

Global Credit Research - 11 Jul 2013

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	(baa2)

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Key Indicators

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

	[2]3-13	[2]12-12	[2]12-11	[2]12-10	[2]12-09	Avg.
Total Assets (MXN million)	176,478.0	226,255.0	198,771.0	61,063.0	22,772.2	[3]66.8
Total Assets (USD million)	14,293.4	17,423.0	14,243.4	4,950.8	1,744.3	[3]69.2
Tangible Common Equity (MXN million)	2,699.0	2,585.0	2,519.0	2,396.0	2,133.1	[3]6.1
Tangible Common Equity (USD million)	218.6	199.1	180.5	194.3	163.4	[3]7.5
Net Interest Margin (%)	0.1	0.0	0.3	0.7	1.1	[4]0.4
PPI / Average RWA (%)	4.9	0.8	2.6	5.1	0.7	[5]2.8
Net Income / Average RWA (%)	3.6	0.5	1.3	4.3	2.9	[5]2.5
(Market Funds - Liquid Assets) / Total Assets (%)	0.7	0.1	-1.7	-11.2	7.4	[4]-0.9
Core Deposits / Average Gross Loans (%)	421.5	350.1	163.0	176.9	0.0	[4]222.3
Tier 1 Ratio (%)	19.6	22.2	20.2	20.5	40.4	[5]24.6
Tangible Common Equity / RWA (%)	19.6	22.5	20.2	20.5	40.4	[5]24.6
Cost / Income Ratio (%)	47.1	82.9	60.8	53.2	93.4	[4]67.5
Problem Loans / Gross Loans (%)	0.0	0.0	0.0	0.0	0.0	[4]0.0
Problem Loans / (Equity + Loan Loss Reserves) (%)	0.0	0.0	0.0	0.0	0.0	[4]0.0

Source: Moody's

[1] All figures and 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

SUMMARY RATING RATIONALE

Moody's assigns a standalone financial strength rating (BFSR) of D to Deutsche Bank México, S.A. (DB México), which maps to a standalone credit strength of ba2. The standalone ba2 takes into account the bank's 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 resulting in lower franchise value.

By contrast, factors underpinning the ba2 standalone credit strength include the bank's consistent and replicable financial performance over time as well as a gradual positioning in core market segments; this has increased the bank's visibility and relevance in the Mexican trading markets. The standalone credit assessment 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 global local currency (GLC) deposit rating of Baa2, with stable outlook, to DB México. As part of Moody's Joint Default Analysis (JDA), DB México's GLC deposit rating incorporates the Mexican bank's standalone credit strength as well as probability of parental support received from Deutsche Bank AG. See section Global Local Currency Deposit Rating (Joint Default Analysis), below.

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

As of March 2013, DB México reported net income of Mx\$114 million. At the same date, the bank reports total assets of Mx\$176.5 billion and equity of Mx\$2.7 billion.

RATINGS ON DEUTSCHE SECURITIES MÉXICO, S.A.

Moody's also assigns a standalone credit strength of ba3 to Deutsche Securities México, S.A. (Deutsche Securities Mex), which reflects the brokerage house's limited franchise value on a standalone basis. This entity is highly integrated to its sister bank DB México, and shares infrastructure, staff, risk management practices and customer base to a level that it is difficult to separate Deutsche Securities Mex from the bank, and is seen as a LOB that complements the product offering of DB México.

Deutsche Securities Mex's 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 Mex focuses mainly in offering equity, derivatives, equity capital markets and financial advisory to local financial institutions, pension funds (afores) and Mexican corporations.

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

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

Rating Drivers

Rating Drivers on DB México include:

- 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 standalone credit strength is limited at this juncture. That said, sustained developments leading to a more defensible operation on a standalone basis could generate positive ratings pressure.

What Could Change the Rating - Down

A substantial deterioration of DB México's performance affecting earnings and capital could hurt the standalone ratings.

DETAILED RATING CONSIDERATIONS

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

Bank Financial Strength Rating

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 practices in terms of risk management. Risk positioning management also reflects 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 income of Mx\$114 million during the first three months of 2013. 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 2013, the bank's capitalization ratio was high at 19.6%. This ratio is reported under Basel II guidelines.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term GLC deposit rating of Baa2, with stable outlook, to DB México. As part of Moody's JDA, DB México's GLC deposit rating incorporates the Mexican bank's standalone credit strength 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 therefore receives ongoing support in various forms. We also assess

a very high probability of extraordinary 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 small size and wholesale nature. Therefore, we assess a very low probability of extraordinary systemic support for the bank. As a result, 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 growing creditworthiness in the domestic market.

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

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 Organizational 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)		2.84%					
Net Income % Average RWA (Basel II)		2.01%					
Factor: Liquidity						B	Neutral
(Market Funds - Liquid Assets) % Total Assets		-4.26%					
Liquidity Management		x					

Factor: Capital Adequacy						A	Neutral
Tier 1 Ratio (%) (Basel II)	20.95%						
Tangible Common Equity % RWA (Basel II)	21.05%						
Factor: Efficiency						D	Neutral
Cost / Income Ratio				65.62%			
Factor: Asset Quality						A	Neutral
Problem Loans % Gross Loans	0.00%						
Problem Loans % (Equity + LLR)	0.00%						
Lowest Combined Financial Factor Score (9%)						C+	
Economic Insolvency Override						Neutral	
Aggregate BFSR Score						C+	
Aggregate BCA Score						a2	
Assigned BFSR						D	
Assigned BCA						ba2	

[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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