

LBBW Pfandbriefe

As of September 30, 2011



Landesbank Baden-Württemberg

The Pfandbrief

Safe haven

- German Pfandbriefe are supported by a strong and longstanding legal framework, the German Pfandbrief Act
- Leitmotiv Main purpose of the German Pfandbrief Act is to protect the investor
- Pfandbriefe are eligible as collateral with the European Central Bank (ECB)
- Pfandbrief issuers and investors can also tap the repo market to create liquidity

Safeguarding mechanisms of the Pfandbrief Act

- Preferential right in the event of insolvency, i.e. in the event of a Pfandbrief bank becoming insolvent, the cover pools (collateral) are made available only to the Pfandbrief creditors to satisfy their claims
- Thus, the Pfandbrief creditors are not affected by the insolvency of the Pfandbrief bank

The Pfandbrief is key to Germany as a financial center

- The Pfandbrief market is Germany's second-largest market for fixed-income securities, with around EUR 850 billion outstanding bonds
- The Pfandbrief product is supported by market participants
- Strong commitment of the issuers to strengthen the product

A safe investment

Source: vdp (Association of German Pfandbrief Banks)

Special requirements for Pfandbrief issuers

License requirement

- Pfandbrief business as a line of banking business is subject to approval by the Federal Financial Supervisory Authority (BaFin)
- Credit institutions wishing to engage in Pfandbrief business must file for a license to issue Pfandbriefe with BaFin

Risk control system for Pfandbriefe and cover pools

- To qualify for a Pfandbrief bank license, the credit institution must prove that it has in place suitable procedures and instruments for managing, monitoring and controlling the risks entailed in the cover pools and the corresponding Pfandbriefe

Business plan

- Before a license can be awarded, moreover, the bank has to show that it intends to conduct Pfandbrief business seriously and in a sustained manner
- Among other things, it must have at its disposal a suitable organization structure and qualified staff for the granting of loans eligible as cover for Pfandbriefe and for the business of issuing Pfandbriefe

Outstanding protection for investors

Source: vdp (Association of German Pfandbrief Banks)

Main characteristics of Pfandbriefe

Nominal and net present value cover	<ul style="list-style-type: none">▪ The cover pools (i.e. the cover assets in their entirety) secure the Pfandbrief investors' claims to payment▪ The Pfandbrief Act stipulates that the nominal and the net present value of Pfandbriefe outstanding must at all times be covered by corresponding assets in the cover pools▪ The details of determining the net present value, which also includes stress tests, are set forth in the net present value regulation
Legally prescribed overcollateralization	<ul style="list-style-type: none">▪ The Pfandbrief bank must maintain excess cover of at least 2% of the net present value of the Pfandbriefe outstanding▪ The overcollateralization is intended to cover administrative expenses and to meet liquidity management costs in the event of the bank's insolvency▪ Pfandbrief banks often voluntarily hold far greater excess cover than that prescribed by law
Cover pool monitor	<ul style="list-style-type: none">▪ The BaFin appoints one independent cover pool monitor and at least one deputy for each Pfandbrief bank▪ It is the cover pool monitor's job to ensure that the mandatory cover for the Pfandbriefe exists▪ Not answerable to the bank, the cover pool monitor performs a function that is shaped solely by the Pfandbrief Act
Cover audits	<ul style="list-style-type: none">▪ In addition to general banking supervision, Pfandbrief banks are subject to special supervision by the BaFin, the aim of which is to monitor observance of the Pfandbrief Act and the regulations issued in connection with it▪ Another feature of the special supervision to which Pfandbrief banks are subjected are the cover audits, which must be conducted at least every two years▪ Cover audits of the assets in the cover pools serve to ensure that the statutory requirements are observed

Special prescriptions in the Pfandbrief Act

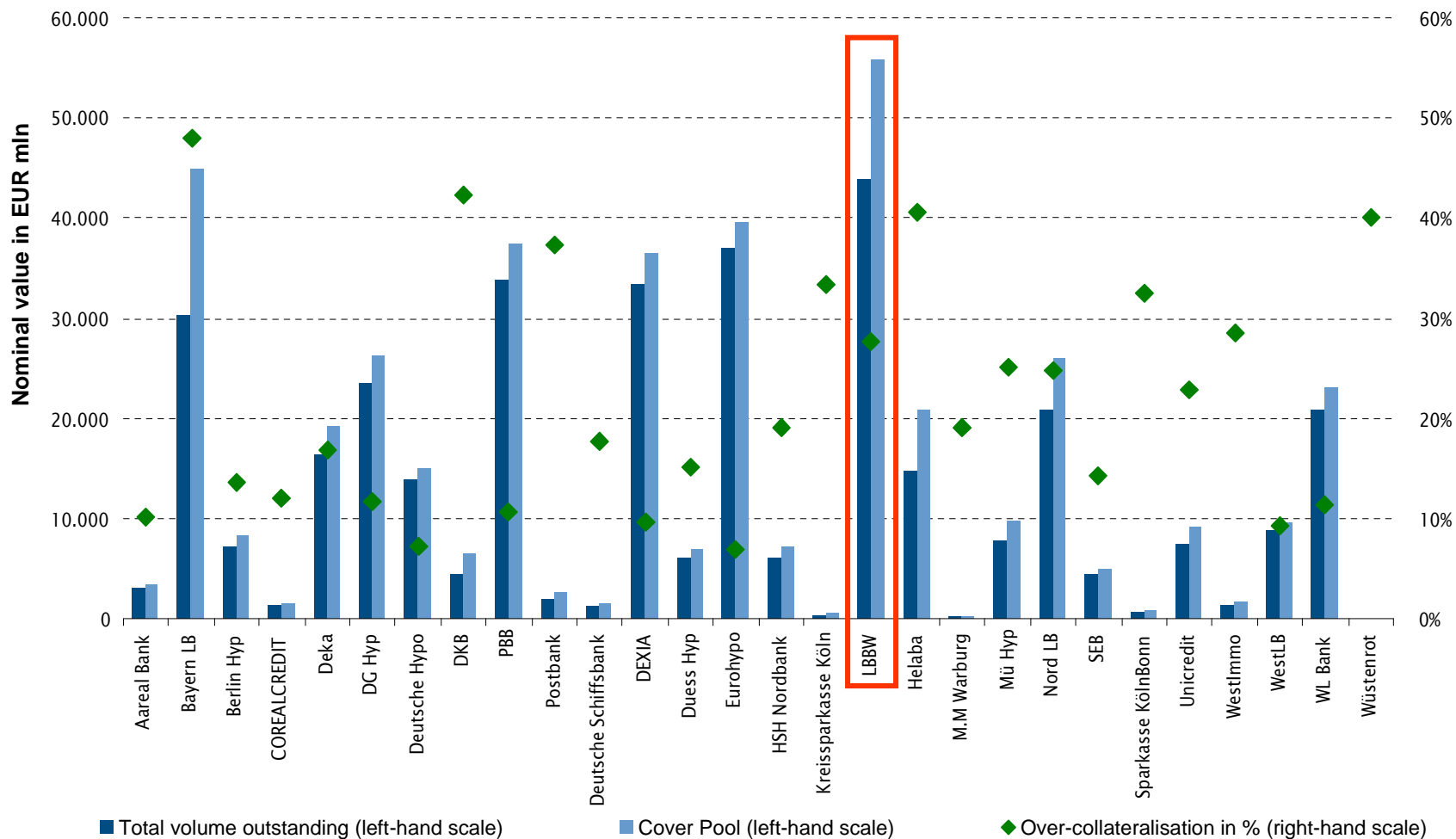
Source: vdp (Association of German Pfandbrief Banks)

LBBW leading public sector Pfandbrief issuer

- LBBW's outstandings as of September 30, 2011 amounted to EUR 43.7 bn, the cover pool was EUR 55.8 bn
- High quality of LBBW's public sector Pfandbriefe is reflected in the secondary spreads
- High overcollateralization with 29% as of September 30, 2011
- Public sector Pfandbriefe are covered by lending to the federal government and to the regional and municipal authorities or by guarantees issued by these bodies
- The Pfandbrief Act stipulates precisely which borrowers in Germany and abroad qualify

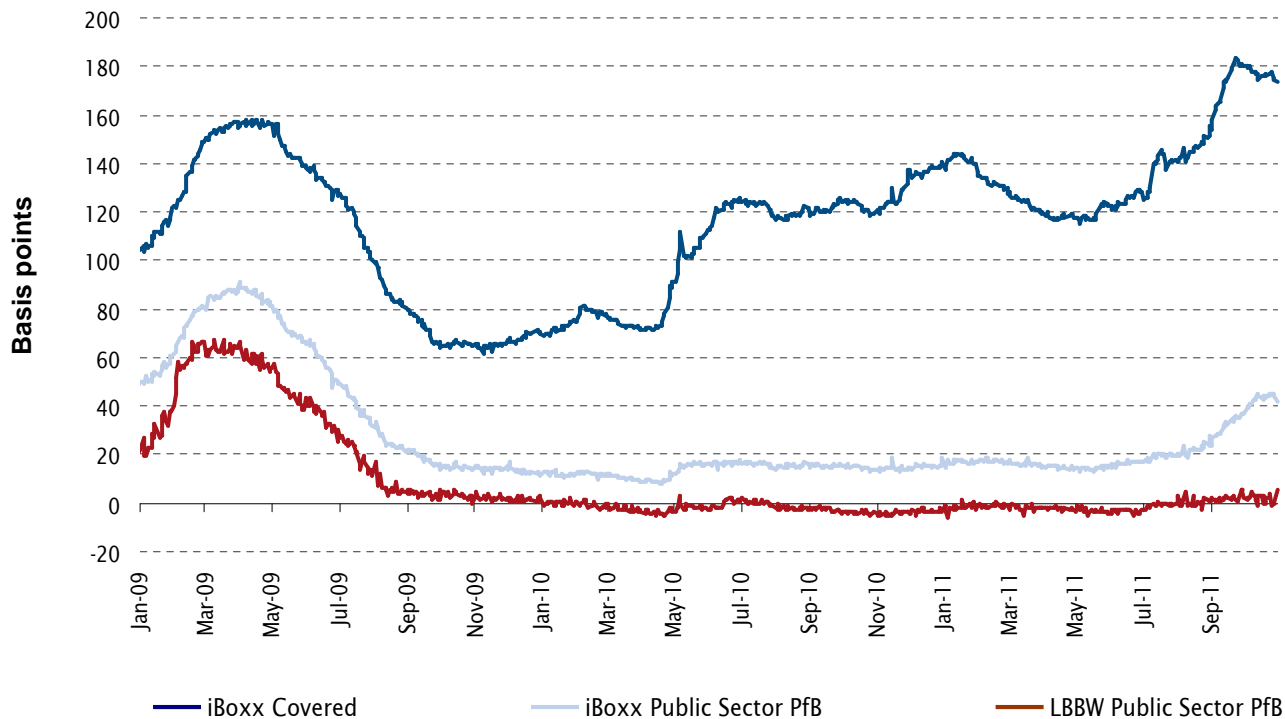
LBBW is the largest public sector Pfandbrief issuer as of September 30, 2011

The largest issuer of public sector Pfandbriefe in Germany



as of September 30, 2011

Outperforming LBBW public sector Pfandbriefe

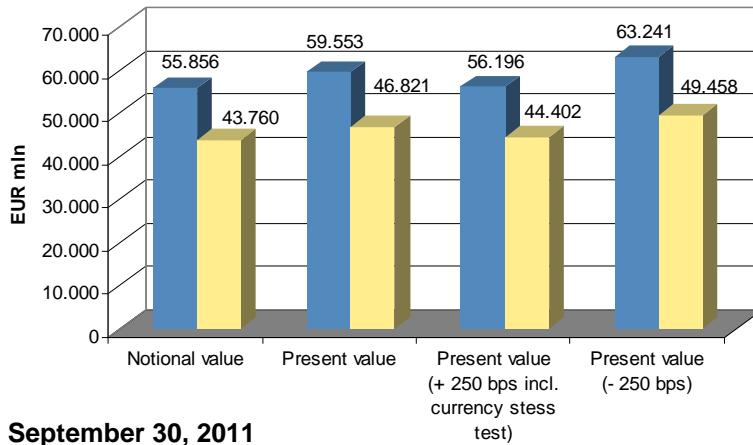


- German Pfandbriefe are supported by strong and longstanding legal framework
- Most issuers are organized in the vdp (Verband deutscher Pfandbriefbanken)
 - The Pfandbrief product is supported by market participants
 - Strong commitment of the issuers to strengthen the product

Strong legal framework and conservative cover pool management

LBBW public sector Pfandbriefe: Cover pool / Outstandings / Development of the cover pool over time

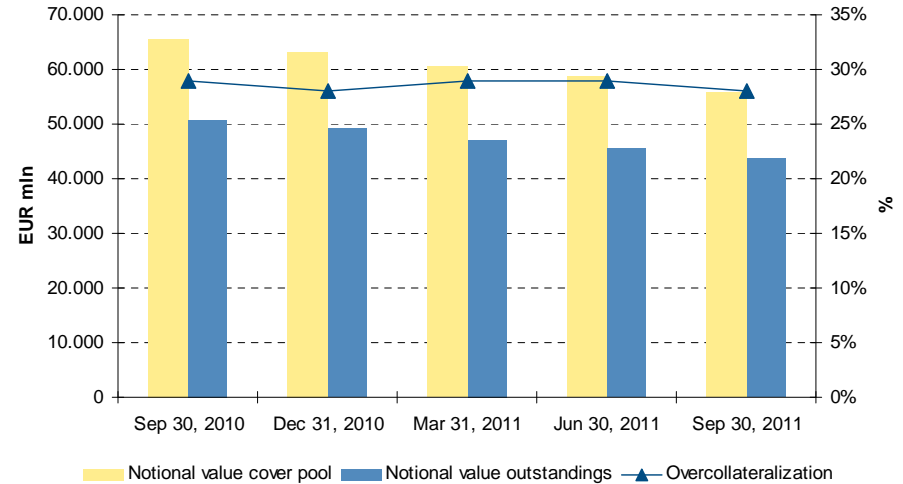
Total volume / Outstandings public sector Pfandbriefe



as of September 30, 2011

■ Cover pool ■ Outstandings

Development of the cover pool over time



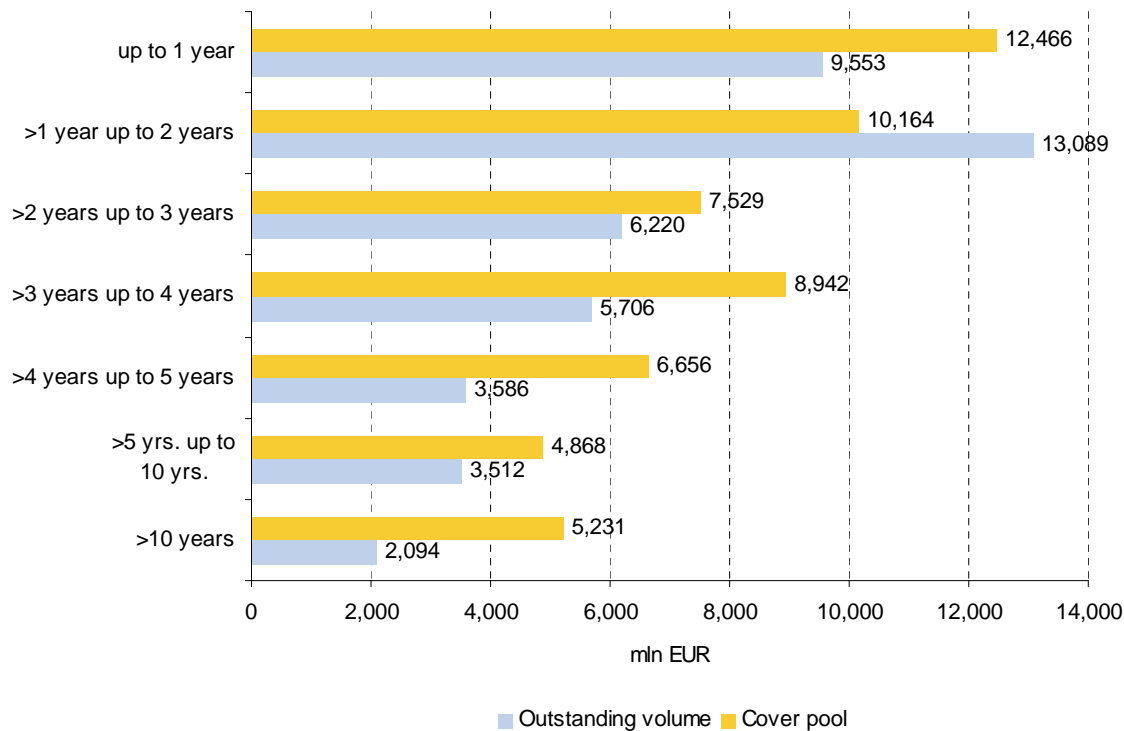
- AAA rated by Moody's and Fitch
- LBBW's cover pool is managed conservatively
 - High overcollateralization
 - No substitute cover*
 - No derivatives in the cover pool
 - No overdue assets

One of the largest cover pools for public sector Pfandbriefe in Germany

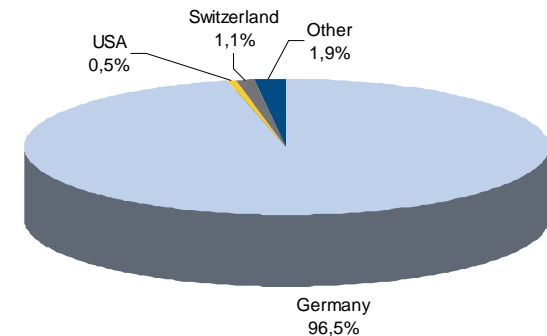
* Only EUR 45 million additional cover pool assets

LBBW public sector Pfandbriefe: Maturity profile / Geographic breakdown / Breakdown by assets

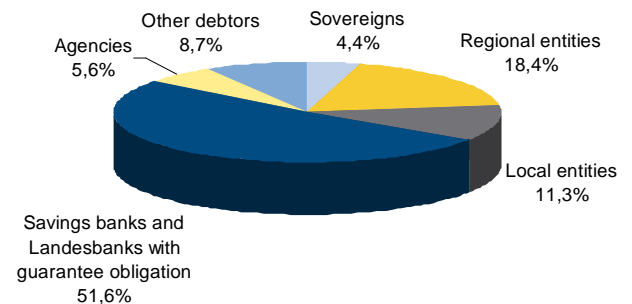
Maturity profile



Geographic breakdown

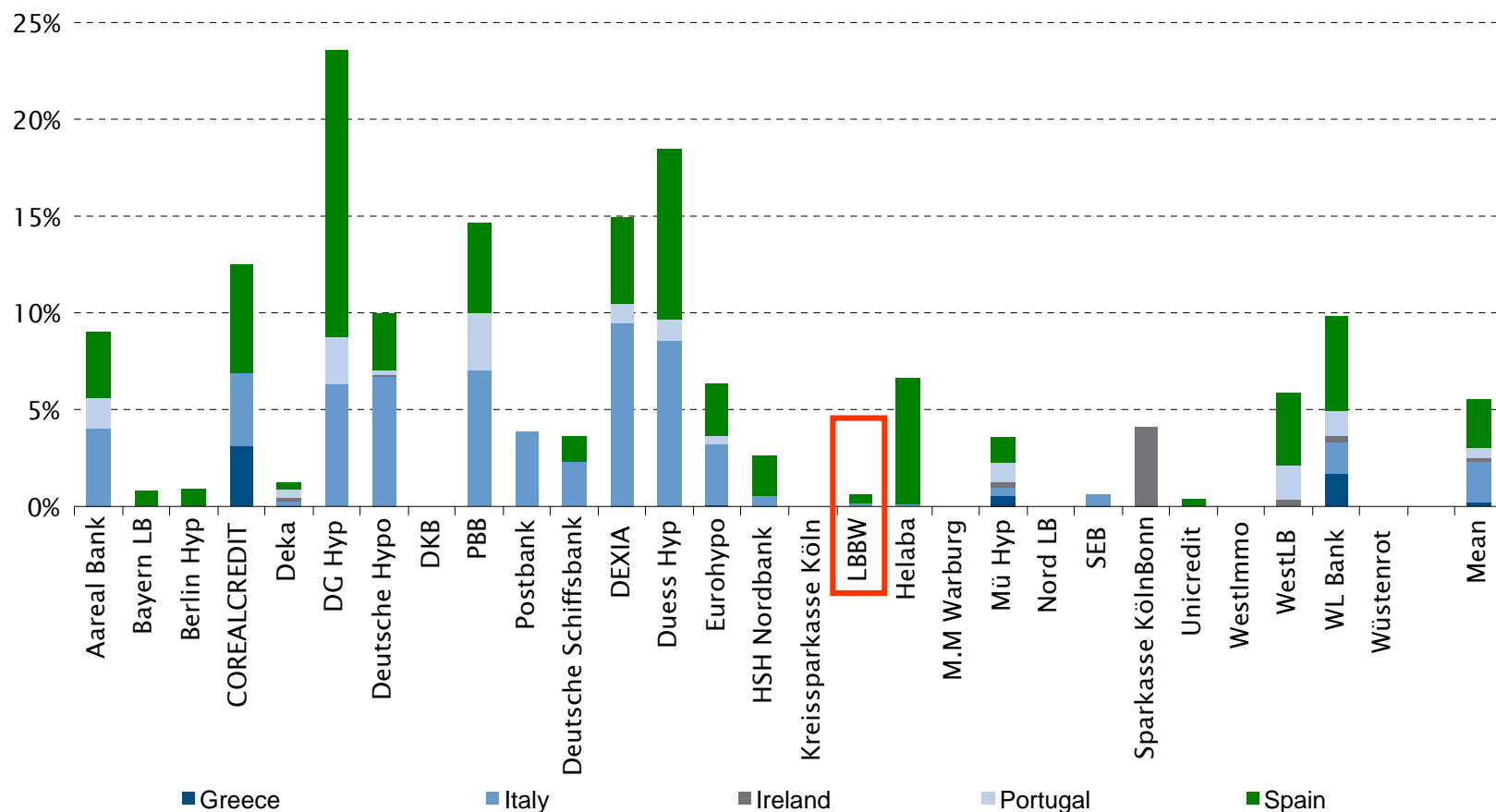


Breakdown by assets



as of September 30, 2011

Total volume of the public sector cover pools: cover assets from peripheral countries



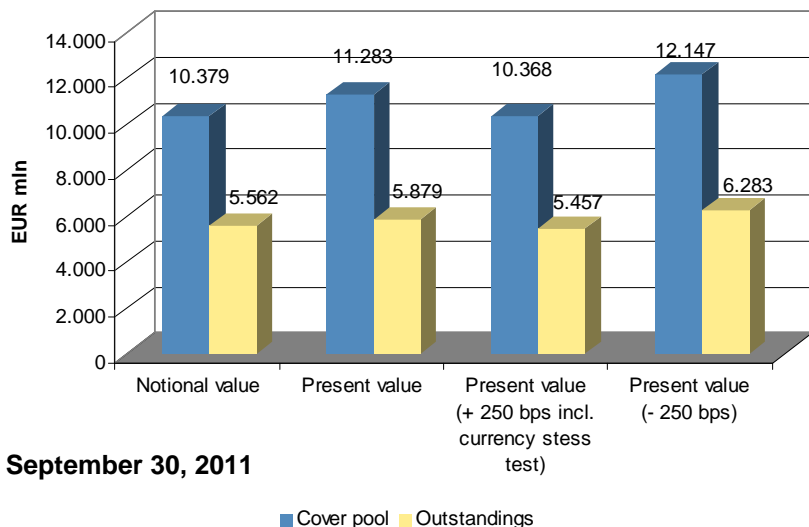
as of September 30, 2011

High credit quality of LBBW's mortgage cover pool

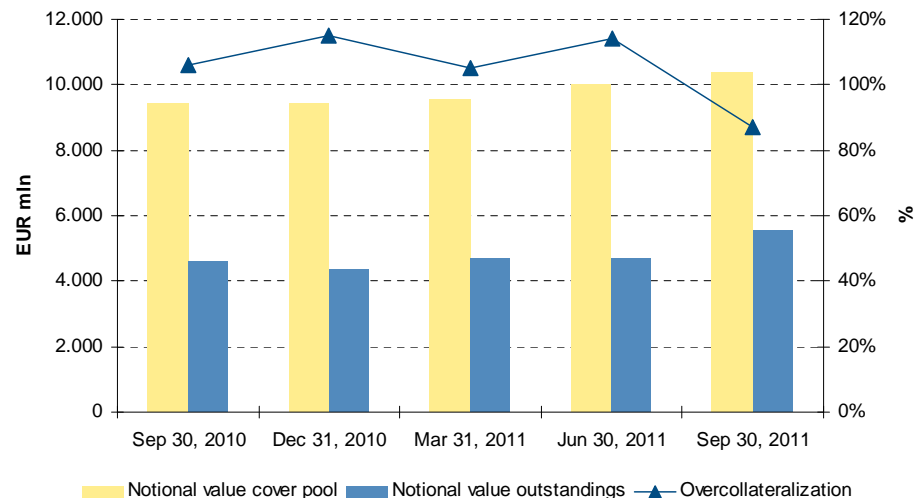
- LBBW's mortgage cover pool comprises **high-quality loans backed by residential and commercial properties**. The majority of these assets are houses, flats or multi-family buildings
- The loans are **well-seasoned**, residential mortgages with a weighted average seasoning of above 6 years
- **Highly granular pool**
- **Diversified pool** with the properties spread across the whole of Germany
- High number of **long-dated, fixed-rate loans**
- **Low average loan balance** of only around EUR 116,000 for residential mortgages
- **Solid mortgage origination**
 - All loans regarding residential mortgages have been **income verified**, and income is assessed in all cases to be sufficient to pay off the principal of the loan over the life of the loan
 - Regarding commercial mortgages, **cash flows** stemming from the properties have been confirmed and are assessed to be **sufficient** to repay principal over the life of the loan
- **Valuations backing loans** are carried out by internal or external valuers that meet the requirement of the German Pfandbrief legislation, i.e. these valuers are independent from the credit decision. In each case the property has been visited when the valuation is carried out
- Cash flows of cover pool assets and outstanding mortgage Pfandbriefe are **reasonably well matched**
- Mandatory minimum **overcollateralization of 2%** on a net present value basis required by the German Pfandbrief Act has to be maintained in stressed market conditions

LBBW mortgage Pfandbriefe: Cover pool / Outstanding mortgage Pfandbriefe / Development of the cover pool over time

Total volume / Outstandings mortgage Pfandbriefe



Development of the cover pool over time



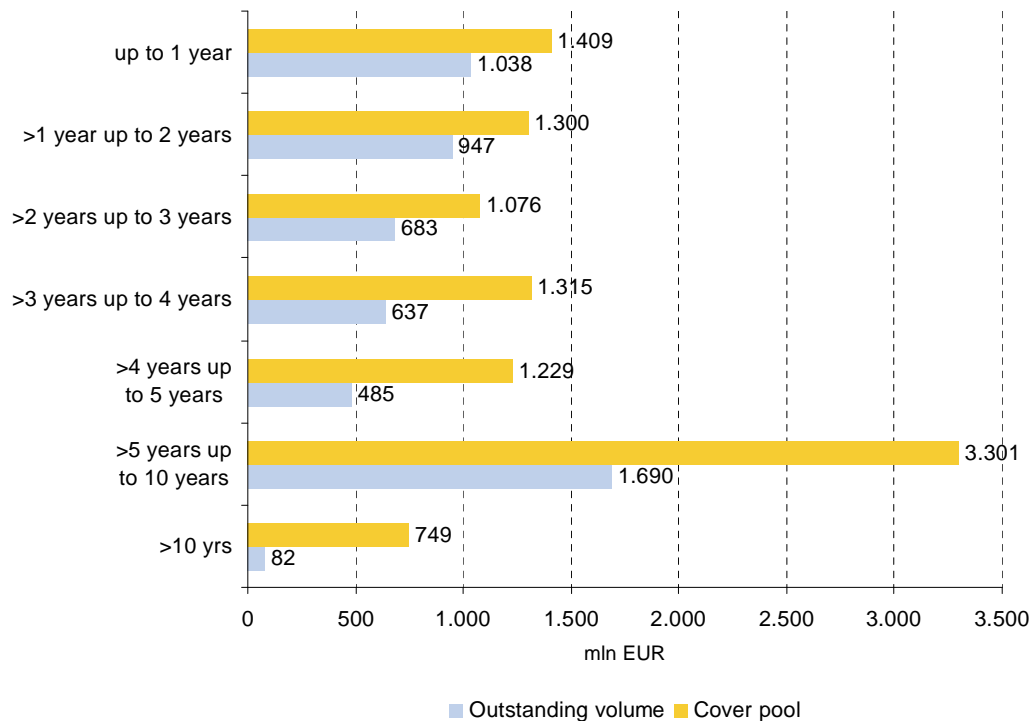
- AAA rating from Moody's
- Strong overcollateralization
- Over 96% of the mortgage cover pool assets in Germany
- Further sectoral diversification

LBBW's mortgage Pfandbriefe* of high quality

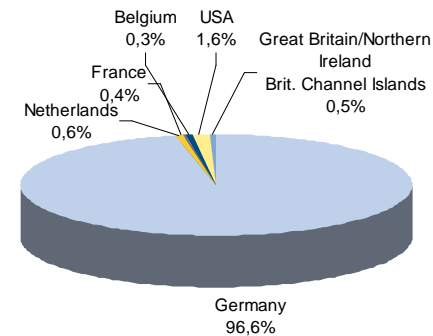
* according to German Covered Bond Law ("Pfandbriefgesetz")

LBBW mortgage Pfandbriefe: Maturity profile / Geographic breakdown / Structural asset classification

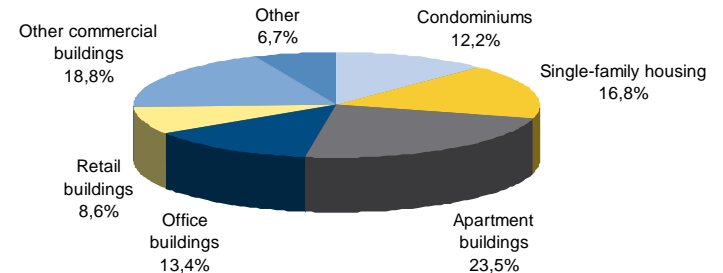
Maturity profile



Geographic breakdown



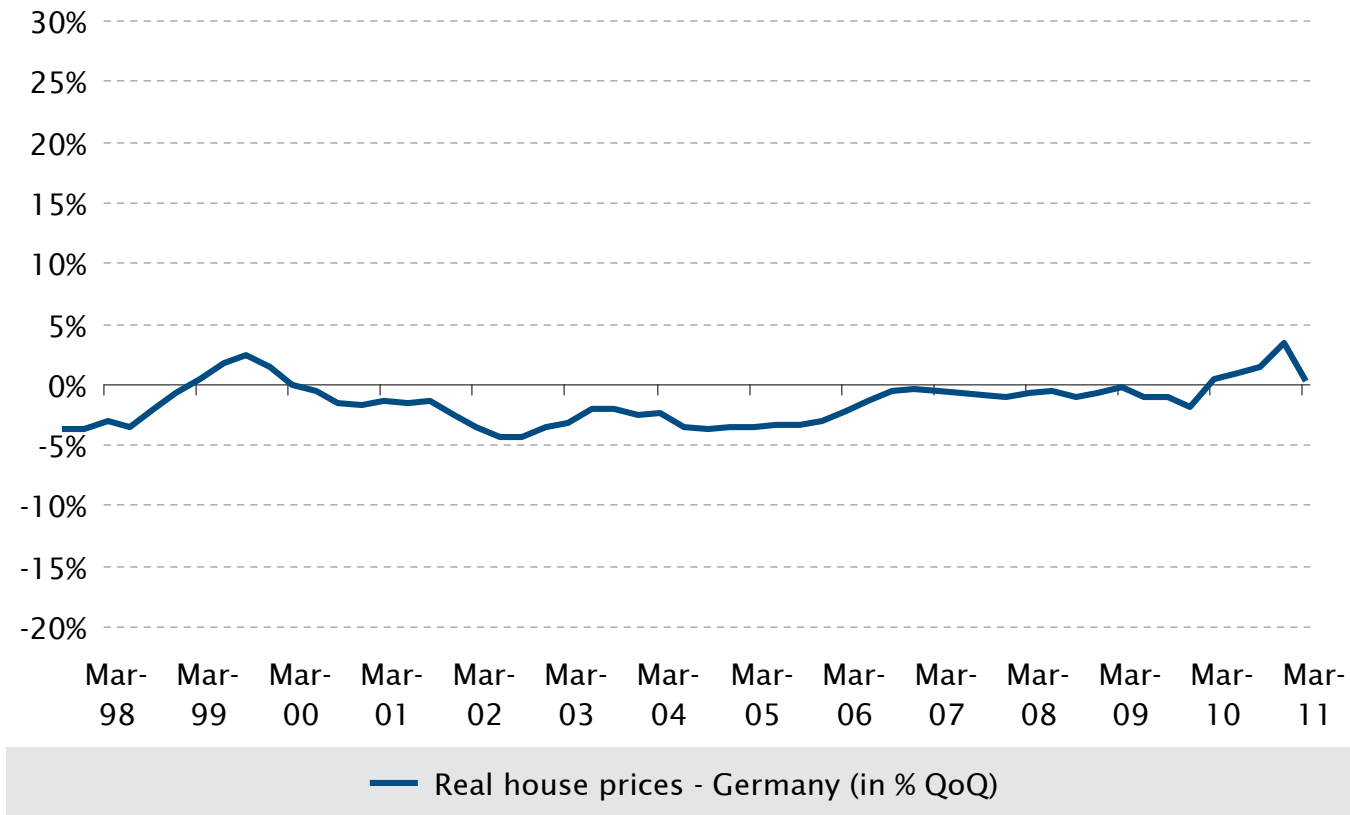
Structural asset classification



as of September 30, 2011

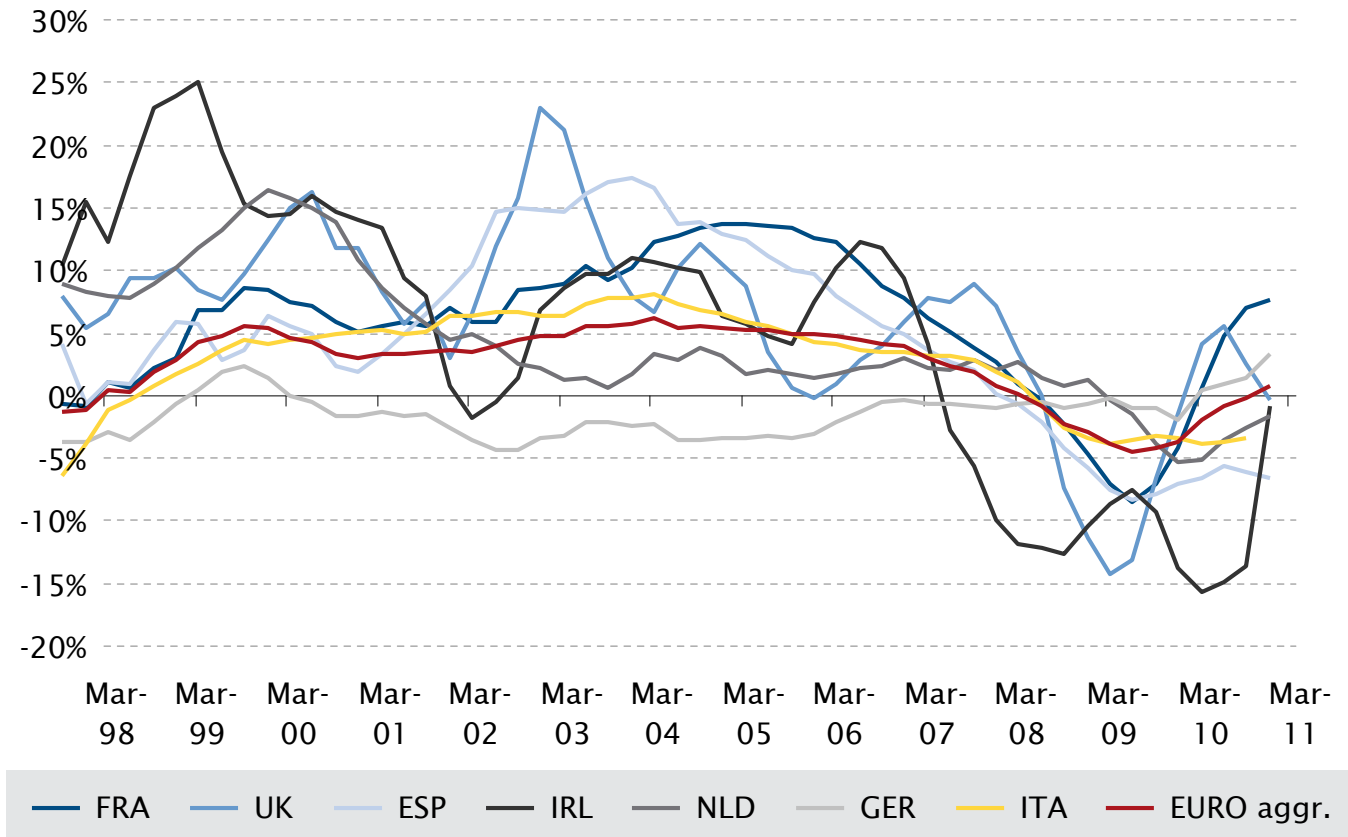
Real House Prices - Germany

Historical Series



Source: OECD

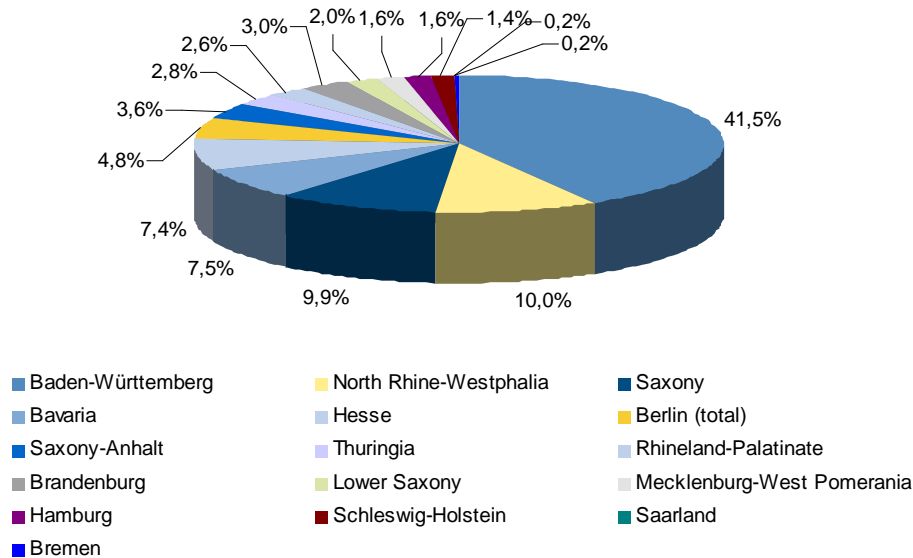
Real House Prices: residential and non-residential (QoQ) Historical Series



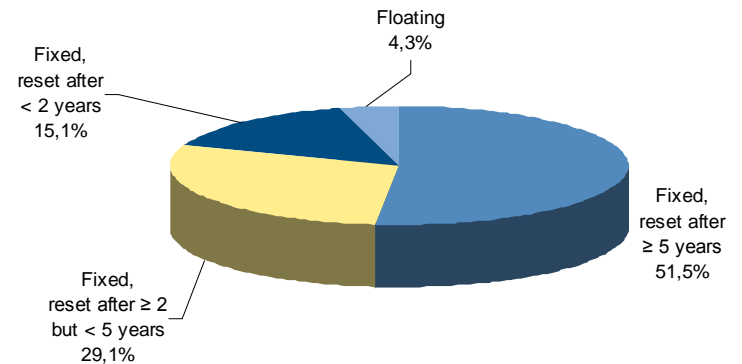
Source: OECD

Details regarding residential assets

Regional distribution



Interest rate type



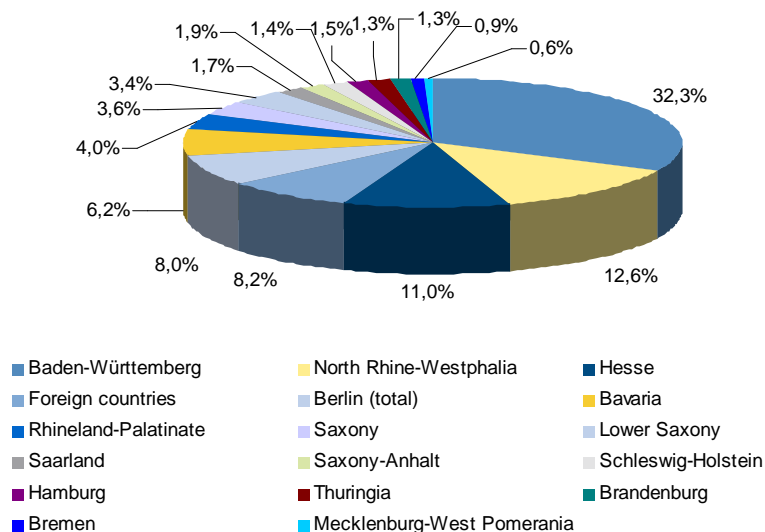
as of September 30, 2011 **Total cover pool categorized acc. to amount**

- Balance of residential assets: EUR 5,639 mln
- Average loan balance: EUR 116,048
- Number of loans: 48,591
- Number of borrowers: 37,366
- Weighted average seasoning: 83 months
- Mortgage cover value limit: 60%

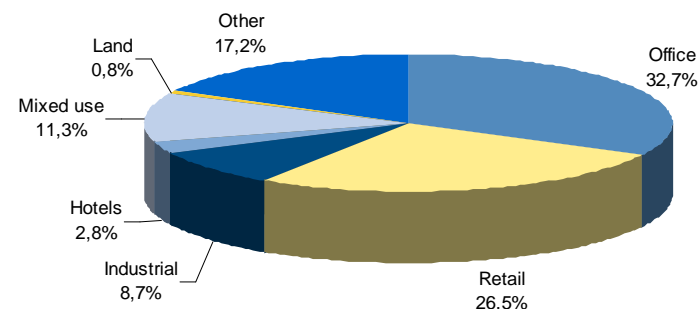
EUR mln	09/30/2010	09/30/2011
up to EUR 300 thou.	3,495	3,776
up to EUR 300 thou. up to EUR 5 mln	2,608	2,762
greater than EUR 5 mln	3,322	3,841
Total	9,425	10,379

Details regarding commercial assets

Regional distribution



Property type



as of September 30, 2011

Balance of commercial assets:	EUR 4, 322 mln
Average loan balance:	EUR 1.651 mln
Number of loans:	2,618
Number of borrowers:	1,453
Number of properties:	2,433
Weighted average seasoning:	85 months
Mortgage cover value limit:	60%

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