MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 April 2019

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
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

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.

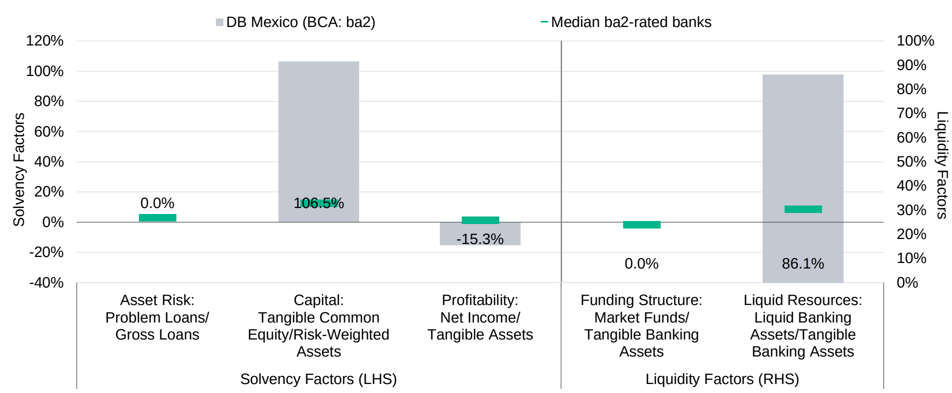
Update following rating confirmation with a negative outlook

Summary

On 16 April 2019, we confirmed Deutsche Bank Mexico, S.A.'s (DB Mexico) deposit rating at Ba1 and changed the outlook to negative[1]. The rating action concluded the review for downgrade initiated on 4 November 2016 when DB Mexico's ultimate parent, Deutsche Bank AG (Deutsche AG, A3 negative, ba1), decided to sell its Mexican operations to a domestic investor as part of a broader scaling back of its global businesses pursuant to its 2020 strategic plan. However, the agreement to sell has been terminated because the terms and conditions necessary for the deal closing had not been met.

DB Mexico´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. These credit challenges are offset by a very limited risk-taking, strong capitalization and ample liquidity buffers. The rating benefits from a one-notch uplift from parental support, which reflects our assessment of a high likelihood of support from Deutsche AG, given their shared brand name and despite the marginal business importance of the Mexican operations to its parent.

Exhibit 1
Rating Scorecard - Key financial ratios



Data for DB Mexico as of December 2018.
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 negative outlook captures Deutsche AG´s intent to divest its Mexican operations. It also incorporates the progressive decline in DB Mexico's earnings generation and business diversification that is occurring as the entity continues to wind down its activities. Further, the negative outlook on the bank's rating is now in line with the negative outlook on its parent's ratings.

Factors that could lead to an upgrade

» DB Mexico's ratings will likely be downgraded if Deutsche AG sells this entity and we assess a different willingness and capacity of a new shareholder to provide support. 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 any new ownership.

Factors that could lead to a downgrade

» The ratings could also be downgraded if the bank's standalone credit profile deteriorates significantly as a result of preparations for any potential 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 Mexico's deposit ratings could also be downgraded if the ratings of the parent, currently on negative outlook, were to be downgraded.

Key indicators

Exhibit 2

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

	12-18[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	-53.5[4]
Total Assets (USD billion)	0.1	0.2	1.4	2.9	3.1	-56.7[4]
Tangible Common Equity (MXN billion)	1.8	2.1	3.9	3.7	3.3	-14.2[4]
Tangible Common Equity (USD billion)	0.1	0.1	0.2	0.2	0.2	-20.2[4]
Tangible Common Equity / Risk Weighted Assets (%)	106.5	73.2	16.1	13.7	12.7	44.4[5]
Net Interest Margin (%)	7.5	3.0	0.4	0.0	0.0	2.2[6]
PPI / Average RWA (%)	-6.3	1.3	0.6	2.2	2.0	-0.0[5]
Net Income / Tangible Assets (%)	-15.3	1.6	0.5	0.8	0.6	-2.4[6]
Cost / Income Ratio (%)	149.1	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 (%)	86.1	86.1	27.9	33.7	32.1	53.2[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

Deutsche Bank Mexico, S.A. (DB Mexico) is a 99.99% owned subsidiary of Deutsche Mexico Holdings, S. A. R. L. and is ultimately owned by Deutsche AG. DB Mexico 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 December 2018, DB Mexico reported around $110 million of total assets.

Detailed credit considerations

Progressive deterioration in earnings generation and business diversification

Historically, DB Mexico 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 Mexico'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 December 2018, DB Mexico'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 comprise accounts payable. Consequently, the bank's income has decreased significantly, being mostly represented by interest generated on its investment portfolio and fees earned by the trustee division. These earnings are largely consumed by operating expenses. While DB Mexico reported a net loss equal to 15% of total assets as of December 2018, this was mainly driven by non-recurring provisions for a deferred tax asset write-off that was expected to occur following the sale, as well as provisions for potential early termination of contracts with suppliers and employers upon the expected exit from the Mexican market. Consequently, we expect the bank´s expenses to be smaller next year and be absorbed by its revenue.

At the same time, DB Mexico's capital remains very strong, illustrated by its ratio of adjusted tangible common equity to risk-weighted assets of 107% and shareholders' equity above 80% of total assets as of December 2018. Further, the bank's liquidity remains strong, with liquid assets amounting to about 86% of tangible banking assets as of December 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 adjustments 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 Mexico 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 Mexico out.

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

Dampened economic prospects in 2019 for 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 economic growth forecasts have been consistently adjusted downward since the beginning of 2019. These lower growth expectations are based on the strong contraction in private investment that began in August 2018, which is unlikely to rebound in 2019.

We believe the decline in private investment reflects reduced investor confidence in the direction of government policy and overall business conditions.

Although growth will likely accelerate in 2020, it will be fueled by higher government social spending and public investment, rather than a pickup in private investment.

Moreover, the need of the Mexican government to support its oil company Petroleos Mexicanos (Pemex, Baa3 stable) may weigh on its own finances. Market sentiment toward Pemex remains pessimistic, driven by concerns over whether it will be able to meet its large financing needs of $9.7 billion in 2019.

Support and structural considerations

Affiliate support

DB Mexico'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 Mexico 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 Mexico´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 Mexico'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 Mexico'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%**					
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	←→	a3	Non lending credit risk		
Capital							
TCE / RWA	106.5%	a1	←→	a2	Capital retention		
Profitability							
Net Income / Tangible Assets	-15.3%	caa3	↑↑	b3	Expected trend		
Combined Solvency Score		baa1		baa2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	0.0%	a1	←→	b1	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	86.1%	a1	↓↓	a3			
Combined Liquidity Score		a1		ba1			
Financial Profile				baa3			
Business Diversification				-2			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				-2			
Sovereign or Affiliate constraint:				A3			
Scorecard Calculated BCA 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 Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
DEUTSCHE BANK MEXICO, S.A.	
Outlook	Negative
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 See our press release titled Moody´s confirms the ratings of Mexican subsidiaries of Deutsche Bank at Ba1, outlook changed to negative

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