MOODY'S INVESTORS SERVICE

Credit Opinion: Deutsche Bank Mexico, S.A.

Global Credit Research - 02 Jul 2012

Mexico, Mexico

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa2/P-2
NSR Bank Deposits -Dom Curr	Aa1.mx/MX-1
Bank Financial Strength	D
Baseline Credit Assessment	(ba2)
Adjusted Baseline Credit Assessment	(a3)
Ult Parent: Deutsche Bank AG	
Outlook	Stable
Bank Deposits	A2/P-1
Bank Financial Strength	C-
Baseline Credit Assessment	(baa2)
Adjusted Baseline Credit Assessment	(baa2)
Issuer Rating	A2
Senior Unsecured	A2
Subordinate	Baa3
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

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Key Indicators

Deutsche Bank Mexico, S.A. (Unconsolidated Financials)[1]

	[2]**3-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	**Avg.**
Total Assets (MXN million)	**170,942.0**	**198,771.0**	**61,063.0**	**22,772.2**	**7,322.1**	[3]**119.8**
Total Assets (USD million)	**13,343.9**	**14,243.4**	**4,950.8**	**1,744.3**	**528.7**	[3]**124.1**
Tangible Common Equity (MXN million)	**2,502.0**	**2,519.0**	**2,396.0**	**2,133.1**	**2,024.6**	[3]**5.4**
Tangible Common Equity (USD million)	**195.3**	**180.5**	**194.3**	**163.4**	**146.2**	[3]**7.5**
Net Interest Margin (%)	**0.1**	**0.3**	**0.7**	**1.1**	**4.0**	[4]**1.3**
PPI / Avg RWA (%)	**0.1**	**2.6**	**5.1**	**0.7**	**3.7**	[5]**2.4**
Net Income / Avg RWA (%)	**-0.5**	**1.2**	**4.3**	**2.9**	**6.0**	[5]**2.8**
(Market Funds - Liquid Assets) / Total Assets (%)	**-1.8**	**-1.7**	**-11.2**	**7.4**	**-23.4**	[4]**-6.2**
Core Deposits / Average Gross Loans (%)	**353.8**	**163.0**	**176.9**	**0.0**	**--**	[4]**173.4**
Tier 1 Ratio (%)	**16.0**	**20.2**	**20.5**	**40.4**	**65.7**	[5]**32.6**
Tangible Common Equity / RWA (%)	**16.0**	**20.2**	**20.5**	**40.4**	**66.0**	[5]**32.6**
Cost / Income Ratio (%)	**96.1**	**60.8**	**53.2**	**93.4**	**76.4**	[4]**76.0**

Problem Loans / Gross Loans (%)	**0.0**	**--**	**--**	**0.0**	**--**	[4]**0.0**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**0.0**	**--**	**--**	**0.0**	**0.0**	[4]**0.0**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [4] LOCAL GAAP reporting periods have been used for average calculation [5] Basel II & LOCAL GAAP reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 28 June 2012, Moody's downgraded Deutsche Bank México, S.A.'s (DB México) global local currency (GLC) deposit rating to Baa2 with a stable outlook, from A3, and global foreign currency deposit ratings to Baa2 with a outlook, from Baa1. On the same date, the bank's long-term Mexican National Scale rating was downgraded to Aa1.mx with a stable outlook, from Aaa.mx. Moody's also downgraded Deutsche Securities México, S.A. de C.V.'s (Deutsche Securities) GLC issuer ratings to Baa2 with a stable outlook, from A3, and the Mexican National Scale rating was downgraded to Aa1.mx with stable outlook, from Aaa.mx. This action concluded the review initiated on 24 February 2012 (for details refer to Moody's press release "Moody's concludes review for downgrade on ten Mexican financial institutions," dated 28 June 2012).

The downgrades on DB México and Deutsche Securities largely reflect the downgrade of their ultimate parent bank Deutsche Bank AG (for details refer to Moody's press release "Moody's downgrades firms with global capital markets operations," dated 21 June 2012).

SUMMARY RATING RATIONALE

Moody's assigns a standalone financial strength rating (BFSR) of D to DB México (DB México), mapping to a standalone credit assessment (BCA) of ba2. The standalone BCA takes into account the bank's limited franchise value reflecting its limited-scope business model centered on trading and wholesale banking, particularly fixed income, derivatives (trading and hedging), equity trading and equity derivatives, and trust and advisory services.

Relative to more diversified bank operations (e.g. universal banks with retail component), DB México's core earnings are less predictable and thus support a lower franchise value, which is reflected in its ba2 BCA. Positive factors underpinning the BCA include the bank's consistent and replicable financial performance over time as well as the fact that the bank has gradually positioned itself in its core market segments; this has increased its visibility and relevance in the Mexican trading markets. The standalone BCA is also underpinned by the bank's relatively low risk profile because of its high degree of integration with its parent bank and the transfer of a significant portion of the risks related to its trading and investment banking activities to other entities of the Deutsche Bank network.

Moody's assigns a long-term GLC deposit rating of Baa2, with stable outlook, to the bank. As part of Moody's Joint Default Analysis (JDA), DB México's GLC deposit rating incorporates the Mexican bank's standalone BCA as well as probability of parental support received from Deutsche Bank AG.

The Baa2 GLC rating captures the fact that DB México is highly integrated to its parent and thus receives support in various forms. As such, we assess a very high probability of parental support for the Mexican subsidiary in case of stress. In terms of systemic support, Moody's regards Mexico as a high-support country, yet, the level of systemic support assessment differs from bank to bank depending on its systemic relevance and business profile. We view DB México as having a modest systemic relevance given its inherent wholesale nature. Therefore, we assess a very low probability of systemic support for the bank in case of systemic stress, which leads to no uplift of the bank's ratings due to systemic support elements.

As a result of external support considerations, DB México's GLC deposit ratings reflect an uplift of three notches solely from parental support considerations.

The bank's long-term foreign currency deposit rating is also Baa2, with a stable outlook.

RATINGS ON DEUTSCHE SECURITIES MÉXICO, S.A.

Moody's also assigns a standalone BCA of ba3 to Deutsche Securities, which reflects the brokerage house's limited franchise value on a standalone basis because this entity is highly integrated to its sister bank DB México. The two entities share infrastructure, staff, risk management practices and customer base to a level that it is difficult to separate the brokerage house from the bank. Deutsche Securities, to a great extent is seen as a LOB that complements the product offering of its sister bank.

Deutsche Securities' standalone assessment also takes into account that the company is poorly diversified in terms of products, geography and customer base, and that its market share and business potential would be fairly limited, if not for the revenue, cost, business and operational synergies it derives from being part of DB México. Deutsche Securities focuses mainly in offering equity, derivatives, equity capital markets and financial advisory to local financial institutions, pension funds (afores) and Mexican corporations.

The standalone BCA also takes into account Deutsche Securities's good financial performance over time, based on a good generation of core earnings. Importantly, risk management and culture is based on Deutsche Securities's high integration with DB México.

Moody's assigns a Baa2 GLC and Aa1.mx Mexican National Scale issuer ratings to Deutsche Securities. These ratings have stable outlooks.

Rating Drivers

- Limited-scope wholesale banking franchise (monoline type)

- Modest, yet improving core earnings

- Good performance and market position despite its relatively short track record as a bank in Mexico

- Increasing visibility and relevance in Mexico's trading markets

- High integration to Deutsche Bank AG

- Sharing of a significant portion of the risks related to DB México's principal activities with other entities of the Deutsche Bank group

Rating Outlook

All ratings assigned to DB México and Deutsche Securities have a stable outlook.

What Could Change the Rating - Up

Positive pressure on the BFSR is limited at this juncture given the limited potential for foreign wholesale banks in Mexico derived from the challenging and volatile market conditions overall.

What Could Change the Rating - Down

A substantial deterioration of DB México's performance affecting earnings could hurt the BFSR.

Recent Results

DB México reported net losses of Mx$17 million for the 31 March 2012. At the same date, the bank reports total assets of Mx$170.9 billion and equity of Mx$2.5 billion.

Recent Events

On 21 June 2012, Moody's downgraded several European banks, including Deutsche Bank AG (this action is further discussed in the press release "Moody's Downgrades Firms With Global Capital Markets Operations", dated June 21, 2012).

DETAILED RATING CONSIDERATIONS

Detailed rating considerations for DB México's currently assigned ratings, are as follows:

Bank Financial Strength Rating

Franchise Value

DB México is a niche player operating as a wholesale bank in Mexico. Relative to more diversified bank operations (e.g. universal banks with retail component), DB México's core earnings are less predictable and thus support a lower franchise value, which is reflected in its standalone BCA of ba2. Positive factors underpinning the standalone BCA include the bank's consistent and replicable financial performance over time as well as the fact that the bank has gradually positioned itself in its core market segments; this has increased its visibility and relevance in the Mexican trading markets. The BCA is also underpinned by the bank's relatively low risk profile because of its high degree of integration to its parent bank and the transfer of a significant portion of the risks related to its trading and investment banking activities to other entities of the Deutsche Bank network.

Other positive factors underpinning the bank's franchise value are its consistent and replicable financial performance over time as well as the fact that the bank has gradually and effectively positioned itself in its core market segments; this has increased its visibility and relevance in the Mexican trading markets.

Risk Positioning

The bank bears a relatively low risk profile because given the high degree of integration to its parent bank, particularly in terms of risk management, a significant portion of the risks related to the principal trading and investment banking activities of DB México are transferred to other Deutsche Bank entities.

Risk positioning at DB México is a reflection of its parent's market risk appetite and risk management practices, taking into account the sharing of a significant portion of risks related to the principal trading and investment banking activities of DB México to other entities of the Deutsche Bank group.

There are no corporate governance issues at the Mexican subsidiary level. Risk management and implementation of corporate guidelines on a local basis is also important. Management maintains a proactive approach to controlling and monitoring risks. Risk governance is enhanced through different types of committees with direct reporting to and participation of risk officers of the Frankfurt head office. Risk management is further underpinned by reliable risk information systems, which run on its parent's risk platform. Stress tests are in place and are performed regularly.

The bank's good risk management practices include the maintenance of a comfortable liquidity position, which is fully aligned to the parent's policies. DB México maintains no lending activities therefore no credit risk concentration issues apply.

Profitability

DB México reported net losses of Mx$17 million during the first quarter of 2012. Of note, traditional financial metrics based on reported, publicly available information offer little insight to the true strength of the bank because reported information usually does not include the total franchise contribution to the holding and only includes those of the Mexican legal entity.

Liquidity

DB México's liquidity is fully aligned to Deutsche Bank AG's guidelines. The parent bank is committed to assuring its Mexican subsidiary's comfortable liquidity position. As part of this commitment, it provides its subsidiary with liquidity lines for use in case of stress.

Capital Adequacy

DB México is comfortably capitalized as a result of its parent's commitment to maintain an adequate capital base to support its Mexican operation. As of 31 March 2012, the bank's capitalization ratio was high at 16%. This ratio is reported under Basel II guidelines.

Asset Quality

Not applicable, DB México does not maintain an active lending portfolio.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term GLC deposit rating of Baa2, with stable outlook, to the bank. As part of Moody's Joint Default Analysis (JDA), DB México's GLC deposit rating incorporates the Mexican bank's standalone BCA as well as probability of parental support received from Deutsche Bank AG.

The Baa2 GLC rating captures the fact that DB México is highly integrated to its parent and thus receives support in various forms. As such, we assess a very high probability of parental support for the Mexican subsidiary in case of stress. In terms of systemic support, Moody's regards Mexico as a high-support country, yet, the level of systemic support assessment differs from bank to bank depending on its systemic relevance and business profile. We view DB México as having a modest systemic relevance given its inherent wholesale nature. Therefore, we assess a very low probability of systemic support for the bank in case of systemic stress, which leads to no uplift of the bank's ratings due to systemic support elements.

As a result of external support considerations, DB México's GLC deposit ratings reflect an uplift of three notches solely from parental support considerations.

National Scale Rating

DB México is rated Aa1.mx/stable/MX-1 on Moody's Mexican National Scale. The rating is supported by DB México's strong creditworthiness in the domestic market.

Moody's also assigns its Aa1.mx with stable outlook and MX-1 issuer ratings to Deutsche Securities. The ratings on this entity are highly linked to its sister bank's ratings.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. An Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes: however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Deutsche Bank Mexico, S.A.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**C+**	
Factor: Franchise Value						**E+**	**Neutral**
Market Share and Sustainability				**x**			
Geographical Diversification				**x**			
Earnings Stability					**x**		
Earnings Diversification [2]					**x**		
Factor: Risk Positioning						**B**	**Neutral**
Corporate Governance [2]							
- Ownership and Org. Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management		**x**					
- Risk Management		x					
- Controls		x					
Financial Reporting Transparency		**x**					
- Global Comparability	x						

- Frequency and Timeliness	x						
- Quality of Financial Information			x				
Credit Risk Concentration	**x**						
- Borrower Concentration	x						
- Industry Concentration	x						
Liquidity Management		**x**					
Market Risk Appetite		**x**					
Factor: Operating Environment						**D+**	**Neutral**
Economic Stability				**x**			
Integrity and Corruption				**x**			
Legal System			**x**				
Financial Factors (30%)						**B+**	
Factor: Profitability						**B+**	**Neutral**
PPI / Average RWA - Basel II		2.77%					
Net Income / Average RWA - Basel II	2.79%						
Factor: Liquidity						**B**	**Neutral**
(Market funds - Liqud Assets) / Total Assets		-1.84%					
Liquidity Management		x					
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel II	27.03%						
Tangible Common Equity / RWA - Basel II	27.03%						
Factor: Efficiency						**D**	**Neutral**
Cost Income ratio				69.15%			
Factor: Asset Quality						**A**	**Neutral**
Problem Loans / Gross Loans	0.00%						
Problem Loans / (Shareholders' Equity + Loan Loss Reserves)	0.00%						
Lowest Combined Financial Factor Score (9%)						**B-**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**B-**	
Assigned BFSR						**D**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.

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