scale universal banks operated not only at domestic market but all over the world.<sup>74</sup> Above- mentioned traits corresponded wholly to five largest Russian commercial banks in 1913: Russo-Asian Commercial Bank, Russian Bank for Foreign Trade, Petersburg International Commercial Bank, Azov-Don Commercial Bank, Russian Trade and Industrial Commercial Bank (see table 5a).

The tables 5a, 5b and 5c retrace evolution of banks presented previously in tables 4a and 4b, as investment banking leaders in 1890s. The grouping of banking operations with private shares, used in tables 4 for the 1890s data, didn't permit to reveal any trends in the 1910s, as if the investment banking dissolved in banking reports. But universal trends could be observed by

<sup>73</sup> Serguei Lebedev, *S.-PeterburgskijMezhdunarodnyj*, *op. cit.*, pp. 392-393.

<sup>74</sup> Sofya Salomatina, "Modeli kommercheskikh bankov", *op. cit.*, p. 342.

another way, and these calculations were given in tables 5; they were carried out for every bank in whole, but not for head offices only as in tables 4. In these tables banks are grouped by following principles: firstly, the leading universal banks in the 1910s — top five banks in Petersburg and in entire Russia and the largest Moscow bank — Union bank. Secondly, Volga-Kama Commercial Bank (Petersburg) and Moscow Merchant Bank embodied deposit and discount banking even in the 1910s, in spite of securities departments at their Petersburg and Moscow offices. Thirdly, Petersburg Discount and Loan Bank and Petersburg Private Bank had been small “investment banks” in the 1890s, but they kept many “investment traits” until the 1910s.

**Table 5a. The assets rating and evolution of discount**

Banks	Assets on 1.01.1914		Average annual discount, % of average annual assets		(3)-(4)
	thousand rubles	Rating, 1 — max	1895-1899, (%)	1908-1913, (%)	
	(1)	(2)	(3)	(4)	(5)
Russo-Asian Bank <sup>1</sup>	834,941	1	-	26 (6)	-
Russian Bank for Foreign Trade	628,354	2	17(3)	22(1)	+5
Petersburg International Commercial Bank	617,494	3	14(4)	20 (2)	+6
Azov-Don Commercial Bank <sup>2</sup>	543,540	4	25 (2)	26 (3)	+1
Russian Trade and Industrial Bank	496,245	5	21(4)	32 (2)	+11
Union Bank <sup>1</sup>	333,776	7	-	34 (2)	-
Volga-Kama Commercial Bank	424,686	6	34 (3)	35 (2)	+1
Moscow Merchant	279,861	8	37(4)	41(7)	+5
Petersburg Discount and Loan Bank	208,029	11	11(2)	21 (2)	+10
Petersburg Private Commercial Bank	182,741	12	15(2)	29(8)	+14

**Table 5b. Profit from security trading**

Banks	1898		1913		Difference, 1913 – 1898	
	thousand rubles	% of gross profit	thousand rubles	% of gross profit	thousand rubles	pct
Russo-Asian Bank <sup>1</sup>	-	-	2,294	5.3	-	-
Russian Bank for Foreign Trade	157	12	917	3.3	+760	-8.7
Petersburg International Commercial Bank	819	24	2,619	7.6	+1800	-16.4
Azov-Don Commercial Bank <sup>2</sup>	52	10	1,919	6.0	+1867	-4.0
Russian Trade and Industrial Bank	367	15	552	2.1	+185	-12.9
Union Bank <sup>3</sup>	-	-	1,049	5.4	-	-
Volga-Kama Commercial Bank	345	11	154	0.7	-191	-10.3
Moscow Merchant	159	7	158	1.1	-1	-5.9
Petersburg Discount and Loan Bank	725	26	1,443	14.1	718	-11.9
Petersburg Private Commercial Bank	296	17	628	5.2	332	-11.8

**Table 5c. Branch networks evolution**

Banks	In Russia		Abroad	
	Branches on 1.07.1913	Difference with 1898	Branches on 1.07.1913	Difference with 1898
Russo-Asian Bank <sup>1</sup>	87	-	12	-
Russian Bank for Foreign Trade	59	+49	4	+1
Petersburg International Commercial Bank	38	+35	2	+2
Azov-Don Commercial Bank <sup>2</sup>	69	+37	1 <sup>4</sup>	+1
Russian Trade and Industrial Bank	96	+57	2	+2
Union Bank <sup>3</sup>	92	-	3	+3
Volga-Kama Commercial Bank	57	+37	0	0
Moscow Merchant	2	-1	0	0
Petersburg Discount and Loan Bank	6	+5	0	0
Petersburg Private Commercial Bank	0	-2	0	0

Notes:

The head offices of all banks were in Petersburg except Union Bank and Moscow Merchant Bank, having directory in Moscow.

The sections of tables: 1) the five largest Russian universal banks and Union Bank — the largest universal bank in Moscow; 2) the largest deposit banks; 3) small investment banks in the 1890s.

<sup>1</sup> — Russo-Asian Bank was established in 1910.

<sup>2</sup> — Azov-Don Commercial Bank was relocated in Petersburg from Taganrog by Azov Sea; it was the largest provincial merchant bank in the 1890s.

<sup>3</sup> — Union bank was established in 1909.

<sup>4</sup> — Azov-Don Commercial Bank possessed control stock of Banque des Pays du Nord in Paris.

Sources:

Assets on 01.01.1914 — *Svodnyj halans akcionerjnyh kommercheskih bankov na 1 janvarja 1914 g.*, Sankt-Peterburg, Kom. s'ezdov predstavitelei akts. kom. bankov, 1914, pp. 1-15.

Average annual discount — Sofya Salomatina, *Kommercheskie banki v Rossii: dinamika i struktura operacij, 1864-1917 gg.*, pp. 129-135.

Branch networks in 1898 — A. Golubev (ed.), *Russkie banki: Sprav. i stat. svedenija o vseh dejstvujuvix v Rossii gos., chast. i obvestv. kredit. uchrezhdenijah. God 3*, Sankt-Peterburg. Kom. s'ezdov predstavitelei akts. kom. bankov, 1899, pp. 24-40.

Branch networks in 1913 — *Akcionerno-paevye predprijatija Rossii po oficial'nyh dannym*. Moskva, 1913, pp. 464-480.

Profit from security trading in 1898 — Sofya Salomatina, *Kommercheskie banki v Rossii: dinamika i struktura operacij. 1864-1917gg.*, pp. 147, 159.

Profit from security trading in 1913 — *Russkie akcionerjnye kommercheskie banki po otchetam za 1913 g. v sravnenii s 1912 g.*, Sankt-Peterburg, Kom. s'ezdov predstavitelei akts. kom. bankov. 1914, pp. 32, 36

The tables 5a, 5b and 4c present the evolution of banking models since the 1890s up to 1913/1914; they observe the several tendencies. Firstly, former “investment banks” had increased percentage of discount by the 1910s in comparison with the 1890s (see table 5a). By the 1910s discount amounted no less than 20 per cent of any large bank's assets, whereas it went down to 11-15 per cent in the 1890s. Secondly, the total number of branches increased approximately in five times from the 1890s up to the 1910s. They were the Russian provinces who gave a stimulus to discount customers' networks growth. In addition to domestic branches large universal bank surely developed some branches abroad — in European and Asian financial centers. Thus bank evolved foreign economic activity (see table 5b). Thirdly, the percentage of stock transactions was down by 10 percentage point in universal bank, but in absolute value there was a considerable profit usually gained by large stock department, having substantial transactions turnover (table 5c).

The pre-war universal banks had different origins. In the first place there were “investment banks” evolving into universal banks through the expansion to the provinces. It was the course of development of Petersburg International Bank, Russian Bank for Foreign Trade, Russian Trade and Industrial Bank. In the second place some new-founded banks, transformed from problem banks or rapidly developing banking houses, took up a strong position in banking system right away. These new banks began to operate initially as universal institutions. This group was represented by Russo-Asian Bank in Petersburg and Union Bank in Moscow. The deposit Volga-Kama Commercial Bank, the largest private bank in the second half of the 19th century, lost its leading position in assets rating by the 1914 and ranked sixth before WWI. The bank did not take part in issues of companies stock and preferred short-term crediting of business customers in metropolis and in the provinces.<sup>75</sup>

In the 1910s the alignment of forces changed in Moscow. Union Bank, newly founded on the basis of crashed Polyakov's banks, drew the previous Moscow leader Merchant Bank back to the second place. Union Bank concentrated on discount and loan operations. The bank tried to pursue a very reasonable policy towards stock market transactions, because it sought to clean its reputation from Polyakov's legacy,<sup>76</sup> associated with bankruptcy due to risky projects. The bank had no sufficient opportunity to develop time deposits by reason of this legacy, therefore it had

<sup>75</sup> Sofya Salomatina, ‘Modeli kommercheskikh’, *op. cit.*, p. 342.

<sup>76</sup> Valery Bovykin and Yuri Petrov. *Kommercheskie banki, op. cit.*, pp. 249-250.

to borrowed resources from the other Russian and foreign banks.<sup>77</sup>

Generally speaking there was a trend that banks, keeping any non-universal model, began gradually to lose their positions. It concerns Volga- Kama and Merchant banks uppermost. The small “investment banks” kept also many traditional traits by the 1910s and they remained at minor position at banking system. For instance, Petersburg Private Commercial bank continued to develop as “investment bank”. The Petersburg Discount and Loan Bank increased discount appreciably, but any way equity market transactions brought substantially greater percentage of return to the bank in comparison with larger universal banks.<sup>78</sup>

All in all the “universalisation” of banks in pre-revolutionary Russia corresponded to development of powerful merchant bank having broad domestic branch network as a counterbalance to investment department in head office, and further to these units the bank possessed foreign branches subordinated to central foreign department. It was obvious that universal bank became the leading model in Russia before WWI, and banks, kept to the other models, began to go under to strong competition from powerful universal banks. But for the world war and the revolution in 1917 Russian banking system would have entered in the epoch of merges and acquisitions.

### Conclusion

Our chapter reviewed the prerequisites and evolution of investment banking in pre-revolutionary Russia, placing in the focus of attention the boom of investment banking in the 1890s and transition to universal banking by the 1910s. The development of investment banking was traced from services to state and mortgage bond market in the 1880s to investment specialisation inside merchant banking in the 1890s, then up to its integration into universal banking.

The 1890s decade had passed under the sign of investment banking in Russia. It was a period of the heaviest economic growth in the pre-revolutionary period. The financial system of empire had also overcome the recession of previous two decades. In the 1890s the investment banking concerned those commercial banks that had developed specialisation in equity market services in earlier years. Russian equity market was concentrated in Petersburg to a large degree, because state bonds and securities, guaranteed by government, prevailed at the market and therefore Petersburg developed as only centre of negotiations from Russian side for Russian domestic and foreign issues.

An underwriting was typical for Russian investment banking; therefore international banking syndicates played a decisive role in Russian issues. Two banks — powerful Petersburg International Commercial Bank and middle-sized Petersburg Discount and Loan Bank — were the most active participant of international syndicates. International Bank acted usually as a leader of Russian group since the 1880s. At the same time a head office of any Petersburg bank was involved into equity market transactions, regardless of bank’s model. The important changes happened at Russian currency market by the middle of the 1890s simultaneously with the economic growth and equity market development. Russian currency was stabilised and banks, drawn out of currency speculation, switched easily to investment banking for private companies.

The investment banking evolution was specified by risk management development. Investment banking emerged inside merchant banks and special investment institutions didn’t appear in Russia. Before the 1890s the banking risks were mainly caused by unstable currency and competition between European and domestic financial markets. In the 1890s mass investment banking for private companies was a new phenomenon in Russia, therefore risks of investment activity turned out underestimated until the crisis, happened in 1899-1903. Uppermost there were the risk of drop in stock prices and immobilisation risk of assets, placed in industrial credits. It became obvious through the crisis that the immobilisation of banks’ resources in industrial projects had reached substantial sums of money in 1895-1899. Since 1899

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<sup>77</sup> Sofya Salomatina, ‘Modeli kommercheskikh’, *op. cit.*, p. 342.

<sup>78</sup> *Ibidem*, p. 343.

banks unwittingly had proved to be owners of huge holdings of unsalable industrial stock and they were reluctant to act not as investors but as governing owners of companies founded or reorganised in the 1890s.

In short-term perspective the substantial own funds and reserves of “investment banks” appeared very important in crisis management, as well as banking system’s support by the Ministry of Finance and the State Bank. The government role in investment banking development deserves a special consideration. This subject doesn’t refer to government contractual work to industrial companies, whose influence on market is often overestimated. The state affected investment banking deeply as the principal Russian issuer, the currency regulator, the main supervisor of companies’ promotion, the lender of last resort. At the same time the by-product of state patronised policy towards financial institutions was a regular attempt of large-scale bankers to do business relying upon government participation or support, although their expectations were not always lived up. But state support was ineffective for development of middle- and long-term risk management in investment banking after crisis at the turn of the 20th century. The 1900s were spent on elaboration of a new stable banking model, which was found in universal type of bank.

By the 1910s the banks acquired broad experience of investment banking and they cleared up their relations with industrial companies. In the issue the banks integrated investment banking into universal banking. Particularly banks, concentrated on investment in the 1890s, had restored credit networks and developed numerous branches before WWI. The provincial branches became an abundant source of deposits and trade and industrial credit customers, whereas the investment activity concentrated at banks’ head offices in Petersburg and Moscow. A Russian universal bank always developed international banking as well, this field was provided by strong foreign department, managed several branches abroad. In the 1910s the universal model predominated at the Russian banking system. Those banks which kept adherence to any other specialisation were gradually sidelined. The fast growth of universal banks signified forthcoming period of redistribution of forces in banking system but this trend would not be put into effect due to collapse of the empire.

## Appendixes

### Appendix 1. List of original Russian banks’ name in transliteration

Azov-Don Commercial Bank	Azovsko-Donskoj kommercheskij bank
Moscow International Trade Bank	Moskovskij Mezhdunarodnyj torgovyj bank
Moscow Merchant Bank	Moskovskij Kupecheskij bank
Moscow Trade Bank	Moskovskij Torgovyj bank
Orel Commercial Bank	Orlovskij kommercheskij bank
Petersburg International Commercial Bank	Sankt-Peterburgskij Mezhdunarodnyj kommercheskij bank
Petersburg Loan and Discount Bank	Sankt-Peterburgskij Uchetnyj i ssudnyj bank
Petersburg Private Commercial Bank	Sankt-Peterburgskij Chastnyj kommercheskij bank
Petersburg-Azov Commercial Bank	Sankt-Peterburgsko-Azovskij kommercheskij bank
Petersburg-Moscow Commercial Bank	Sankt-Peterburgsko-Moskovskij kommercheskij bank
Riga Exchange Bank Bank	Rizhskij birzhevoj bank
Riga Municipal Discount Bank	Rizhskij gorodskoj uchetnyj bank
Russian Bank for Foreign Trade	Russkij bank dlja vneshnej torgovli bank
Russian Trade and Industrial Bank	Russkij Torgovo-promyshlennyj bank
Russo-Asian Bank	Rusko-Aziatskij bank
South Russian Industrial Bank	Juzhno-russkij promyshlennyj bank
State Peasant Land Bank	Gosudarstvennyi Krest’ianskii Pozemel’nyi bank
State Land Bank of the Nobility	Gosudarstvennyi Dvorianskii zemeFnyi bank
Union Bank	Soedinennyj bank
Volga-Kama Commercial Bank	Volzhsko-Kamskij kommercheskij bank
Warsaw Commercial Bank	Varshavskij kommercheskij bank

### Appendix 2. List of original Russian companies’ name in transliteration

Baku oil refining society	Bakinskoe neftepromyshlennoe obshchestvo
Balakhany oil refining society	Balakhanskoe neftepromyshlennoe obshchestvo
Bibi-Eibat oil society	Bibi-Eibatskoe neftianoe obshchestvo
Doneck-Jur'evs metallurgical society	Donetsko-Iur'evskoe metallurgicheskoe obshchestvo
Franco-Russian society (cement plant in Gelendzhik)	Franko-Russkoe obshchestvo (tsementnyi zavod v Gelendzhike)
Moscow glass society	Moskovskoe steklopromyshlennoe obshchestvo
Nikopol-Mariupol mining and metallurgical society	Nikopol'-Mariupol'skoe gornoe i metallurgicheskoe obshchestvo
Oil production and refining companies 'Mantashev A. I. & Co.'	Neftepromyshlennoe i torgovoe obshchestvo Mantashev A. I. i K°
Oil production and refining companies Mazut	Neftepromyshlennoe i torgovoe obshchestvo Mazut
Oil company "Caspian partnership"	Neftianaia kompaniia "Kaspiiskoe tovarishchestvo"
Partnership of Revel distillery	Tovarishchestvo Revel'skogo spiritoochistitel'nogo zavoda
Partnership of Sergino-Ufaleysk mining and metallurgical plants	Tovarishchestvo Sergino-Ufaleiskikh gornykh zavodov
Russian goldmining society	Rossiiskoe zolotopromyshlennoe obshchestvo
Russian society of Hartmann engineering works	Russkoe obshchestvo mashinostroitel'nykh zavodov Gartmana
Russo-Belgian metallurgical society	Russko-Bel'giiskoe metallurgicheskoe obshchestvo
Society of Bryansk rail-rolling, iron and engineering works	Obshchestvo Brianskogo rel'soprokatnogo, zhelezodelatel'nogo i mekhanicheskogo zavoda
Society of Gluhoozersk Portland cement plant	Tovarishchestvo Glukhoozerskogo portlandtsementnogo zavoda
Society of iron, steel and engineering works "Sormovo"	Obshchestvo zhelezodelatel'nykh, staleliteinykh i mekhanicheskikh zavodov "Sormovo"
Society of Kolomna engineering works	Obshchestvo Kolomenskogo mashinostroitel'nogo zavoda
Society of Maltsov plants	Obshchestvo Mal'tsovskikh zavodov
Society of Moscow electromechanical and engineering works (former K. A. Vejhel't)	Obshchestvo Moskovskikh elektromekhanicheskogo i mashinostroitel'nogo zavodov (byvshee K. A. Veikhel't)
Society of Putilov plants	Obshchestvo Putilovskikh zavodov
Society of Russian electrotechnical works Siemens & Halske	Obshchestvo russkikh elektrotekhnicheskikh zavodov Simens i Gal'ske
Society of Russo-Baltic wagon works	Obshchestvo Russko-Baltiiskogo vagonostroitel'nogo zavoda
Society of Tula copper-rolling and cartridge factories	Obshchestvo Tul'skikh mednoprokatnykh i patronnykh zavodov
Stock-company of engineering, iron foundry and cable works Lessner G. A.	Aksionemoe obshchestvo mashinostroitel'nogo, chugunoliteinogo i kabel'nogo zavodov Lessner G. A.
Zhilovskoe society of coal and iron ore mines	Zhilovskoe obshchestvo kamennougol'nykh kopei i rudnikov