

CREDIT OPINION

20 December 2018

Update

✓ Rate this Research

RATINGS

Domicile	Mexico City, Ciudad de Mexico, Mexico
Long Term CRR	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba1, Possible Downgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

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 to credit analysis

Summary

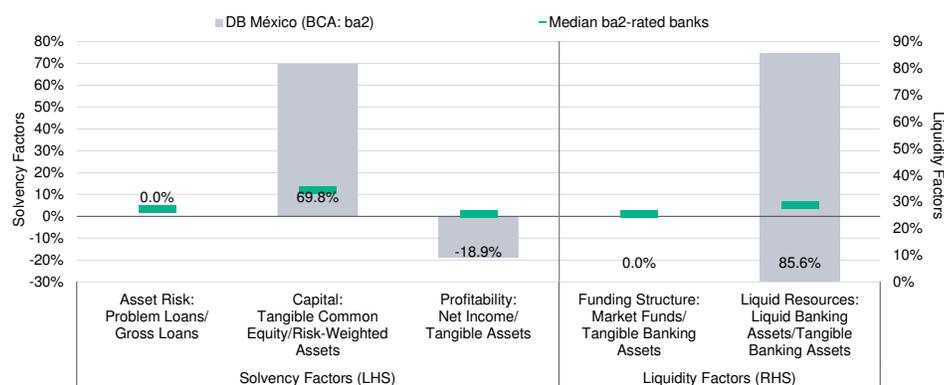
All ratings of [Deutsche Bank México, S.A.](#) (DB México) are still on review for downgrade, which was initiated following the signing of an agreement in 2016 by the company's ultimate parent, [Deutsche Bank AG](#) (Deutsche AG, A3 negative, ba1), to sell the shares of DB México to Mexico-based Accendo Banco, S.A. (Accendo, formerly known as Investa Bank S.A.) as part of a broader scaling back of its global operations pursuant to its 2020 strategic plan. However, Deutsche AG decided to terminate the agreement on 26 October 2018 because the sale had not yet met the conditions for closing stated in the Shares Purchase Agreement, according to management.

We expect the ratings to remain under review until there is greater clarity on Deutsche AG's strategy with respect to DB México, which is expected to occur in the near future — barring a significant deterioration in the entity's standalone creditworthiness before that. The review reflects the fact that if and when Deutsche AG decides to sell DB México to another entity, its ratings will no longer benefit from affiliate support from its German parent, which is currently assessed as high.

DB México's ba2 standalone Baseline Credit Assessment (BCA) reflects the bank's niche wholesale and investment banking operations, as well as a progressive deterioration in its earnings generation and business diversification as it winds down its operations.

Exhibit 1

Rating Scorecard - Key financial ratios



Data for DB México as of September 2018.

Source: Moody's Financial Metrics

Credit strengths

- » There is a high likelihood of parental support from Deutsche AG.
- » DB México's ratings are supported by its Macro Profile of Moderate+.

Credit challenges

- » Progressive deterioration in earnings generation and business diversification

Outlook

DB México's ratings and assessments are under review for downgrade, reflecting the likely deterioration in earnings, narrowing its business scope and the fact that the bank will no longer benefit from parental support if and when the parent sells its subsidiary to another entity.

Factors that could lead to an upgrade

- » Given the current review for downgrade, there is no upward pressure at this juncture. However, the ratings could be confirmed if Deutsche AG indicates its plans to retain ownership of DB México until its operations are completely wound down, or if it announces a sale to another party whose Adjusted BCA is not lower than Deutsche AG's (ba1) and we assess a similar level of support.

Factors that could lead to a downgrade

- » The ratings will likely be downgraded if Deutsche AG sells DB México and we assess a lower willingness or capacity, or both, of the new shareholder to provide support, or if this shareholder is unrated. The ratings could be downgraded more than one notch if the bank's capital declines significantly upon, or just before, closing, or if the bank's intrinsic risk profile looks likely to increase significantly under the new ownership. The ratings could be downgraded sooner if the bank's standalone credit profile deteriorates significantly as a result of preparations for any sale. This may include a significant drop in capitalization, caused, for example, by another large dividend distribution. Recurring losses could also trigger a downgrade. DB México's deposit ratings could also be downgraded if the ratings of the parent, currently on negative outlook, were to be downgraded.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

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

	9-18 ²	12-17 ²	12-16 ²	12-15 ²	12-14 ²	CAGR/Avg. ³
Total Assets (MXN billion)	2.2	3.3	29	49	46	-55.7 ⁴
Total Assets (USD billion)	0.1	0.2	1.4	2.9	3.1	-58.4 ⁴
Tangible Common Equity (MXN billion)	1.8	2.1	3.9	3.7	3.3	-14.9 ⁴
Tangible Common Equity (USD billion)	0.1	0.1	0.2	0.2	0.2	-20.1 ⁴
Tangible Common Equity / Risk Weighted Assets (%)	69.8	73.2	16.1	13.7	12.7	37.1 ⁵
Net Interest Margin (%)	7.7	3.0	0.4	0.0	0.0	2.2 ⁶
PPI / Average RWA (%)	-6.1	1.3	0.6	2.2	2.0	0.0 ⁵
Net Income / Tangible Assets (%)	-18.9	1.6	0.5	0.8	0.6	-3.1 ⁶
Cost / Income Ratio (%)	149.0	80.7	82.5	60.1	56.3	85.7 ⁶
Market Funds / Tangible Banking Assets (%)	0.0	5.7	70.5	76.3	80.6	46.6 ⁶
Liquid Banking Assets / Tangible Banking Assets (%)	85.6	86.1	27.9	33.7	32.1	53.1 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

Deutsche Bank México, S.A. (DB México) is a 99.99%-owned subsidiary of Deutsche México Holdings, S. A. R. L. and is ultimately owned by Deutsche AG. DB 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 its Latin American operations by 2020. As of September 2018, DB México reported around \$116 million of total assets.

Detailed credit considerations

Progressive deterioration in earnings generation and business diversification

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

As of September 2018, DB México's total assets had already shrunk 95% vis-a-vis September 2016 as it unwound its derivative positions and sold most of its investment portfolio. The bank's remaining assets largely consist of investments in securities, while liabilities are comprised of accounts payable. As a result, the bank registered a small net loss equal to 0.2% of total assets on an annualized basis in the first six months of 2018. While it reported a net loss equal to 19% of total assets as of September 2018, this was mainly driven by non-recurring provisions for a deferred tax asset write-off that was expected to occur following the sale to Accendo. Consequently, we expect the bank to once again register positive earnings beginning next year.

At the same time, DB México's capital remains very strong, illustrated by its tangible common equity ratio of about 70% and shareholders' equity above 80% of total assets as of September 2018. Further, the bank's liquidity remains strong, with liquid assets amounting to about 85% of total assets as of September 2018.

We expect, as operations are wound down, the bank to reflect a business scope reduction that would exert downward pressure on its BCA, which explains our other negative adjustment for business diversification.

High likelihood of parental support from Deutsche AG

Despite the marginal business importance of the Mexican bank to its parent, we currently assess a high likelihood of parental support from Deutsche AG, given their shared brand name. The reputational cost for Deutsche AG's global business of allowing DB México to fail, should the subsidiary's situation unexpectedly deteriorate before the parent can finish winding it down, could very well outweigh the cost of bailing DB México out.

If and when Deutsche AG sells DB México, this entity will no longer benefit from support from Deutsche AG, though it may receive support from its new shareholder instead.

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

The [Government of Mexico's](#) (A3 stable) Moderate+ Macro Profile reflects the size and diversification of the country's economy and its track record of slow but steady growth. The economy has been very resilient in the face of uncertainties regarding the fate of the North American Free Trade Agreement and the recent presidential elections, coupled with the oil shock a few years ago.

The Macro Profile also reflects Mexico's track record of economic policy continuity and the autonomous central bank, which offsets its lower governance indicators. In addition, the country's solid international reserves position and a flexible exchange rate help limit its susceptibility to external shocks.

Mexican banks' profitability benefits from a large and stable base of core deposit funding and a relatively concentrated banking system without major distortions, despite the large-scale participation of state-owned banks, which supports large banks' pricing power. While the level of financial intermediation is low and loan growth remains moderate, challenges related to the enforcement of collateral, as well as a lengthy bankruptcy resolution process, will continue to be reflected in high levels of write-offs across the banking system.

Support and structural considerations

Affiliate support

DB 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

DB 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 (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 (for example, swaps), letters of credit, guarantees and liquidity facilities.

DB 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. We believe 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 DB México's 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 intrayear 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 because 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 global local-currency 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%
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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						
TCE / RWA	69.8%	a1	← →	baa1	Access to capital	
Profitability						
Net Income / Tangible Assets	-18.9%	caa3	← →	caa3	Earnings quality	
Combined Solvency Score		baa1		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	5.7%	a3	← →	caa3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	86.1%	a1	← →	baa2	Intragroup restrictions	
Combined Liquidity Score		a2		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

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

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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