

Global Credit Research - 28 Apr 2011

Mexico, Mexico

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits -Fgn Curr	Baa1/P-2
Bank Deposits -Dom Curr	A3/P-2
NSR Bank Deposits -Dom Curr	Aaa.mx/MX-1
Bank Financial Strength	D
Ult Parent: Deutsche Bank AG	
Outlook	Stable
Bank Deposits	Aa3/P-1
Bank Financial Strength	C+
Issuer Rating	Aa3
Senior Unsecured	Aa3
Subordinate	A3
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

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Key Indicators

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

	[2]12-10	[2]12-09	[2]12-08	[3]12-07	[3]12-06	Avg.
Total Assets (MXN million)	61,063.0	22,772.2	7,322.1	5,353.6	5,881.0	[4]79.5
Total Assets (USD million)	4,950.8	1,744.3	528.7	490.5	543.2	[4]73.8
Tangible Common Equity (MXN million)	2,396.0	2,133.1	2,024.6	1,885.8	1,758.0	[4]8.0
Tangible Common Equity (USD million)	194.3	163.4	146.2	172.8	162.4	[4]4.6
PPI / Avg RWA (%)	3.5	0.7	3.7	2.4	0.4	[5]2.6
Net Income / Avg RWA (%)	4.3	2.9	6.0	2.1	0.7	[5]4.4
(Market Funds - Liquid Assets) / Total Assets (%)	51.3	81.8	32.4	6.7	-16.9	[6]31.1
Core Deposits / Average Gross Loans (%)	176.9	0.0	--	--	--	[6]88.5
Tier 1 Ratio (%)	20.5	40.4	65.7	65.2	24.2	[5]42.2
Tangible Common Equity / RWA (%)	20.5	40.4	66.0	65.2	24.2	[5]42.3
Cost / Income Ratio (%)	62.4	93.4	76.4	74.6	89.4	[6]79.2
Problem Loans / Gross Loans (%)	--	0.0	--	--	--	[6]0.0
Problem Loans / (Equity + Loan Loss Reserves) (%)	--	0.0	0.0	0.0	0.0	[6]0.0

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] Basel II & LOCAL GAAP reporting periods have been used for average calculation [6] LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of D, with stable outlook, to Deutsche Bank México, which translates into a Baseline Credit Assessment (BCA) of Ba2. The BFSR reflects the bank's intrinsic financial strength. In Moody's view, the bank's stand-alone credit strength is good and reflects the bank's character as a subsidiary of its Deutsch parent but the overall rating is to some extent limited by the low score on Mexico's operating environment compared to that of more developed banking systems. This external factor affects all institutions

operating in Mexico. The BFSR of D also reflects Deutsche Bank México's limited business scope stemming from its wholesale banking model, which is less diversified relative to its parent's and that of large leading retail banks operating in the country.

Moody's assigns a long-term global local currency (GLC) deposit rating of A3, with stable outlook to Deutsche Bank México. As part of Moody's Joint Default Analysis (JDA), Deutsche Bank México's GLC rating incorporates the bank's BCA of Ba2, as well as the parental support received from Deutsche Bank AG (rated Aa3, with stable outlook). Moody's believes that based on Deutsche Bank México's importance to Deutsche Bank AG there is a very high probability of parental support for the Mexican subsidiary in case of stress.

In effect, the subsidiary is integrated with the Frankfurt-based parent, both in regards to operational systems and management's functional reporting lines. The Mexican subsidiary operates as a wholesale brokerage and corporate bank, and it does not maintain an important loan portfolio. The bank's operations in Mexico consist primarily of securities and currency trading (FX), fixed income, and derivatives (plain vanilla and exotic).

Moody's also indicates that its GLC deposit ratings assigned to banks in Mexico reflect the rating agency's assessment of Mexico as a high-support country. The level of systemic support assessment, however, is different for each bank depending on its systemic relevance and business model. In the case of Deutsche Bank México, given its inherent wholesale nature and high dependence on its parent company, Moody's assesses a low probability of systemic support for the bank in case of systemic stress.

Therefore, Deutsche Bank México's A3 GLC rating includes a five-notch uplift - from the BCA of Ba2 - coming solely from the assessment of support provided by its parent bank.

Moody's also assigns an A3 GLC issuer rating - stable outlook - to Deutsche Securities, S.A. Casa de Bolsa.

Credit Strengths

- Full integration with and control by Frankfurt-based Deutsche Bank AG, and solid support
- Sharing of a significant portion of the risks related to Deutsche Bank México's principal activities with other entities of the Deutsche Bank group
- Good operating performance and financial strength of its parent bank
- Well-established parent bank with a broad-based international investment banking area

Credit Challenges

- Small and limited-scope wholesale banking franchise (monoline type)
- Highly competitive environment in the bank's core business area and declining capital markets

Rating Outlook

All ratings assigned to Deutsche Bank México have stable outlooks.

What Could Change the Rating - Up

The bank's BFSR could face positive rating pressure provided that sustained improvements in profitability and franchise are observed. On the Mexican National Scale, the ratings are at the highest level.

What Could Change the Rating - Down

A substantial deterioration of Deutsche Bank México's performance, damaging earnings, could create pressure on the bank's BCA. Additionally, a downgrade on Deutsche Bank AG's BFSR could have an impact on Deutsche Bank México's ratings.

DETAILED RATING CONSIDERATIONS

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

Bank Financial Strength Rating

Moody's believes the assigned D BFSR is an appropriate measure of the bank's financial strength given its small, monoline-type franchise geared primarily to securities and currency trading activities, which generate an E+ for franchise value.

Deutsche Bank México scored B or higher for most qualitative and financial factors, but its limited-scope business profile leads to lower diversification and stability of earnings relative to more diversified peers. This feature largely supports Moody's views that there is limited franchise on a stand-alone basis, and the bank stands at a lower rating level compared to large retail banks. Additionally, increasing competition from international players with similar business focus is an important factor that constrains the rating.

As a point of reference, the assigned BFSR is five notches lower than that indicated by Moody's bank financial strength scorecard, which produced an outcome of B-.

Qualitative Rating Factors (70% weighting)

Factor: Franchise Value

Trend: Neutral

Deutsche Bank México is a niche player operating as a wholesale brokerage and corporate bank. Its business model is regarded as a monoline as per Moody's BFSR Rating Methodology because the bank's operations consist primarily of securities and currency trading. These activities,

which in effect generate the bulk of the bank's total profits, have a very low predictability component.

The bank is headquartered in Mexico and has no branches, and hence does not get any geographic diversification benefits.

Deutsche Bank México's marginal franchise is reflected in the E+ score obtained for franchise value in the scorecard. This score captures not only the bank's limited-scope business model, but also its marginal stand-alone strength in light of full integration with its large parent company.

Factor: Risk Positioning

Trend: Neutral

Risk positioning at Deutsche Bank México is a reflection of its parent's market risk appetite and risk management practices. This score takes into account the sharing of a significant portion of risks related to the principal trading and investment banking activities of Deutsche Bank México to other entities of the Deutsche Bank AG group.

There are no corporate governance issues at the Mexican subsidiary level. Furthermore, in line with its parent's guidelines, Deutsche Bank México observes good risk standards. 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. Deutsche Bank México maintains no lending activities therefore no credit risk concentration issues apply.

Deutsche Bank México obtained an overall score of B for risk positioning.

Factor: Regulatory Environment

All Mexican banks are subject to the same score for regulatory environment. This factor does not address bank specific issues; instead, it evaluates whether regulatory bodies are independent and credible, whether they demonstrate enforcement powers and adhere to global standards of risk control.

Please refer to Moody's report Banking System Profile: Mexico (June 2008) for a detailed discussion on Mexico's bank Operating Environment.

Factor: Operating Environment

Trend: Neutral

This factor is common to all Mexican banks. Moody's assigns a D+ for overall operating environment, which is largely driven by a score of D on economic stability, as a result of the high volatility in Mexico's GDP growth rates, as well as a D on integrity and corruption. The integrity and corruption index is based on data from the World Bank, which ranks approximately 200 countries worldwide. The legal system was rated as C.

Please refer to Moody's report Banking System Profile: Mexico (June 2008) for a detailed discussion on Mexico's bank Operating Environment.

Financial Rating Factors (30% weighting)

Note: It is important to note that 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 book entries of off-shore operations. This is mostly explained by Deutsche Bank México's foreign subsidiary nature.

Factor: Profitability

Trend: Neutral

Deutsche Bank México maintained consistent results and good performance; as of year-end 2010 the bank posted net income of Mx\$317 million. The bank's activities, risk management practices, and corporate governance are directed by its Frankfurt-based parent.

Factor: Liquidity

Trend: Neutral

Deutsche Bank México's liquidity is fully aligned to Deutsche Bank AG guidelines. The parent bank is committed to assuring its Mexican subsidiary's comfortable liquidity position.

Factor: Capital Adequacy

Trend: Neutral

Deutsche Bank México is comfortably capitalized as a result of its parent's commitment to maintain an adequate capital base to support its Mexican operation. Deutsche Bank México's capital adequacy will continue to be a function of its parent's global capitalization policies.

The bank closed 2010 with a high capitalization ratio of 20.52%.

Factor: Efficiency

Trend: Neutral

The bank maintains an efficient operation, which is expected to hold up under its parent's scrutiny.

Factor: Asset Quality

Trend: Neutral

Deutsche Bank México does not maintain an active lending portfolio. The bank operates as a wholesale brokerage and corporate bank. Its operations in Mexico consist primarily of securities and currency trading, FRAs, swaps, interest rate futures, custodial services, and private banking for high net-worth individuals.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term global local currency (GLC) deposit rating of A3, with stable outlook, to Deutsche Bank México.

As part of Moody's Joint Default Analysis (JDA), Deutsche Bank México's GLC rating incorporates the bank's BCA of Ba2, as well as the parental support received from Deutsche Bank AG (rated Aa3, stable). Based on Deutsche Bank México's importance to Deutsche Bank AG, Moody's assesses a very high probability of parental support for the bank in case of stress.

In terms of systemic support, based on the inherent wholesale nature of the bank's operations, and on the declining importance of capital markets activities overall, which is likely to reduce the importance of this type of banks as counterparties in the local Mexican market, Moody's assesses a low probability of systemic support for the bank in case of systemic stress.

Deutsche Bank México's ratings get an uplift from the BCA of five notches to a GLC deposit rating of A3, which comes solely from the assessment of support provided by its parent bank.

Moody's also assigns an A3 GLC issuer rating - with stable outlook - to Deutsche Securities, S.A. Casa de Bolsa.

Notching Considerations

Ratings for Deutsche Bank México's junior obligations should be notched off the fully supported deposit rating, or Deutsche Bank México's GLC deposit rating, because Moody's believes that there is no legal mechanism in place for Mexican bank regulators to impose losses on subordinated creditors outside of a liquidation scenario.

National Scale Rating

Deutsche Bank México is rated Aaa.mx/MX-1 on Moody's Mexican National Scale. The rating is supported by Deutsche Bank México's strong creditworthiness in the domestic market.

Moody's also assigns its Aaa.mx and MX-1 issuer ratings to Deutsche Securities, S.A. Casa de Bolsa. The ratings on this entity are highly linked to its sister bank's ratings.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand-alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. An Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model 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 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%)						A-	
Factor: Profitability						A	Neutral
PPI / Average RWA- Basel II	5.14%						
Net Income / Average RWA- Basel II	3.37%						
Factor: Liquidity						B+	Neutral
(Mkt funds-Liquid Assets) / Total Assets	-16.40%						

Liquidity Management		x				
Factor: Capital Adequacy					A	Neutral
Tier 1 Ratio - Basel II	57.10%					
Tangible Common Equity / RWA - Basel II	57.10%					
Factor: Efficiency					C	Neutral
Cost / Income Ratio			63.46%			
Factor: Asset Quality					A	Neutral
Problem Loans / Gross Loans	0.00%					
Problem Loans / (Equity + LLR)	0.00%					
Lowest Combined Score (9%)					B+	
Economic Insolvency Override					Neutral	
Aggregate Score					B-	
Assigned BFSR					D	

[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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