MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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Update

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Deutsche Bank Mexico, S.A.

Semiannual update

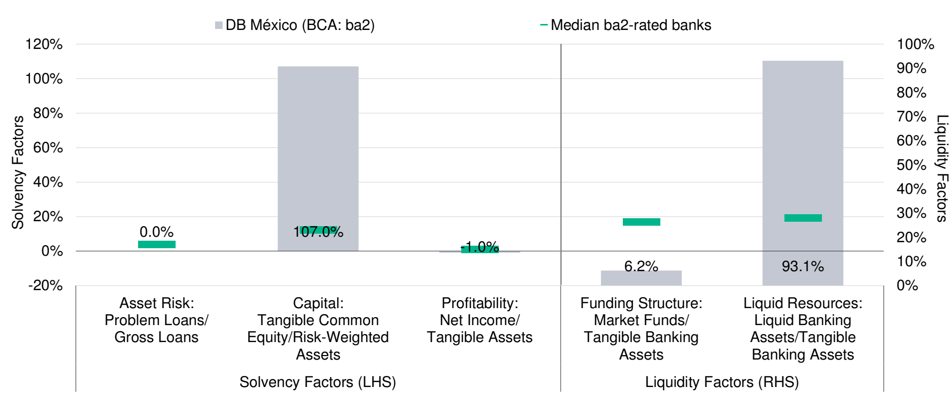
Summary

All ratings of Deutsche Bank México, S.A. (DB México) are still on review for downgrade pending regulatory approval of the sale of this Mexican subsidiary by Deutsche Bank AG (Deutsche AG; deposits A3/senior unsecured Baa2 stable, ba1) to México's InvestaBank S.A. (unrated). The review, initiated on 4 November 2016, reflects the fact that once the transaction closes, DB México's ratings will no longer benefit from affiliate support from its German parent.

Further, the review will also focus on potential impact on the bank's creditworthiness. until regulatory approval is received, as the bank has been wounding down its operations, which has decreased its earnings generation capacity and business diversification. We expect that at the sale's closing, the business being acquired by InvestaBank will largely consist of the trustee division of Deutsche Bank Mexico. The companies have already begun to exit or transfer to their parent certain operations that will not be sold to InvestaBank.

We assign a ba2 standalone Baseline Credit Assessment (BCA) to DB México that reflects the bank's niche wholesale and investment banking operations. We also assign a Ba1 long-term local and foreign currency deposit ratings that gauges our assessment of a high likelihood that Deutsche AG would provide extraordinary affiliate support to the Mexican unit in the unlikely event it faces severe financial stress.

Exhibit 1
Rating scorecard - key financial ratios
Data for DB México as of June 2017



Source: Moody's Financial Metrics

Credit strengths

» Our assumption of affiliate support is maintained as we expect an orderly wind down of the Mexican operations.

» DB México's ratings are supported by its Macro Profile of Moderate +

Credit challenges

» Progressive deterioration of earnings generation and business diversification

Rating outlook

DB México's ratings and assessments are under review for downgrade reflecting the expected deterioration in earnings, narrowing business and the fact that DB México will no longer benefit from parental support when transaction with InvestaBank closes.

Factors that could lead to an upgrade

Given the current review for downgrade there is no upward pressure at this juncture.

Factors that could lead to a downgrade

The ratings will likely be downgraded when the transaction reaches financial close. They could be downgraded prior to financial close if the companies' standalone credit profiles deteriorate significantly as a result of preparations for their upcoming sale.

Key indicators

Exhibit 2

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

	6-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[2]	CAGR/Avg.[3]
Total Assets (MXN billion)	8.4	30	49	46	58	-42.4[4]
Total Assets (USD billion)	0.5	1.4	2.9	3.1	4.4	-47.5[4]
Tangible Common Equity (MXN billion)	3.8	3.9	3.7	3.3	3.1	6.5[4]
Tangible Common Equity (USD billion)	0.2	0.2	0.2	0.2	0.2	-2.9[4]
Tangible Common Equity / Risk Weighted Assets (%)	107.0	16.1	13.7	12.7	13.8	32.7[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	-	-	-	-	0.0	0.0[6]
Net Interest Margin (%)	1.9	0.4	0.0	0.0	0.1	0.5[6]
PPI / Average RWA (%)	0.5	0.6	2.2	2.0	4.6	2.0[5]
Net Income / Tangible Assets (%)	-1.0	0.5	0.8	0.6	0.9	0.3[6]
Cost / Income Ratio (%)	93.2	82.5	60.1	56.3	45.4	67.5[6]
Market Funds / Tangible Banking Assets (%)	6.2	70.5	76.3	80.6	26.3	52.0[6]
Liquid Banking Assets / Tangible Banking Assets (%)	93.1	27.9	33.7	32.1	14.3	40.2[6]

[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 due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of Basel III periods presented [6] Simple average of periods presented for the latest accounting regime.

Source: Moody's Financial Metrics

Profile

DB México is a 99.99% subsidiary of Deutsche México Holdings, S. A. R. L. (unrated) and is ultimately owned by Deutsche Bank AG. It used to focus on trading and wholesale banking, particularly fixed income, derivatives trading and hedging activities, equity trading, and trust and advisory services. However, it is in the process of unwinding its operations following the announcement of the intention to exit Latin America operations by 2020 in late 2015. DB México is expected to be sold to InvestaBank S.A. once the regulatory approval of the sale is received. As of September 2017, DB México reported around $305 million of total assets.

Detailed credit considerations

Progressive deterioration of earnings generation and business diversification

Historically DB México has exhibited a volatile, limited-scope business model centered on wholesale and investment banking operations. This justifies one of the two negative qualitative adjustments we make for low business diversification in DB México's scorecard. Further, since the announcement of the intention to exit Latin America operations by 2020 in late 2015, the bank's balance sheet has begun to shrink.

As of September 2017, the bank's total assets shrunk 87% vis-a-vis September 2016 as the entity unwound its derivative positions and sold most of its investment portfolio. The bank, however, still managed to post a small positive net profit largely driven by interest income from the entity's investments in government securities. As of September 2017, the bank's net income represented 0.5% of tangible banking assets, down from an already modest 0.8% posted a year earlier, due to a decline in trading gains.

We expect that as operations are wound down the bank would reflect a progressive deterioration of earnings generation and business reductions that would put downward pressures to the bank's BCA and that explains the other negative adjustment for business diversification. We also expect that at the sale's closing, the business being acquired by InvestaBank will largely consist of the trustee division of DB México.

Affiliate support is expected while orderly wind down of Mexican operations is carried out

Despite the marginal business importance of Mexican operations to their parent, Moody's currently assumes a high likelihood of parent support given their shared brand name. The reputational cost for Deutsche Bank's global business of allowing DB México to fail should its situation unexpectedly deteriorate before the parent can finish winding it down, could very well outweigh the costs of bailing them out.

DB México's ratings are supported by its Macro Profile of Moderate +

Despite subdued economic performance, inflation still above the central bank's target, and a hike in interest rates, Mexico's GDP growth has shown resilience to external risk factors, particularly in the aftermath of the US presidential election. This resilience has been driven by strong remittances, improving consumer confidence and job growth. In addition, the risk that contingent liabilities from Pemex will crystalize has decreased significantly in the last year.

Mexico's track record of economic policy continuity offsets its lower governance indicators. A solid international reserve position, a flexible exchange rate and an autonomous central bank are corner stones for Mexico's credit resilience and support our Macro Profile of Moderate +.

The banking system also benefits from a mainly core deposit funding base and a fairly concentrated banking system without major distortions stemming from the large participation of public sector-owned banks in the financial system.

However, although loan growth has expanded largely in line with GDP growth, certain portfolios, such as those of commercial loans, MSMEs and loans by small and midsized banks, have expanded at well above the median rate, potentially exposing the banking system to deterioration given looming uncertainties, including a possible renegotiation of the NAFTA agreement, and the country's upcoming presidential elections.

Support and structural considerations

Affiliate support

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

Government support

DB México exhibits a modest systemic relevance; as a result, its ratings do not benefit from any uplift due to systemic support considerations.

Counterparty risk assessment (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 (1) 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 (2) 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 (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment assigned to DB México is positioned at Baa3(cr), on review for downgrade, in line with the review for downgrade on the bank's ba1 adjusted BCA.

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

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.

For the problem loan ratio and profitability ratio, we review the latest three year-end ratios as well as the most recent intra-year ratio where applicable, and base our starting point ratio on the weaker of the average of this period and the latest reported figure.

For the capital ratio, we use the latest reported figure.

For the funding structure and liquid asset ratios, we use the latest year-end figures as we believe them to be the most representative and reliable.

National scale Rating

DB México's Mexican National Scale deposit ratings of A1.mx/MX-1 are based and mapped from the bank's GLC deposit ratings of Ba1/Not Prime.

Rating methodology and scorecard factors

Exhibit 3

Deutsche Bank Mexico, S.A.

Macro Factors		
Weighted Macro Profile	**Moderate +**	**100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit 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						
TCE / RWA	107.0%	a1	←→	baa2	Access to capital	
Profitability						
Net Income / Tangible Assets	-1.0%	caa3	↑↑	b1	Earnings quality	
Combined Solvency Score		baa1		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	70.5%	caa3	←→	caa3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	27.9%	baa2	←→	baa2	Intragroup restrictions	
Combined Liquidity Score		b2		b2		
Financial Profile				ba1		
Business Diversification				-2		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-2		
Sovereign or Affiliate constraint:				A3		
Scorecard Calculated BCA range				ba2-b1		
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) RUR Possible Downgrade	--
Deposits	0	0	ba1	0	Ba1 RUR Possible Downgrade	Ba1 RUR Possible Downgrade

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
DEUTSCHE BANK MEXICO, S.A.	
Outlook	Rating(s) Under Review
Bank Deposits	Ba1/NP[1]
NSR Bank Deposits	A1.mx/MX-1[1]
Baseline Credit Assessment	ba2[2]
Adjusted Baseline Credit Assessment	ba1[2]
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)[1]

[1] Rating(s) within this class was/were placed on review on November 4 2016 [2] Placed under review for possible downgrade on November 4 2016
Source: Moody's Investors Service

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