Deutsche Bank AG (DBK), Europe’s biggest bank by assets, posted a fourth-quarter loss that was worse than estimated after costs from building capital and eliminating jobs surged.

Deutsche Bank had a loss of 2.17 billion euros ($3 billion), compared with a 147 million-euro profit a year earlier, the Frankfurt-based company said today in a statement. That was more than the loss of 311 million euros forecast in a Bloomberg survey of eight analysts.

Co-Chief Executive Officers Juergen Fitschen and Anshu Jain are cutting staff and bolstering capital levels, the lowest among Europe’s biggest investment banks, in their first year in charge to help meet stricter capital rules. The costs countered a surge in trading revenue, spurred by the European Central Bank’s measures to stem the sovereign debt crisis.

“Various exceptional items arising from restructuring costs and impairment charges” hurt fourth-quarter profit, Amit Goel, an analyst at Credit Suisse Group AG (CSGN) who has an underperform rating on the stock, wrote in an e-mailed report from London before the earnings were published.

Deutsche Bank’s shares have lagged behind rivals, climbing 15 percent over the past year compared with an increase of 23 percent for the benchmark Stoxx 600 Banks Index. The bank’s price-to-book value was 0.6 yesterday, lower than the 0.8 average of the 46-member gauge.

Non-interest expenses climbed to 10 billion euros compared with 6.7 billion euros in the fourth quarter of 2011.

**Capital Ratio**

The company said its core Tier 1 capital ratio, a measure of financial strength, stood at 8 percent on Dec. 31 under Basel III rules. That exceeded the bank’s forecast for a reading of 7.2 percent. The bank said it expects a ratio of 8.5 percent at the end of the first quarter.

Jain and Fitschen pledged in September that they will increase Deutsche Bank’s ratio under Basel III capital rules to more than 10 percent by the end of 2015. Its biggest competitors will reach similar levels months or years sooner, according to forecasts from the banks.

Deutsche Bank formed a unit last year to wind down and sell 125 billion euros of assets including loans, securitized products and a Las Vegas casino to release capital, company filings show.
The pretax loss at the investment bank was 548 million euros in the fourth quarter compared with an estimated profit of 359 million euros.

**Litigation Costs**

While the improving economic environment may temper concern over Deutsche Bank’s capital position, the risk of costs arising from litigation and stricter bank regulation will still weigh on investor sentiment, Goel said.

“Investors will continue asking whether the bank’s capital cushion is too thin to avoid a capital increase, should conditions deteriorate,” he said.

Jain and Fitschen are reducing pay, eliminating almost 2,000 jobs and combined Deutsche Bank’s asset and wealth management divisions to help increase after-tax return on equity, a measure of profitability, to more than 12 percent by the end of 2015 from 8 percent in 2011.

**Bond Trading**

Revenue from trading fixed income, currencies and commodities at the four largest U.S. investment banks climbed a combined 39 percent annually to $8.82 billion in the three months to December, data compiled by Bloomberg Industries show. Investment banking fees across all products rose 51 percent, according to the data.

Deutsche Bank had a 10.7 percent share of fixed income trading volumes last year, the biggest globally, Greenwich Associates said in a Jan. 14 study. Barclays Plc had the second-largest share with 9.8 percent, JPMorgan Chase & Co. (JPM) was third with 8.8 percent and Citigroup Inc. (C) fourth with 8.1 percent, according to the study.

Chief Financial Officer Stefan Krause said last month that asset wind-downs, impairments on goodwill and other effects may have a “significant negative impact” on the bank’s fourth-quarter earnings.

“The key question for me is their capital position as they are lagging peers here,” said Christian Hamann, an analyst at Hamburger Sparkasse, a Hamburg-based savings bank. “Deutsche, unlike banks like UBS, wants to stay strong in investment banking. Whether that is a winning strategy will depend on how regulation goes and if markets stay friendly.”

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