Deutsche Bank posts second highest ever quarterly profit

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Germany's leading bank, Deutsche Bank, has posted its second highest ever quarterly profits. Deutsche Bank earned a net income of €2.1 billion ($3.1 billion) in the first three months of this year with pre-tax profits of €3.5 billion. This means that the bank is on target to fulfil the aim of Deutsche Bank Chairman Josef Ackermann to make a profit of €10 billion for the operational year of 2011.

The latest figures for Deutsche Bank reflect the growing power and influence of a small number of major international banks. Following the collapse of Lehman Brothers in 2008, it was argued by the US government and governments across the globe that leading banks were "too big to fail", and that it was necessary to pump trillions into these banks in order to prevent a breakdown of the financial system.

Now, nearly three years later, a number of the main players responsible for the financial crash, including Deutsche Bank, are bigger and more powerful than ever. Commenting on this development in an interview with a German paper last month, former chief economist at the International Monetary Fund, Simon Johnson, described Josef Ackermann as "one of the most dangerous bankers in the world".

Johnson criticised in particular Ackermann's proclaimed target of an average annual profit of 25 percent. Such projected profit levels, Johnson argued, were only possible because Ackermann was well aware that his bank would be "rescued by taxpayers" in the event of difficulties.

Johnson predicts a new crisis if banks such as Deutsche Bank continue to undertake a broad range of risky investments with an insufficient capital base. The former IMF economist declared that regulations recently introduced, the so-called Basel III rules, requiring banks to maintain capital reserves equivalent to at least 4.5 percent of assets up to the year 2015, are "absolutely useless". To avoid a new financial panic, he argues, major banks should maintain capital reserves equivalent to between 20 and 45 percent of total assets. The current capital base of Deutsche Bank lies at just 4 percent, a figure, according to Johnson, that provides a "classic recipe for a new crisis".

The criticisms raised by Johnson coincide with revelations over the role played by Deutsche Bank in the US mortgage scandal in the run-up to the 2008 crash. The recently released report on the financial crisis by the US Senate Subcommittee on Investigations criticised the role of a number of leading US banks and Deutsche Bank for precipitating the financial crisis. Forty-five pages of the report deal with more than 120 documents revealing how Deutsche Bank came fourth behind three US banks in contributing to the "mortgage mess", i.e., the contamination of the US financial system with toxic mortgages. The documents detail how Deutsche Bank helped put together a $1.1 billion collateralized debt obligation (CDO) known as Gemstone 7, compared by the bank's top CFO trader to a "ponzi scheme" and variously described as "crap" or "pigs". A subsequent internal bank memo then instructed DB traders to rapidly sell off its CDO shares "before the market falls off a cliff".

Deutsche Bank was able to limit its losses in the crisis by selling off its "crap" at a relatively early stage of the crisis. It further improved its balance books by actually betting on an imminent collapse of the US property market.

Following the collapse of Lehman Brothers, Deutsche Bank Chairman Ackermann played a leading role in the operation to prevent a meltdown of the German banking system. In September 2008, he was instrumental in organising the rescue of the bankrupt

Hypo Real Estate (HRE) at taxpayers' expense. Ackermann and other leading bankers dictated to the government terms for a state bailout of the ailing bank. The rescue action then culminated in a late-night personal phone call by Ackermann to the German chancellor.

Forced to take losses in 2008, Deutsche Bank was able to take advantage of the largesse of the German government, which pumped billions into the German economy, and the European Central Bank, which offered loans at virtually zero interest, to bounce back in 2009 with a massive net profit of €5 billion. The rapid return to profitability led one finance analyst to conclude at the time that Deutsche Bank has "definitely had a good crisis…. There's good profit overall."

Since the 2008 crisis, Ackermann has been able to extend the empire of Deutsche Bank, while a number of its rivals have gone into liquidation. Having organised the €105 billion bailout of Hypo Real Estate, Deutsche Bank then looked on as one of its main domestic competitors, Dresdner Bank, was swallowed by Commerz Bank.

At the end of 2009 Deutsche Bank took full control of Germany's Postbank, thereby doubling its domestic customer base overnight to 28 million. The sweeping of 14 million ordinary German bank customers into the Deutsche Bank "portfolio" led one German newspaper to comment that the bank now had an additional 14 million "hostages" when it came to negotiating with the government over funding and policy. Then, in 2009, Deutsche Bank took over the investment bank Sal Oppenheim—Germany's oldest private bank—allowing it to extend its European platform for speculative activities.

Already proclaimed "too big to fail" in 2008, the expanded Deutsche Bank led the list compiled by Japanese regulators of the top 60 "too big to fail" financial institutions in 2010. In this list, compiled by Japan's Financial Services Agency and the Bank of Japan, Deutsche Bank outstripped its main international rivals, US based Goldman Sachs and JPMorgan Chase.

Having burnt its fingers in the US property market and fearful of sanctions by US regulators, Deutsche Bank is currently relocating its international investment arm to London and winding down its operations in the US market. According to a recent report in the *Wall Street Journal* Deutsche Bank plans to reduce the US activities of its Taunus investment subsidiary in order to avoid sanctions laid down by the recently introduced Dodd-Frank financial regulations act.

At the same time, Deutsche Bank is concentrating increasingly on new markets, particularly in the so-called BRICS group of economies, and recently increased its stake in China's Huaxia Bank.

Since the financial crisis of 2008, Deutsche Bank and its chairman, Josef Ackermann, have been in the forefront of the campaign to prevent any effective regulation of the major banks themselves and the bonuses paid to their leading executives. The enormous and increasing influence of Deutsche Bank over political decision-making, however, is most clearly evident in its role in the European debt crisis.

Deutsche Bank has been one of the most strident voices demanding that ailing European economies do their "homework", i.e., implement one austerity program after the other in order to refill the coffers of the banks at the expense of the jobs and livelihoods of millions of European workers and their families. Only recently, a leading executive member of Deutsche Bank vigorously attacked representatives of the European Central Bank for delaying on the issue of restructuring Greek debt.

Evidently, Deutsche Bank is confident it can play a leading role in such a restructuring and profit from a process that would have further devastating consequences for the Greek economy and the Greek population. As the German *Handelsblatt* newspaper noted in its report on the issue, "For investment banks and law firms the waiving of debt is a billion-dollar business".