Deutsche Bank Risk Chief Says Crisis 'Far From Over'

By Aaron Kirchfeld

March 31 (Bloomberg) -- Deutsche Bank AG Chief Risk Officer Hugo Banziger said the credit crisis is "far from over" and global financial regulations must be overhauled to regain investor trust.

"We are in the middle of it," Banziger, 53, said yesterday at the Frankfurt School of Finance and Management. The industry has an opportunity to build a stable financial system that seeks higher capital buffers, while encouraging investors to return money to the market and help stem the crisis, he said.

In February, Deutsche Bank reported its first annual deficit in more than 50 years after the worst financial crisis since the Great Depression pummeled bond and stock trading. The crisis has caused almost $1.3 trillion in losses for financial companies worldwide, a total that may climb to more than $3 trillion, Banziger said yesterday, citing forecasts.

Deutsche Bank has gained 46 percent this month in Frankfurt trading, valuing it at 18.8 billion euros ($25 billion), and eclipsing the 10 percent advance in the Bloomberg Europe Banks and Financial Services Index of 65 companies. The bank rose 1.30 euros, or 4.5 percent, to 30.30 euros today.

The German bank skirted the worst of the U.S. subprime mortgage collapse by betting against the bonds that contributed to credit losses and writedowns at the world's largest financial companies and forced government-led bailouts from Berlin to London to Washington.

The German bank has booked about 9.3 billion euros in writedowns since the start of the U.S. subprime mortgage crisis in 2007UBS AG in Zurich has had $50.6 billion of costs and New York-based Citigroup $88.3 billion, according to data compiled by Bloomberg.

Credit Spreads

Banziger said credit spreads are higher than beforeLehman Brothers Holdings Inc. collapsed last year, which he said signaled the crisis was far from ending.

The cost of protecting European corporate bonds from default rose, according to traders of swaps. Contracts on the Markit iTraxx Crossover Index of 45 companies with mostly high- risk, high-yield credit ratings rose 33 basis points yesterday to 943, according to JPMorgan Chase & Co. in London.

The index is a benchmark for the cost of protecting bonds against default, and an increase signals deterioration in the perception of credit quality.

Chief Executive Officer Josef Ackermann, commenting in an investor presentation on the company's Web site today, said there was "some stabilization of market conditions in the first quarter," citing indexes for credit spreads, European stocks volatility, liquidity and correlation.

Resisting Pressure

Deutsche Bank is resisting pressure to take government aid or raise additional capital to protect existing shareholders that have seen the value of their stock decline, Banziger said.

"One of my top priorities is to make sure that those who lost money recover it," Banziger said. Protecting shareholder value is "our deep philosophy" and Deutsche Bank's management "will stand by this."

Deutsche Bank has several times raised a goal for Tier 1 capital, a key measure of solvency, Banziger said. The bank's Tier 1 ratio is 10 percent, which may be insufficient in the future and result in boosting the standard to 12 percent, he said.

Banziger said a so-called bad bank in Germany to buy toxic assets from financial companies "can work," though it would require an accepted process to value the securities and sufficient specialists to oversee the entity.

Government Praised

Banziger praised the German government for intervening withHypo Real Estate Holding AG, the bailed out commercial-property lender, saying the company can't be allowed to "crash against the wall." Germany's bank rescue fund, Soffin, said March 28 that it will buy an 8.7 percent stake in Hypo Real Estate and plans to gain "full control." The move presages the first bank nationalization in Germany since the 1930s.

Banziger said an institution such as Deutsche Bank is "systemically important" and "if anything happens" to the bank, it would cause "serious problems" in the euro zone. Government and regulators would act if needed, he said.

Regulators need the power to withdraw licenses from banks that take on more risk than they can absorb, and "they should've done that with a couple of institutions earlier in the crisis," Banziger said.

Banziger criticized a lack of supervision for off-balance- sheet investment vehicles and urged more regulation. "It's like in road traffic: not all Porsche drivers can drive like they want to. A red light means everyone has to stop," he said. Compensation should also be geared more toward long-term success, he said.

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