

Rating Action: Moody's assigns (P) Baa3 rating to Charlottenburg Capital International's capital notes

Global Credit Research - 16 Sep 2010

Frankfurt am Main, September 16, 2010 – Moody's Investors Service has today assigned a (P) Baa3 rating to the capital notes issued by Charlottenburg Capital International S.à.r.l. & Cie SECS (CCI). The outlook on the rating is negative.

RATINGS RATIONALE

The proceeds from the issuance of the capital notes will be upstreamed by CCI in exchange for a silent participation in Deutsche Hypothekenbank (Actien-Gesellschaft) (Deutsche Hypo, A1/D+/negative). The hybrid rating incorporates the specific characteristics of the special-purpose vehicle (CCI), which is not owned or controlled by Deutsche Hypo and does not benefit from a support agreement with the bank for payments on the hybrid securities.

As per Moody's methodology for hybrid ratings, the rating assigned to the CCI capital notes reflects (i) Deutsche Hypo's intrinsic financial strength, as captured by its Ba1 baseline credit assessment (BCA); and (ii) the very high probability of parental and modest level of cooperative support, which when added to the BCA, results in an adjusted BCA of A3.

The starting point in Moody's approach to rating hybrid securities is the adjusted BCA, which reflects the bank's standalone credit strength (BCA), including parental and/or cooperative support, if applicable. The adjusted BCA excludes Moody's expectations of systemic support. The adjusted BCA for Deutsche Hypo is A3 and includes a degree of uplift reflecting Moody's parental and cooperative support assumptions.

The instrument is rated (P) Baa3, three notches below the adjusted BCA of A3, which reflects: (i) the deeply subordinated claim in liquidation; (ii) cancellation of interest payments in the event of the bank's solvency ratio falling below 9% on an unconsolidated basis and the payment would result in or increase an annual loss; there is a balance sheet loss; or there is regulatory intervention (if capital and/or liquidity is insufficient); and (iii) participation in a balance-sheet loss together with any other loss-bearing capital of Deutsche Hypo, although the principal can be written back up under certain circumstances.

Although unlikely in the short term, an upgrade of the capital notes would be warranted following an upgrade of the BFSR and Adjusted BCA of Deutsche Hypo, which would demonstrate a material improvement in the bank's profitability which would support its capital-generation capacity. Capitalisation measures from its parent, Norddeutsche Landesbank (NORD/LB, Aa2/C-/negative), that lead to notably higher regulatory and economic capitalisation metrics for Deutsche Hypo could also result in upward pressure on its BFSR and its adjusted BCA. We would consider a downgrade of the ratings of the capital notes should the near-term performance of Deutsche Hypo reveal that progress towards a higher Tier 1 capital ratio and a significant recovery in profitability is delayed, which would put pressure on the bank's BFSR and adjusted BCA.

NEGATIVE OUTLOOK ON THE INSTRUMENT IN LINE WITH OUTLOOK OF DEUTSCHE HYPO RATINGS

The outlook on the instrument is negative, reflecting Moody's outlook on the intrinsic financial strength of Deutsche Hypo and the considerations related to its parental and cooperative support assumptions.

The principal methodologies used in rating Deutsche Hypo were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entity or its related third parties within the three years preceding the Credit Rating Action. Please see the ratings disclosure page www.moody.com/disclosures on our website for further information.

MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moody.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moody.com for further information.

Please see the Credit Policy page on Moody.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Frankfurt am Main
Claude Raab
Analyst
Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Frankfurt am Main
Carola Schuler
MD - Banking
Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany



© 2010 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating

services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.