Deutsche Bank AG

Deutsche Bank clashed with ECB over bad loan losses

Top regulator was concerned about German lender's credit risk management

The European Central Bank reportedly flagged concerns over Deutsche's credit risk management and its risk models on multiple occasions © Alex Kraus/Bloomberg

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Deutsche Bank clashed with the European Central Bank throughout 2024 over concerns the German lender may be underestimating how many loans would sour, people familiar with the matter told the Financial Times.

The ECB flagged concerns over Deutsche's credit risk management and its risk models on multiple occasions, the people said.

Deutsche ultimately issued two warnings to investors that provisions for bad loans in 2024 would be higher than the €1.5bn it had initially expected.

It reported provisions of €1.8bn for 2024, 22 per cent higher than in 2023, and said at its annual results in January that it expected only a "part-normalisation" of credit losses in 2025. By the end of 2024, Germany's largest lender had earmarked €5.7bn for potential losses out of a total loan book of €485bn.

Deutsche also announced in the wake of the warnings on bad loans that its chief risk officer Olivier Vigneron would be leaving after serving only a single three-year term at the bank. He is due to depart in May when his contract expires.

The ECB's concerns went beyond its scrutiny of the lender's leveraged finance activities, which dated as far back as 2020 when Deutsche rebuffed a request to scale back its activities following an industry-wide review of leveraged lending.

Another person said the ECB challenged Deutsche's internal expectations for loan losses in 2024, which at the time stood at €1.5bn, suggesting an amount closer to €2.5bn might be more appropriate.

Deutsche fended off that demand, arguing its auditor would not accept such a high provision as tax authorities would challenge the provision because it lowered the bank's profit and hence its tax bill.

Another person told the FT that the ECB initially signalled to Deutsche that it could potentially increase the lender's individual capital surcharge — its so-called pillar 2 requirement — significantly more than the 25 basis point bump it ultimately imposed, due to the concerns over the bank's risk management.

The German lender successfully lobbied to limit the increase, the person added.

A third person briefed on the discussions said the gulf in views between the bank and the ECB had narrowed over time.

Deutsche told the FT that it had an “ongoing and constructive dialogue with our supervisors”, adding that the topics included “risk management and the approach to provisioning, and of course we take their feedback into account”.

The bank said this was “normal course of business across the industry” and that it “felt comfortable” with its risk management and provisioning levels, which had been signed off by its auditors.

The ECB declined to comment.

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