MOODY'S INVESTORS SERVICE

CREDIT OPINION
17 November 2020

Update

Rate this Research

RATINGS

Deutsche Bank Mexico, S.A.

Domicile	Miguel Hidalgo, Ciudad de Mexico, Mexico
Long Term CRR	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Deutsche Bank Mexico, S.A.

Update following global rating affirmation, outlook changed to stable

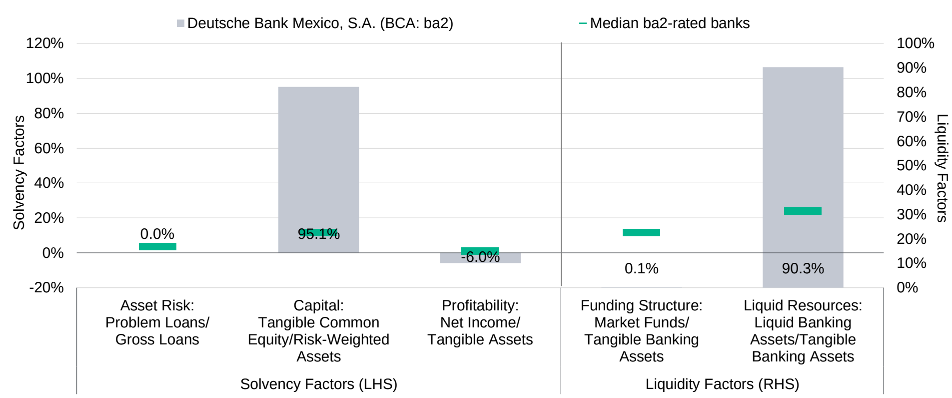
Summary

Deutsche Bank México, S.A.'s (Deutsche Bank México) ba2 Baseline Credit Assessment (BCA) reflects the progressive deterioration in the bank's earnings generation and business diversification as it winds down its operations. These credit challenges are offset by the limited risks arising from the bank's highly liquid balance sheet and ample capitalization ratio, with assets primarily invested in the Government of Mexico's (Baa1 negative) securities and funded mostly with the bank´s own capital. The rating benefits from a one-notch parental support uplift, which reflects our assessment of a high likelihood of support from Deutsche Bank AG (DB, A3/A3 stable, ba1), given their shared brand name despite the marginal importance of the Mexican operations to its parent.

On 11 November 2020, we affirmed the global scale deposit and debt ratings of Ba1 assigned to Deutsche Bank Mexico.

Exhibit 1

Rating Scorecard - Key financial ratios



Data for Deutsche Bank México as of September 2020.
Source: Moody's Financial Metrics

Credit strengths

» High likelihood of parental support from Deutsche AG

» Robust capitalization and ample liquidity buffers

Credit challenges

» Progressive deterioration in earnings generation and business diversification

Rating outlook

The stable outlook on the ratings reflects our expectation that the Mexican subsidiaries' operations will maintain their financial standing as the liquidation process is underway. At the same time, Deutsche Bank Mexico's stable outlook is now in line with that of its parent.

Factors that could lead to an upgrade

» Positive rating action on DB's BCA could exert upward pressure on the subsidiaries' deposit ratings.

Factors that could lead to a downgrade

» Deutsche Bank Mexico's BCA could be downgraded if the bank's capital level declines significantly. The subsidiaries' supported ratings could also be downgraded if the parent's ratings, currently with a stable outlook, were to be downgraded.

Key indicators

Exhibit 2
Deutsche Bank Mexico, S.A. (Consolidated Financials) [1]

	09-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (MXN Billion)	2.0	2.5	2.2	3.3	29.5	(51.1)[4]
Total Assets (USD Billion)	0.1	0.1	0.1	0.2	1.4	(52.0)[4]
Tangible Common Equity (MXN Billion)	1.6	1.7	1.8	2.1	3.9	(21.1)[4]
Tangible Common Equity (USD Billion)	0.1	0.1	0.1	0.1	0.2	(22.5)[4]
Tangible Common Equity / Risk Weighted Assets (%)	95.1	112.4	106.5	73.2	16.1	80.6[6]
Net Interest Margin (%)	3.5	6.7	7.5	3.0	0.4	4.2[5]
PPI / Average RWA (%)	-6.3	-11.5	-6.3	1.3	0.6	-4.4[6]
Net Income / Tangible Assets (%)	-4.9	-5.3	-15.3	1.6	0.5	-4.7[5]
Cost / Income Ratio (%)	149.3	166.2	149.1	80.7	82.5	125.6[5]
Market Funds / Tangible Banking Assets (%)	0.0	0.0	0.0	5.7	70.5	15.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	88.3	90.3	86.1	86.1	27.9	75.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Deutsche Bank México, S.A. (Deutsche Bank México) is a 99.99%-owned subsidiary of Deutsche Mexico Holdings S.à r.l. and is ultimately owned by Deutsche AG.

Deutsche Bank México used to focus on trading and wholesale banking, particularly fixed income, derivatives trading and hedging activities, equity trading, and trust and advisory services. However, the bank is in the process of winding down its operations following the announcement by Deutsche AG in late 2015 of its intention to dispose of its Latin American operations by 2020. As of September 2020, Deutsche Bank México reported around $100 million of total assets.

In the first quarter of 2020, Deutsche Bank México announced that it is planning to sell its trustee division. On 16 October 2020, Comision Nacional Bancaria y de Valores (CNBV) approved the $10 million deal to sell Deutsche Bank Mexico's MXN400 billion trustee division to CI Banco and other financial institutions. Once the transfer is complete, the entity will start the liquidation process and the further transfer of profit to its overseas parent company.

Detailed credit considerations

Progressive deterioration in earnings generation and business diversification

Deutsche Bank Mexico's ratings incorporates the evaluation that the Mexican subsidiaries will maintain their financial strength while the entities continue to wind down activities. The ratings reflect the limited risks arising from the bank's highly liquid balance sheet and ample capitalization ratio, with assets primarily invested in Mexican government securities and funded mostly with the entities' own capital.

As of September 2020, Deutsche Bank México's total assets had already shrunk 93% compared with 2016 as it unwound its derivative positions and sold most of its investment portfolio. The bank's remaining assets consist largely of investments in government securities (Mexican government bonds), limiting the bank´s market risk, while liabilities comprise accounts payable. Deutsche Bank Mexico is not engaged in lending activities; consequently, there is no record of delinquencies.

The bank's income has decreased significantly as a consequence of the contraction in its operations; the income is mostly represented by interest generated on its investment portfolio and fees earned by the trustee division. These earnings are largely consumed by operating expenses as the bank still has 33 employees despite its significantly smaller business. Many of these employees have been transferred to CI Banco as the transaction materialized in Q4 202. While Deutsche Bank México reported a net loss equal to 4% of total assets as of September 2020, this was mainly driven by investment valuation losses in Q1 2020 and operating expenses.

At the same time, Deutsche Bank México's capital level remains very strong, illustrated by its ratio of adjusted tangible common equity to risk-weighted assets of 95% and shareholders' equity above 75% of total assets as of September 2020. Furthermore, the bank's liquidity remains strong, with liquid assets amounting to about 88% of tangible banking assets as of September 2020. The bank's balance sheet is mainly composed of highly liquid securities.

High likelihood of parental support from Deutsche AG

The Mexican subsidiaries will continue to operate until Deutsche Bank Mexico completes the transfer of its remaining trustee division to other financial institutions, and the shareholders of the subsidiaries agrees on its liquidation and dissolution. The deposit and issuer ratings benefit from affiliate support, as indicated by one notch of uplift from its BCA, which reflects Moody's assessment of a high likelihood of parental support from DB. Moody's expects that DB would provide the necessary financial support to its Mexican subsidiaries because the reputational cost for DB's global business of allowing these entities to fail would likely outweigh the costs of bailing them out.

Dampened economic growth in Mexico

Mexico's Moderate + Macro Profile reflects the large size and broad diversification of Mexico's economy and its track record of slow but steady growth. Nevertheless, the global pandemic will weigh on Mexico's economic growth through both domestic and external channels.

Moreover, the Mexican government's need to underpin the state-owned oil company Pemex may weigh on its own finances and, hence, on its ability to support the banking system. Market sentiment toward Pemex remains pessimistic, driven by concerns over whether it will be able to meet its large financing needs in the coming years.

ESG considerations

The global banking sector has been classified as "Low" risk in our environmental risk heat map[1] and as "Moderate" risk in our social risk heat map[2].

In line with our general view on the banking sector, Deutsche Bank México's parent has a low exposure to environmental risks and a moderate exposure to social risks, although any significant shortfall on ESG risk factors would particularly affect the bank, given its high interconnectedness to global capital markets. Deutsche AG has started incorporating sustainability principles in some of its business activities.

Governance[3] is highly relevant for Deutsche AG, as it is to all banks. Because of the complexity of its global operations, Deutsche AG's ratings incorporate a one-notch downward adjustment for Opacity and Complexity in the qualitative section of our BCA scorecard. A complex legal structure and global footprint increase management challenges and the risk of strategic errors. In the case of Deutsche AG and other global investment bank peers, the aforementioned factors are also combined with complex capital market activities, with significant exposure to derivatives and structured products, which also makes reporting and oversight more difficult, as illustrated during and after the 2007-08 financial crisis.

However, for Deutsche AG and its peers, governance frameworks and related controls and processes have significantly improved since the financial crisis and following various issuer-specific shortcomings in the past. Nonetheless, corporate governance remains a key credit consideration, given the new emerging risks, and continues to be a subject of our ongoing monitoring.

Support and structural considerations

Affiliate support

Deutsche Bank México's Ba1 local-currency rating incorporates a one-notch uplift from the bank's standalone ba2 BCA, derived solely from affiliate support assumptions. We continue to assume a high likelihood of parental support, given our expectation of an orderly de-risking and winding down of the Mexican bank.

Government support

Deutsche Bank México exhibits modest systemic relevance; as a result, its ratings do not benefit from any uplift because of systemic support considerations.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Deutsche Bank México´s CR Assessment is positioned at Baa3(cr)/P-3(cr)

The CR Assessment is positioned one notch above the Adjusted BCA and, therefore, above deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimize losses and avoid disruption of critical functions. No government support is considered for Deutsche Bank Mexico's CR Assessment.

National scale rating

Deutsche Bank México's Mexican national scale deposit ratings of A1.mx/MX-1 are based and mapped from the bank's global scale local-currency deposit ratings of Ba1/Not Prime.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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 methodology and scorecard factors

Exhibit 3

Deutsche Bank Mexico, S.A.

Macro Factors							
Weighted Macro Profile	**Moderate +**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.0%	a1	↔	a1	Market risk	Non lending credit risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	95.1%	a1	↔	baa1	Expected trend		
Profitability							
Net Income / Tangible Assets	-6.0%	caa3	↑↑	caa3	Expected trend		
Combined Solvency Score		baa1		baa2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	0.0%	a1	↔	caa3			
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	90.3%	a1	↔	baa1	Quality of liquid assets		
Combined Liquidity Score		a1		b1			
Financial Profile				ba1			
Qualitative Adjustments				Adjustment			
Business Diversification				-1			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Baa1			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				1			
Adjusted BCA				ba1			

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3(cr)	
Deposits	0	0	ba1	0	Ba1	Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
DEUTSCHE BANK MEXICO, S.A.	
Outlook	Stable
Bank Deposits	Ba1/NP
NSR Bank Deposits	A1.mx/MX-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

Source: Moody's Investors Service

Endnotes

1 Environmental risks can be defined as environmental hazards stemming from air pollution, soil/water pollution, water shortages and natural and human made hazards (physical risks). Additionally, regulatory or policy risks, such as the impact of carbon regulation or other regulatory restrictions, including the related transition risks such as policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

2 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, aging population concerns in several countries affecting demand for financial services or socially driven policy agendas translate into regulations that affect banks' revenue bases. Pressure on profitability can be particularly severe for small banks that have limited options to mitigate declines in net interest income, their main revenue source. By contrast, large institutions equipped with resources to invest in new businesses or technology will be somewhat able to overcome these challenges.

3 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further factors such as specific corporate behavior, key-person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as a breakdown in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

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