

On Both Sides of the Eastern Front - Bank Handlowy w Warszawie during WWI.

On the eve of WW I Bank Handlowy w Warszawie was Poland's largest bank and that implied a special responsibility. Because Poles had lost their sovereignty to neighbouring powers in 1795, the bank was responsible for financing economic growth to help Poland regain independence. Supporting economic growth applies chiefly to Congress Poland (Kingdom of Poland) the territory with the capital Warsaw, under the Russian rule. In 1913 Bank Handlowy owned 35% of total capital, 60% of current deposits and 44% of the stock exchange traffic in Congress Poland¹. Along with the main office in Warsaw, it had 10 local branches in Będzin, Częstochowa, Sosnowice, Zawiercie, Kalisz, Lublin, Łódź and Włocławek, plus two semi-foreign branches in Kiev and St. Petersburg.

First symptoms of the Balkan Crisis were recognized by Bank Handlowy in 1912. Along with the slowdown in revenue increase, Board of the Bank pointed to the indicators such as: erosion of public trust, decreased industrial production and high price of money². Therefore, both political and economic symptoms of the looming crisis were evident. In spite of the visible signs of growing tension, from 1910 the dividend was paid out at a steady and record rate of 12%. In order to meet the increased demand for crediting, the bank's management wanted to raise capital from 20 to 30 million rubles by a new issue of shares³. The question arises whether the bank's management did take any measures to protect the bank's interests in the event of a military conflict. Sadly, the answer is not affirmative. Unlike the situation in the summer of 1939, documents from the era fail to offer information on evacuation plans or instructions for international conflict scenarios. The only anti-crisis measure (however not directly related to the pre-war tension) was a gradual augmentation of capital reserves, diminished in the difficult first decade of the 20th century.

With the outbreak of war, the territory of Poland became the main battleground of the eastern front. Though of secondary importance from a military perspective, this fact had tremendous impact on the activities of Bank Handlowy. The first evident upshot of the conflict was, the usual phenomenon in such situations, an abrupt wave of deposit withdrawals. Between the beginning of the war operations and 31 December 1914, Bank Handlowy paid out over 13 million rubles, more than a half of its total share capital. The outflow of capital was not the worst of it all. The situation was further exacerbated by the

¹ Z. Landau, J. Tomaszewski, *Bank Handlowy w Warszawie S.A. Historia i rozwój 1870-1970*, Warsaw 1970, p. 51; *Idem, Bank Handlowy w Warszawie S.A. Zarys dziejów 1870-1995*, Warsaw 1995, p. 42, 43.

² Central Archives of Modern Records in Warsaw (AAN), Bank Handlowy w Warszawie S.A. (BH) 1/31, p. 3.

³ AAN, BH 1/105, p. 54-55, considerations from April 1914.

evacuation of the Russian State Bank from Warsaw, which made it virtually impossible to liquidate exchange bills and other securities to make up for the decrease in revenues. The bank failed to meet all demands and, in spite of an introduction of a payout moratorium, capital continued to erode. The memorandum was a double-edged sword, while it allowed the bank to reduce payouts it also permitted debtors to suspend the payments of the money owed to the bank⁴.

Although Germany's priority was defeating France, German troops were progressing considerably fast, capturing the territory of the Kingdom of Poland with the offices of Bank Handlowy. Already in August 1914, it was impossible to calculate a monthly balance for July because the branches Zawiercie, Częstochowa, Będzin, Sosonowice, Kalisz were on the territory taken over by the Germans⁵. In September, the branch in Włocławek was cut away from the headquarters⁶. The situation fluctuated and by the end of 1914 the bank lost touch with all of its local branches except Lublin, Kiev and Saint Petersburg. There are no remaining records of any attempts to contact the local branches, although it would be safe to assume that such attempts were made. The branches on territories captured by Germany nearly came to a standstill. Total sales of the seven branches between August and the end of 1914 dropped to as little as 109.3 million rubles. Just to compare, total 1914 sales in the remaining three branches reached over 2 billion rubles. This shows clearly that, despite the reduced sales, branches remaining on the territories controlled by Russia continued business nearly as usual. On the Germany-controlled territory the branches of Bank Handlowy were left to fend for themselves and struggle for survival.

The communication breakdown affected also the main office. It made it difficult if not impossible to maintain regular accounting procedures. How did the bank approach this unusual situation? It was decided that, profit and loss statements would continue to be calculated as usual and the data from territories captured by Germany should be extrapolated from monthly reports⁷ with a relevant note. It was also resolved that total profit (reduced by documented losses) should be carried forward to 1915.

Because of the progress of German troops and the threat to Warsaw, in early 1915 President of the Board, Leopold Julian Kronenberg relocate to Saint Petersburg and absented from the board meetings. The board was invested with the authority to and made decisions without him. However, resolutions were often accompanied by a note „upon the approval of President currently residing in Saint Petersburg.” Several other board members joined Kronenberg in the capital of the Russian Empire, which caused the decision centre to effectively shift there. Board Members residing in Saint Petersburg were called „small board”. The small board decided that, in spite of substantial losses, the bank will pay out a 6% dividend to its shareholders (of the seed capital). The decision was largely motivated by

⁴ Z. Landau, J. Tomaszewski, *Bank Handlowy 1870-1995...*, p. 49.

⁵ AAN, BH 1/105, p. 127, 128.

⁶ *Ibidem*, p. 138.

⁷ AAN, BH, 1/106, p. 30.

the need to uphold the institution's brand image and send a positive message to the stock exchange and the state bank. While the move was possible in 1915, in the following year most of the 1915 profit was used to cover doubtful receivables, and the rest was carried forward to 1916⁸. While the presence of the president and other board members in Saint Petersburg created a de facto two decision centres.

Wherever it was possible, attempts were made to increase business. When Russians captured Lvov from Austria in spring 1915, the small board decided to set up an agency, a move that was not executed because the city was lost after several months.

The management situation changed drastically when Germans captured Lublin in July 1915 and Warsaw in August. The central office remained in touch with the branches on the German side but could no longer communicate with the branches in Kiev and Saint Petersburg and the small board. There were only several instances when the central office managed to contact Saint Petersburg via Sweden, neutral in the war⁹. With the communication difficulties, President Kronenberg, Board Member Bazyli Jewrein, and manager of the Petersburg branch Henryk Szampanier received full power of proxy to act on behalf of the bank¹⁰.

As I mentioned earlier, the business in Saint Petersburg and Kiev was quite profitable. The two branches also had access to rediscount from the State Bank. In order to maintain their position among crediting institutions, Bank Handlowy repeatedly participated in the loans issued by the state¹¹. In spite of the difficult conditions, it also provided support to the needy and helped people who were injured in the war¹².

The situation in the towns on the other side of the front, including the central office in Warsaw, was diametrically different. Although the towns did not suffer directly in the war, the industry was heavily affected, first as a result of the fleeing Russians removing machinery, installations and even the entire factories, which made it difficult for debtors to repay loans and caused the industry to suffocate. Secondly, Germans draining Kingdom of Poland mostly of the natural resources, added to that effect. Also the requisition of food affected particularly the farmers, an important client segment for Bank Handlowy. On top of surging unemployment, army conscription and chaos on the domestic market, the bank lost access to its key external market (Russia)¹³.

Deposits continued to dwindle. Throughout 1915 and 1916, the bank paid out another 27 million rubles. In 1915 the bank accepted for discount bills of exchange totalling 33.6 million

⁸ AAN, BH 1/108 p. 39.

⁹ AAN, BH 1/108 p. 56, 64, 92.

¹⁰ AAN, BH 1/108, p. 98, 99.

¹¹ Z. Landau, J. Tomaszewski, *Bank Handlowy w Warszawie, Historia i rozwój 1870-1970*, Warsaw 1970, p. 55.

¹² AAN, BH 1/105, p. 128, 129.

¹³ B. Zientara, A. Mączak, I. Ichnatowicz, Z. Landau, *Dzieje gospodarcze Polski do roku 1939*, Warsaw 1988, p. 463-465; W. Morawski, *Dzieje gospodarcze Polski*, Warsaw 2010, p. 168-172; W. Morawski, *Od marki do złotego. Historia finansów Drugiej Rzeczypospolitej*, Warsaw 2008, p. 33-44.

rubles. A year later the number plunged to the lowly 3.2 million rubles. Depreciation of the currency and securities and capital frozen in bad credit weighed heavily on the bank's results. While the balance was positive, it was only formally so¹⁴. As a desperate measure, the bank decided to take out rescue loans in Berlin banks with which it had continued to remain on good terms. The difficult situation and a drastic drop in sales caused it also to close down the branch in Zawiercie¹⁵.

In spite of the serious difficulties, the bank continued to help the community, usually financing the import of provisions. The help was usually addressed to the towns where the bank had its branches. In 1915 financial assistance was provided to: Łódź, Zawiercie, Sosnowice, Będzin and, a year later, also Warsaw¹⁶.

Further management complications occurred in 1917, on both sides of the front. On the western side it was caused by the introduction of a new currency on the territory of Kingdom of Poland occupied by Germany – Polish mark. On the territory occupied by Austria ruble was joined by krone. The currency chaos caused crediting activity to nearly cease. Why? Besides the factors mentioned earlier, there is the fact that, in the light of currency speculation, debts were repaid at an official exchange rate, more favourable to the debtor than to the lender¹⁷.

In 1917 Russia was taken over by Bolsheviks, which brought the end to the existence of the Petersburg branch. The office was closed in December 1917 and its property was nationalised, which of course added to the bank's losses. President Leopold Julian Kronenberg's attempts to prevent it from happening were unsuccessful and he himself did not return to Poland until May 1918. Unfortunately, we have no information about this operation. We only know that for a time, Henryk Szampanier, the manager of Saint Petersburg branch was held in captivity by the Bolsheviks. The building was to be sold to German diplomacy, as agreed by both sides, the deposits, documents and other property was to be secretly removed to another location.

The material situation of the bank's employees is also an interesting issue. Before the war average pay in the bank was slightly higher than the market average. The employees could also count on the employer for subsidies to educate their children or for free morning meals. They also had an insurance and relief fund (*Kasa Przejrzności i Pomocy Pracowników Banku Handlowego*), with regular deposits of 6% of a monthly pay matched by the bank. The funds were spent on emergency relief and old-age payments to retired employees. Another fund was used to help the sick and disabled employees (*Kasa Pomocy dla Chorych*). On 31 July 1914 total number of employees was 532 and by mid-1915 the headcount dropped to 419,

¹⁴ Z. Landau, J. Tomaszewski, *Bank Handlowy 1870-1995...*, p. 51.

¹⁵ AAN, BH 1/107 p. 145.

¹⁶ AAN, BH 1/106, p. 127, 135, 153, 165, 166.

¹⁷ Z. Landau, J. Tomaszewski, *Bank Handlowy 1870-1995...*, p. 53.

nearly by 20%¹⁸. Much as the management wanted to avoid staff reductions, particularly in winter, laying off at least some of the employees could not be avoided. At a meeting held in August 1916 Management Board decreed as follows: *Director put forward a motion, caused by the lasting slowdown bordering on complete stagnation (...) the bank should consider a gradual reduction of personnel count, since the number thereof at the present moment does not reflect the business circumstances*¹⁹. Neither was it possible to protect employees from conscription. Half way through 1915 the bank stopped dispensing meals to the employees and the benefits paid in 1915 totalled only 130 thousand rubles, while two years earlier the corresponding figure was 230 thousand rubles²⁰.

War-induced high prices and inflation caused the living standard of the bank's employees to deteriorate. The first appeal for help to the management board came in March 1915 from the staff of the Saint Petersburg branch. The board provided 50 thousand rubles, the equivalent of roughly total monthly payroll excluding the management's fees. The appeal was repeated already in June, this time directly to President Kronenberg. Again, the response was favourable and the employees received a two-month benefit of up to 500 rubles per person, 80 thousand rubles in total. In June 1916 another relief payment was authorised. Each employee received the equivalent of a monthly salary, paid in three instalments over three months. In February 1916 the value of ruble slumped to a quarter of what its pre-war worth. Since the salaries remained at the pre-war level, their real value also dropped by ca. 75 %. The next request came from the staff of the central office. Again, the management acceded by providing a relief benefit in the amount of 33% of the regular salary, to be paid for three months. The employees applied for another benefit already in May and in September it was decided again that for the following four months the employees would receive monthly a benefit of 25 % of the regular pay. In spite of the Bank's attempts to meet the employee's needs, at least partially, the amounts were far from sufficient. Relief benefits at 25-50% of the regular salary fell short of compensating for the eroding value of money. These benefits did not contribute to the employee insurance and relief fund²¹. Some appeals were quite desperate: *The supremely difficult life situation that we have found ourselves in make the existence of the employees (...) simply unendurable ... This is why we turn to Esteemed Directors with an appeal to provide us with financial aid, to make it possible for us to survive the present general disaster. We trust that being a financial and civic institution, Bank Handlowy, for whom we worked with dedication and good effects in better times, will not leave us now without help*²².

¹⁸ AAN, BH 1/107, p. 127-135.

¹⁹ AAN, BH 1/106, p. 126, 127.

²⁰ Z. Landau, J. Tomaszewski, *Bank Handlowy 1870-1970...*, p. 59.

²¹ More information about relief benefits in AAN, BH 1/106, p. 42, 47, 104, 111; AAN, BH 1/107 p. 5, 77, 90, 96, 117, 124; 1/108 p. 2, 68, 80, 120; 1/109 p. 2.

²² AAN, BH 1/107, p. 90.

At the turn of 1917 and 1918 business improved to some degree, with clients gradually resuming payments. Two new branches were opened – in Kielce and Radom²³. The bank also managed to repay a vast portion of the relief loans to the Berlin banks²⁴.

While the war brought Poland independence, it left the bank seriously weakened. The most serious losses had been caused by Bolsheviks taking over the power in Russia. Bank Handlowy lost first its Saint Petersburg branch and all its assets and then the branch in Kiev in 1920. The losses on Russian securities were particularly high. With the nationalisation of Russia and the Bolsheviks' policies, the chances of their recovery was practically gone. The same applied to the bills of payment issued by Russian companies. Also, cutting the very strong economic ties with Russia caused problems not only Bank Handlowy but Poland's entire commerce and industry as well. Losses also included payments from those Polish companies whose bankruptcies had been brought about by the war or policy changes enforced by Germany or Russia. Although inflation of German mark had reduced the value of debts in this currency, total losses caused by the inflation outweighed the gains. No successful attempts have been made to this day to draw up a detailed estimation of the losses of Bank Handlowy caused by WW I. Even at the time, in spite of keeping regular records it was impossible to calculate total losses. Furthermore, later emerged the problem of the so called Kiev debts – that is – of the engagements of the Bank towards its customers who had placed their money and made deposits of their valuables (gold, jewellery, art, etc.) in the Kiev branch office in 1918. Under such conditions, the balance sheets of the Bank Handlowy w Warszawie published during the war and right after the war were rather formal, and like in other Polish banks they did not fully reflect the real situation of the Bank. Several years had to pass until it became possible to clear up all doubts, make an estimation of the real value of assets and put affairs into order.

What I have presented is only an outline of Bank Handlowy's operations during WWI. What are the archival sources at our disposal, for exploring its history in the period in question? Unfortunately, the archives of nearly all Polish banks operating before 1939 were lost in WWII. This includes the archives of Bank Handlowy, much of whose historical documents are gone. However, we are lucky to have some materials that make it possible to reconstruct its history, though with some significant gaps, just to mention the resources, important and interesting, necessary to look into the everyday life of the bank's employees at the time. We have no memoirs of Bank Handlowy' employees from the period in question. There is no photographic material. What is there then? We have annual reports from the entire period of the war, minutes from general assembly and board meetings. The latter often with attached monthly balance sheets, various documents and correspondence, sometimes contracts. The material is enough to give us a general idea of the business and decisions that were made. What is also missing is full correspondence that would give us insight into the

²³ AAN, BH1/108, p. 128

²⁴ AAN, BH 1/109, p. 13.

management processes from start to finish and into the relationships inside the bank and with its foreign partners.

The outbreak of war confronted the management of Bank Handlowy with an exceedingly difficult task, made more so by the fact of the institution operating on the territories directly affected by the war. The main challenges were:

- ensuring continued operations in difficult circumstances,
- calculating and estimating profits and losses,
- difficult material situation of the employees,
- currency change and
- the loss of Saint Petersburg and Kiev branches together with their assets.

Although weakened, Bank Handlowy continued its operations in the new circumstances and adjusted to the demands of the new state of affairs, an independent nation rebuilding its state. Bank Handlowy remained Poland's largest privately-owned bank, but lost its market leader position to newly established state banks. Please notice that the independent state was formed anew from three parts which previously were included into various political bodies for more than 120 years.

No	Name	Year of founding	Headquarters (state)	Equity	Total assets
1	Bank Handlowy w Warszawie S.A.	1870	Warsaw (R)	144	801
2	Wileński Bank Ziemiński S.A.	1872	Wilno (R)	92	801
3	Bank Dyskontowy Warszawski S.A.	1871	Warsaw (R)	71	184
4	Bank Handlowy w Łodzi S.A.	1872	Łódź (R)	70	303
5	Galicyski Akcyjny Bank Hipoteczny	1867	Lvov (A)	60	569
6	Bank Krajowy	1883	Lvov (A)	42	864
7	Bank Zachodni S.A.	1913	Warsaw (R)	36	127
8	Łódzki Bank Kupiecki S.A.	1897	Łódź (R)	26	105
9	Bank Handlowy W. Landau S.A.	1914	Warsaw (R)	23	.
10	Bank Przemysłowy dla Galicji S.A	1913	Lvov (A)	20	75

Table 1²⁵. Ranking of Polish banks in 1912-1914. (total equity and assets (millions zł), parity for 1927).

²⁵ Based on W. Morawski, *Słownik historyczny bankowości polskiej do 1939 roku*, Warsaw 1996, p. 18, 19.

Year	Total Turnover
1913	5.252.100.803,42
1914	3.736.190.788,89
1915	1.558.406.347,90
1916	965.850.503,17
1917	309.495.975,80
1918	25.447.052,68

Table 2²⁶. Turnover of Bank Handlowy w Warszawie S.A., years 1913-1918.

²⁶ Central Archives of Bank Handlowy, 209/6, 209/8, 209/9, 209/10; AAN, BH 1/178, 1/181a.