

IMMEDIATE HEIR



There are very few Russian companies that can be proud of their pre-revolutionary origin more so when it comes to banks. However on March 3d Moscow Narodny Bank Limited celebrates its centenary anniversary. It came a long way over these years. It was the only private bank in RS-FSR to obtain British registration. The bank helped to send the first West European cosmonaut to orbit, and even took part in building Eurotunnel, that is why these are still Ural rail tracks that are underneath La Manche. Moscow Narodny Bank Ltd. returned to Russia in the middle 90's, establishing in Moscow its 100% subsidiary – CB Mosnarbank. The following merger of Evrofinance Bank and CB Mosnarbank led to establishing Evrofinance Mosnarbank. Not only did it become the immediate heir, the follower of the ancient traditions, but also the rightful owner of the noble name of Moscow Narodny Bank.

These and other details told by Ilya Lomakin, CEO.

– Was your bank different from other banks before the revolution? Did it have any specialization?

– Yes, Moscow Narodny Bank was absolutely different from credit institutions of the Russian Empire during XX century. In form it was a joint-stock bank, but in fact it was the central bank of Russian co-operation. Its main direction of activity was to provide exceptional service for the development of cooperative enterprises in Russia. All pre-revolution activities of Moscow Narodny Bank were dedicated to reaching that goal. This defined the unique for those times and for the present day banking system, which turned bank not just into mere profit tool but into an institution that provided a full development of the economical activities of its shareholders, delivering the optimal connection between the manufacturer and the financial market. Our country is lacking something like that at the moment. Let's step back for a moment: recently there has been an illusion of an ideal economic structure of the Tsarist Russia back in the beginning of the last century. They are painting rosy pictures. In fact a hard look at the Russian economic life in the beginning of XX century reveals its full resemblance with our reality. Phenomenal corruption, urge for foreign investments, interest to raw material industries, big business striving for cooperation with imperial institutions and full negligence to mid-sized and small businesses. In a situation like that small business faced as tough time as it faces nowadays. Meanwhile small business of the Russian Empire, which constituted 81% of population occupied in farming was fully made up of separate peasant households and provided almost all Russian ex-

in 1915: one in Novonikolaevsk (now Novosibirsk) and the second one in Rostov-on-Don. Even though MNB was serving the whole country by that time.

– How could a bank with three branches manage that?

– Basically it became the organizer of mid-sized and small business in Russia. The thing is that MNB didn't pursue to increase profit. It may seem strange but the point is that two strategies are possible. It is whether you earn as much as possible and divide the profit between the shareholders or you earn less but develop your own shareholders. MNB chose the second, very unique strategy. It didn't loan to private individuals, but only to its shareholders – cooperatives and cooperative unions, where stock were somewhat of a pass to credit system. Thus the bank decreased its, let us speak modern language, transaction costs and financial risks.

After the first emission the stocks were bought by cooperatives and some private individuals, who were directly related to the cooperative movement. During the second and the third emissions, and until 1918 there were six of them, the stocks were bought mainly by cooperative unions. That way MNB was following a policy of restructuring its clients. Only due to its activity they first united into cooperatives unions and later into unions of unions. As a result practically all cooperative movement was related to the Moscow Narodny Bank's activity in this or that way.

Such interactive model where the shareholder and only he is the only client to the bank on such scale and on such conditions, when the main goal of the bank was to provide to the client and thus to the shareholder with the cheapest possible financial resources, was not implemented anywhere else. The reality of the Financial Crisis which invaded the global economy in the beginning of XXI century, undeniably demands rethinking the historically approved experience of the beginning of XX century and its implementation in the contemporary conditions. More so, rethinking the role and the place of bank institutions, showed in the latest researches in the field of general economics and finance, gives us hope to think that that experience will be highly demanded. The bank of the future should and must put its client in the most favorable conditions for the development of his, client's, business and this is the only way to achieve a successful result.

– Did the bank develop its shareholders by the means of crediting them?

– The bank didn't just give loans to the shareholders. It provided the complete service. In 1914 MNB opened its own commercial department, which was in charge of structuring and optimization of their trading transactions. Its scope was acquisition of agricultural machinery, fertilizers and suchlike within the country and abroad. To develop the export activity of its shareholders the bank opened commission office in London. Why commission office? It is just that according to the legally approved transactions the bank could only perform commission transactions - there were too many of those who wanted to work under the retail transactions scheme. In other words, the authorities of the Russian Empire prohibited the bank to work on trading conditions using its own money and the bank was providing the commission services. That is why a commission office was opened in London and later another one in New York in Broadway. The bank undertook the export of many agricultural products. Considering what the Russian Empire received the foreign currency for, we can say that MNB 'was rolling'.

It's not for nothing that the society trusted in the bank which showed not only in the number of private deposits. When World War One started war bonds and loans were issued – that was done quite easily. Based on the allocation order of the Ministry of Finance the bank redeemed tranche of loan for its own money, and then distributed it between the population. So the famous banking-house of Ginzburg was not able to implement a single tranche while MNB implemented three of them. That is how

much the people trusted in the bank.

By the way during World War One our bank acted in a quite non-typical way. It would seem that during the war one should increase loan interest rates and gain the profit. And in fact after the war started the rates did increase a little bit, about 8-9% but interestingly enough after a while MNB lowered the rates for its clients down to 6.5%. Instead of gaining profit the bank helped its shareholders.

– How did the bank survive the revolution followed?

– The major growth appeared right after the February revolution. MNB gave active support to the provisional government; one of the members of the board even became a minister. The opening of 30 new branches followed immediately stretching as far as Habrin.

The October revolution didn't harm the bank either in the beginning. If you remember on December, 1917 all banks were nationalized. The only bank that wasn't nationalized was MNB. First of all the bank was controlled by the socialist-revolutionaries, who seemed to be allies. Secondly by the operation principle it was absolutely socialistic. That is why 1918 was the year of the bank's golden age. Being a monopolist it performed quite a lot.

– So it turns out the officials were right about the revolutionism of the bank?

– Yes, but it didn't last long. Firstly economic freedom gradually diminished, but that was not even the matter. What mattered was that many newly opened branches were situated in Siberia and Ural, where the White army and Kolchak were. The administration of Ural-Siberian branch association was founded and of course it was cooperating with Kolchak and the rest.

Due to that in particular MNB lost its independence on December, 1918. It wasn't closed, no, but it was affiliated as a cooperative department to Narodny Bank of RS-FSR, the future Central Bank. After a while Vsekokbank (the All-Russian Co-operative Bank) was established on the basis of MNB with the same personas on the board. The only person who had to immigrate to Paris was Professor A.N. Antsiferov.

Meanwhile, London subsidiary that lost connection with Russia in 1919 announced its independence. On October it was reorganized into Moscow Narodny Bank Ltd. The board consisted of former shareholders, such as the heads of cooperative unions, who happened to immigrate.

– Did they adjust quickly to new place?

– They didn't do well. Without proper consideration MNB gave loans to such unstable organizations as Arkhangelsk-based White Army provisional government or the Kuban government. And finally almost went bankrupt. As a result the shareholders had to give in to persuasion of Leonid Krasin, the USSR trade representative, and to sell the bank. Vsekokbank became the new owner. Some of the members of the board stayed, for example the founder of London MNB Jean Bubnov.

That way MNB became a soviet bank. At that time they were actively building a system of overseas banks, the future financial USSR agents abroad. MNB was joined by Eurobank in Paris, Russian-Persian bank, Dalbank. Some of them were established from the scratch, the others just like MNB were bought from Russian immigrants.

– What was the MNB's role in the Soviet economy?

– During the first years it mostly played the role of a trading agent of the soviet co-operators in Britain. Sales volume wasn't high: the bank was catering to the export of butter, fur, meet, flax, hemp and oil products, as well as tea import. Some branches were open in Europe, but later they were closed. In 1933 MNB took over the Shanghai branch of Dalbank and together with it the bank acquired a valuable employee, Andrey Ilyich Dubonosov.

With the arrival of Andrey Ilyich a real golden age of the bank began. In

1959 Dubonosov headed MNB in London. Few years after the bank moved out from the below stairs in Finsbury Square, where it was situated by the end of the war and took up four floors in London City. And Andrey Ilyich got into the top five of Times "City Faces". That's how high the bank's reputation was.

MNB was financing the Soviet Union's grain procurement. Its operations in the currency market and gold sales allowed to minimize the state budget costs. Not only did Dubonosov manage to buy bread without revealing the actual state of the grain production, but he managed to solve those issues in favor of the Soviet state.

MNB arranged syndicated loans to finance major projects in the Soviet Union and the countries of soviet camp. In that way the western banks' funds were obtained for the century's Gas-for-Pipes Deal which subject was the supply of large-bore pipes from Germany to USSR. The same way MNB found financing for establishing new joint enterprises, for example, Asetko Ltd., founded in order to modernize Stavropol Polymer.

For food and industrial equipment procurement by USSR MNB obtained millions of dollars from the West back at those times during the aggravation in the relationship, when they gave money to USSR reluctantly.

– So, practically the European banks were breaking embargos imposed by their governments?

– Nobody broke any embargos and there were none. On one hand of course everybody understood that it was a soviet bank. On the other hand it always held the guarantees of Vneshtorgbank, meaning it really was a safe borrower. At that time they used to say: pays as the Soviet Union, and it was the most reliable borrower. Businessmen always stay businessmen; they go for profit. There were no formal obstacles. For example, after the Czech events some sanctions were imposed on the transactions with USSR but they did not apply to MNB.

Here is another interesting story. In late 1950's after the Hungarian events our state had problems paying with dollars. Any moment our foreign currency accounts in American banks could be blocked. Currency had to be exported to Europe, which happened after all. Until around 1957 they didn't use dollars to transact internal payments in Europe. The first dollar loan was performed by MNB and Eurobank. These banks were the first to grant credits in dollars. European colleagues liked it so they followed us. Thus the Soviet Union became a birthplace for Eurodollar. That is how it was us who in many respects turned dollar into global currency.

– What did MNB finance abroad?

– The Arab-Israeli war. Western Europe refuses credits to the Arab world. And MNB had a subsidiary in Beirut at that time. Through that subsidiary Syria and Egypt were receiving money for grain procurement.

Besides we took part in financing large European projects. Thus Eurotunnel was built with the use of our bank's money. And owing to MNB by the way they used our Ural rail tracks.

Interestingly enough that with the help of MNB the first astronaut from Western Europe was sent into orbit. The idea to send a British man to space station Mir appeared in 1986 during the visit of English parliament delegation to USSR. Next two years they have been negotiating but failed to sign an agreement, since at the final stage it turned out that the English company Britain in Space couldn't provide the necessary financial guarantee. Then Glavkosmos offered MNB to pay for the project. We agreed and started to select the candidates. We decided that since the prime minister of England was Margaret Thatcher and the Queen was governing we should send a woman into space. As a result on May 18, 1991 it was a British woman, Helen Patricia Sharman, who was sent in space. And 5 mln pounds spent on that were never returned to us. We hoped to invite English sponsors but we failed. The British government wasn't supportive either. So Helen Sharman went into cosmos on our money.

– Did you personally work in English subsidiary of MNB? What was the overseas banks system like from the inside, hidden from ordinary soviet citizens?

– Until 1980 soviet media wasn't supposed to write about soviet overseas banks. Everybody who wanted to work in that system had to pass a tough selection. We studied in a special department of Moscow Finance Institute. It was harder to get there then to Ministry of Foreign Affairs. The whole system had 30-40 people at most simultaneously, Central Committee had more employees.

Out of 250 MNB employees only seven members of the board were citizens of the Soviet Union: the chairman and the heads of the most important divisions. The English didn't allow us to have more than seven people. And London was considered to be quite a liberal place; other countries had even smaller quotas.

We had to look the way they look in the City. The official salary was similar to that of the members of the City banks boards. But we had to return the difference which was about 90% of the salary. Our real salary was similar to that of the first secretary in the embassy. The vice-president was paid a little bit more – somewhat like a soviet trade representative.

– So monthly you earned practically as much as your mid-level managers?

– Less than a half of their figure, there was a huge difference between the salary of managers and the board. But at the same time we got free lodging and transportation. They have bought some houses each designed for two families. Besides we were paid some representative costs, but all were very modest.

Just before our time Andrey Dubonosov was almost dismissed from office because he bought a used Rolls-Royce. He explained that he had to deal with the millionaires all the time and the lack of a proper car could damage the image of the bank. But Dubonosov was accused of bourgeois degeneration. And the only thing that saved him from being expelled from the Party was the Soviet ambassador's pleading.

But it still was very interesting job and unique school. The Soviet banking system was in no way similar to the capitalist system. And those banks, being situated in the capitalist countries, worked by their rules. That is why the soviet foreign banking system was a source of man power. When new banking system was created these people with the external experience made up its core. They prepared the documentation for new banks, developed Articles and entered the boards.

– How MNB itself survived the break-up of the Soviet Union?

– The end of 1991 was very hard time. The existence of soviet overseas banking system was threatened. Foreign currency authorities of some countries insisted on shutting down those banks. They made it a condition for financial support of Russia, stressing that our state inappropriately spent its money on the maintenance of these banks. We have to do justice to Egor Timurovich Gaydar, who saved the system.

When the danger vanished in 1995 MNB founded its 100% daughter enterprise in Russia - CB Mosnarbank in order to establish close relationship with its main shareholder. The foundation was entrusted with me. Funding a bank in Moscow was actually coming back home.

Later in 2002 we reached the limit. FSA (the Financial Services Authority) placed restrictions on loaning the credits to Russia and on participating in Russian business. The thing is that our Russian 'daughter' became so big that any crisis in Russia could bring down English bank. They were afraid of it in Britain and prevented our development.

That is why on December, 2003 CB Mosnarbank merged with Eurobank's 'daughter' (French Russian foreign bank), Evrofinance. Founded as such not only did Evrofinance Mosnarbank become a lineal descendant, the follower of ancient traditions, but also a whole owner of noble name of Moscow Narodny Bank.