Quality for Your Success

Annual Report 2011

The work of art depicted in this business report, entitled “Aufschwung” (Upswing), is by the circle of artists known as “Inges Idee” from Berlin. Photographer: Gregor Ruster, Munich.

Foreword

Dear Reader

An eventful 2011 lies behind us. But in spite of sovereign debt crisis and uncertainties on the financial markets, LHI is able to look back on a successful year.

All the funds we issued in 2011 were fully placed. With an equity capital of EUR 60.5 million, we have achieved a size that gives us confidence in ourselves.

LHI's volume of new business increased by approximately EUR 60 million to roughly EUR 1.3 billion. This continuous growth makes us particularly proud because the sovereign debt crisis has made refinancing leasing and fund projects more difficult for market participants and even spelt the end for several major players in the financing business.

Farsightedness with caution. The fact that LHI was able to begin 2012 successfully in spite of the difficult business environment is due to our caution in conceiving investment products. As a consequence of the rapid increase in interest rates right through into the second quarter of 2011, we were restrained in purchasing properties in the first half of 2011. Asset acquisition prices and investors' expectations of attractive distributions were frequently incompatible. We were therefore cautious in purchasing properties and did not even issue various investment offers. This cautious policy proved to be absolutely correct. Because in the fourth quarter of 2011 we were able to profit from the turbulences caused by the sovereign debt crisis and to acquire four attractive properties with stable values in order to prepare them for placement in 2012: the Technical University in Berlin with a 20-year rental agreement, the Aircraft Turbine Fund III, the Shopping Centre in Erding and the Solar Park Germany VII.

New ways of thinking. We are continually increasing our skills in the field of renewable energy sources. LHI has in the meantime almost 150 MW of installed solar power stations connected to the network. Our ambition is to continuously develop new products and models. The product novelty of the year in 2011 was the co-investment. Here, product characteristics similar to leasing are combined with a fund concept. This model has clear advantages for both real estate users and investors. This concept secures the user of the real estate access to the asset and the investor a share in a long-term and stable cash flow including a hedge against inflation.

Continue to expand strengths. But we have also expanded in other areas of the company. We were able to successfully increase the portfolio of properties that we manage as corporate service provider. In 2011, we placed an additional focus on broadening our skill in asset management. We have considerably increased our number of personnel in this area. Because lasting success can only be achieved when know-how in developing models is combined with asset know-how.

Since a critical eye is indispensible in improving performance, we have also directed this critical eye on ourselves in an internal project. LHI has examined its business model together with a well-known consultancy company. The result is extremely gratifying – both for ourselves and for everyone who works together with us: LHI is fit for the future in every respect and we will continue to be successful through consistent improvement in specific aspects.

Good products as well as the performance and future orientation of our business model allow us to look to the future with confidence in all areas.

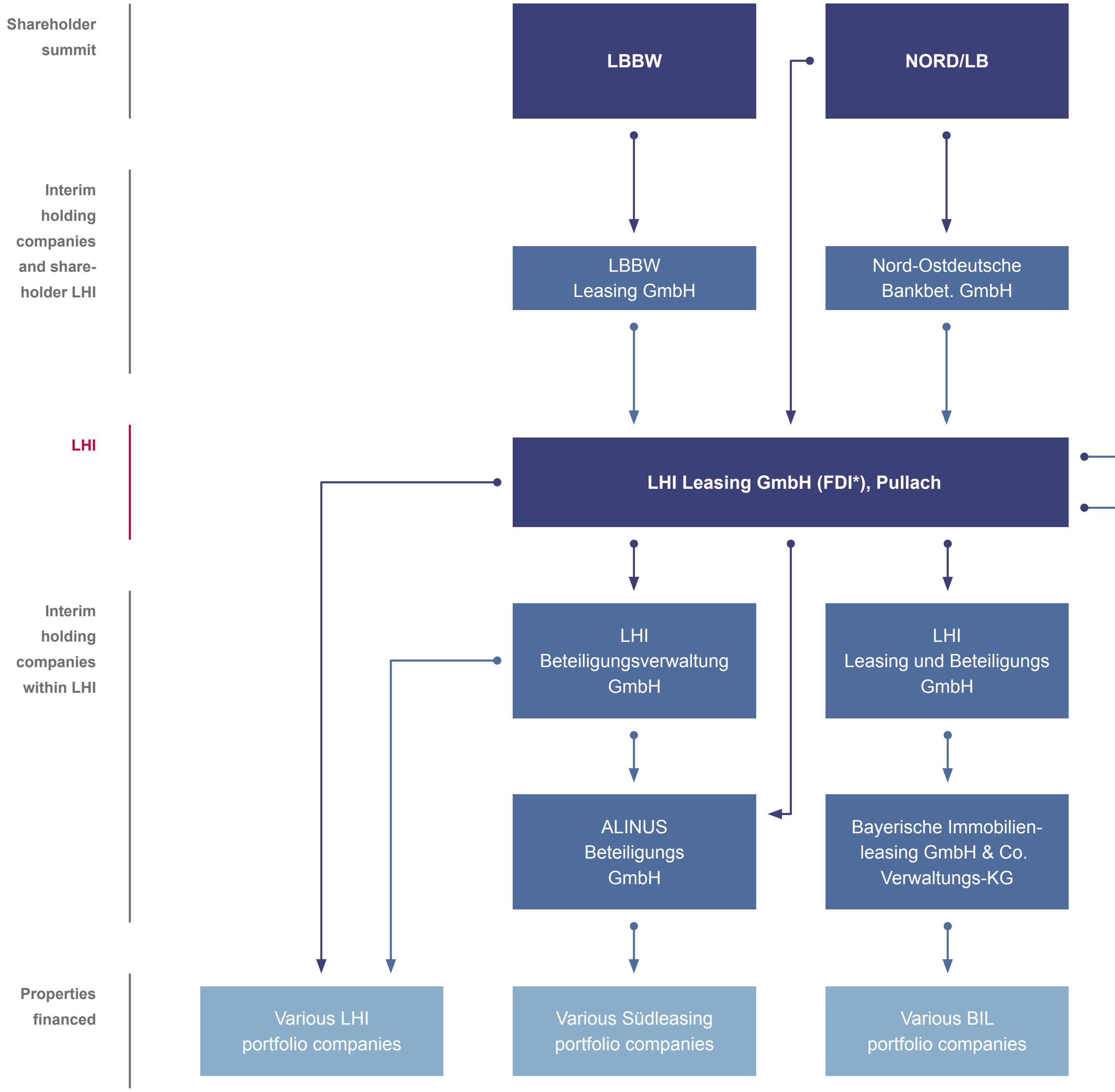
We thank our business associates and customers for their trust and their willingness to work together with us as partners, as well as our employees for their performance. Both form the basis of LHI's success and its ability to face the future for our goal – Quality for Your Success!

Oliver Porr
Managing Director

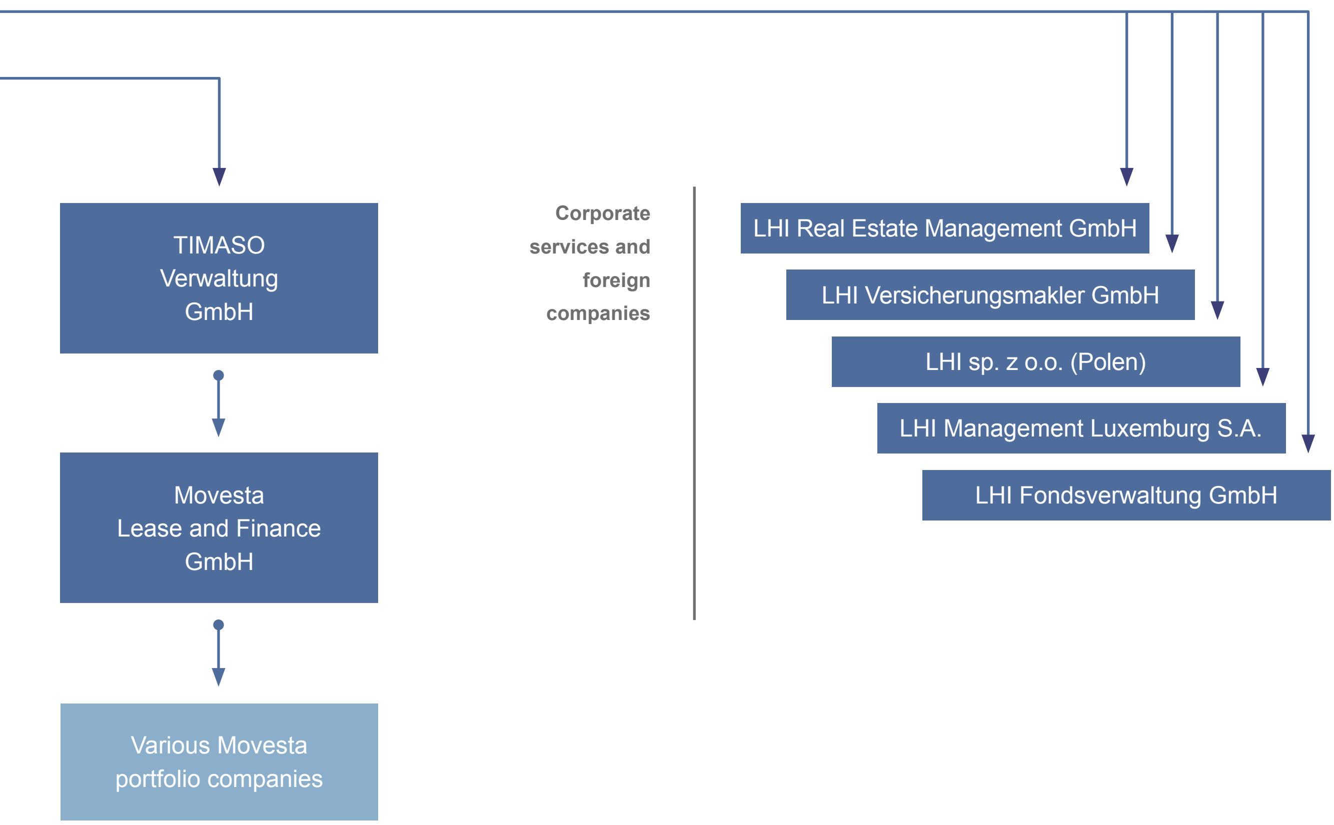
Robert Soethe
Managing Director

Heimo Koch
Managing Director

Shareholder Structure of the LHI Group



*financial services institute


TIMASO Verwaltung GmbH
Movesta Lease and Finance GmbH
Various Movesta portfolio companies
Corporate services and foreign companies
LHI Real Estate Management GmbH
LHI Versicherungsmakler GmbH
LHI sp. z o.o. (Polen)
LHI Management Luxemburg S.A.
LHI Fondsverwaltung GmbH

Strategy and Positioning

When LHI Leasinggesellschaft für Handel und Industrie mbH was established in 1973, the company's core business was real estate leasing. In the years that followed, LHI had developed to become one of the most important providers in the market. As evidenced by market data issued by BDL (Federal Association of German Leasing Companies e. V.), the total size of the real estate leasing market has declined considerably in the last few years. This contraction of the market led to a consolidation process in which LHI played a crucial role. Thus, Bayerische Immobilien Leasing was integrated into the company in 2002 and the real estate portfolio of SüdLeasing in 2006. In 2009, LHI's systems took over the management activities of Movesta Lease and Finance GmbH. The portfolio was fully integrated into LHI in 2011. Together with the withdrawal of traditional competitors from the real estate leasing market, LHI was able to increase its market share steadily. Our observation is that the market size has now bottomed out. Although the traditional advantages of real estate leasing in terms of trade tax and off-balance sheet financing in terms of commercial law no longer exist, there are still very good reasons for choosing real estate leasing as a way of financing investments: we are thinking here of measures to optimise and anticipate real estate acquisition tax in cases of foreseeable changes in groups, outsourced property management and the raising of finance through a company specialised in this field. Strategically, therefore, LHI will not give up its activities in the real estate leasing business but use the strengths it has accumulated in order to continue to actively acquire new business in this market.

Quite apart from leasing solutions, we also make our administrative skills available to the holders of real estate portfolios. As a corporate services provider, we administer special-purpose companies with a high degree of quality and efficiency and, if desired, can also take over the asset management of the properties. The additional management of real estate leasing and fund portfolios will continue to represent an important part of our business model.

At the beginning of the 1980's, it was possible to generate advantages by involving private persons in project financing. This gave rise initially to LHI's private placement business. The main driving force in the field of publicly-offered funds was the special depreciation of investment projects in the former GDR following the reunification of Germany. This showed that private investors have a lasting interest in participating in economically necessary investments by way of a fund. Strategically, we will continue to expand the fund business sector. Our thinking here is dominated by the fact that, in future, not the structuring service as such will show a return, but rather the asset management services that have to be provided. LHI has therefore made a conscious decision not to get involved in every imaginable class of investment, but to concentrate on the core skill of real estate, on solar and wind energy in the field of renewable energy sources, and on the aviation sector. In the aviation sector, we have developed an interesting position in the market with the niche product aircraft turbine engines. In future, we will use this know-how in the field of aviation and airlines to expand into the business of financing whole aircrafts as well. Our existing network with companies operating in this sector will help us in this endeavour. In the field of renewable energy, we see untapped potential in wind energy. As regards solar energy plants, due to the reduction in the fees paid for feeding elec-

tricity into the national grid, we anticipate that projects in Germany will be less easy to justify. We are therefore currently making intensive efforts to apply our present know-how in other markets.

LHI is one of the leading real estate companies in Germany with almost 20 billion EUR real estate investments. Priority is given in this situation to the idea of using not only our real estate know-how but also our market know-how. That is why we concentrate the main focus of our work in the West European core markets and in Poland. Our skills in structuring, managing and liquidation of leasing and fund companies have given us considerable know-how in the fields of accounting, financing and assets. We emphasise this know-how in offering the services of our business segment "Solutions". In this function, LHI will operate at the interface between corporate finance, structured finance and working as an investment boutique. The Solutions division offers our customers individualised, tailor-made solutions to their problems. Particularly in times of limited refinancing resources, it is good to know that LHI is equipped with its traditional opportunities to place equity shares as part of fund transactions. Seen from this aspect, Solutions are frequently equity-supported structures, similar to leasing, in which, apart from the banks, third parties put up the finance. To summarise therefore, LHI is more than just a leasing company, more than just an issuing company and something quite different from the corporate finance and structured finance department of a bank. We see ourselves therefore as a specialised company that – dedicated to quality – offers highly interesting products, both to investors and to those interested in financing investments.

The fact that, as a leasing company, we have been subject to supervision by both the German Bundesbank and the Regulatory Authority for Financial Services ("BaFin") since 2009 today brings us the competitive advantage of being thoroughly acquainted with the regulatory requirements of the law. We have, for instance, established a highly complex risk management system covering the whole company. Our company management concept fulfils all the requirements the German Banking Law makes of financial service companies. We are now facing a transformation in the field of funds similar to the transformation the leasing business experienced a few years ago. Here too, we anticipate that the company will face increased regulatory requirements, in the form of the European AIFM guideline for example, which it is anticipated will be implemented in national law by 2013, and additional domestic regulatory moves under the aspect of consumer protection. The fact that we are perfectly equipped to face these challenges gives us a competitive advantage that we intend to use.

LHI Leasing GmbH’s Company History

LHI was founded on 1 October 1973 by Dr. Matthias Schmitt and the Norddeutsche Landesbank – giro centre – as the Leasinggesellschaft für Handel und Industrie mbH. The emphasis lay initially on providing finance for German food retailers’ real estate investment projects. Additional business sectors in financing manufactured equipment and structured financing were added in 1977. Two years later the Berliner Bank AG acquired 40 % of the shares in LHI from Dr. Schmitt’s holding.

In designing leasing projects, LHI acquired considerable knowledge of accounting, the management of special-purpose companies and legal and tax matters. This know-how was increasingly used in later years in developing and realising structured financing projects. Because LHI’s philosophy has always emphasised not just providing customers with ideas but also actively supporting the implementation of these ideas and managing the properties on a long-term basis.

Since 1981 private capital has also been involved in financing investments in the area of leasing. LHI first placed publicly offered funds by way of special depreciation opportunities in the former GDR in 1993. In 1995 LHI celebrated its debut in the neighbouring market of Poland with its own company – over the next few years LHI sp. z o.o. in Warsaw grew into the largest national provider in the field of real estate leasing.

Dr. Schmitt, the founder of the company, sold his last remaining shares to Bankgesellschaft Berlin, the successor company to the Berliner Bank, in 1996. Norddeutsche Landesbank (NORD/LB) acquired all the shares in 2004 and was for a time the sole shareholder. LHI was however treated as a profit centre and not integrated into the group as a company. This enabled the acquisition of Landesbank Baden-Württemberg (LBBW) as an additional shareholder in 2006. Since then LBBW has owned 51 % of the shares and NORD/LB 49 %.

The turn of the millennium saw an extension in the company’s growth strategy, so that in addition to continued organic expansion of the business, acquisitions were also made. Bayerische Immobilienleasing was acquired in 2002 and the real estate leasing division of SüdLeasing was integrated into the company in 2006.

A further building brick in this growth strategy was the acquisition of the management portfolio of Movesta Lease & Finance in 2009. This management portfolio has in the meantime been integrated into LHI’s portfolio structure.

In order to be able to fully experience cooperation in direct dealings and dialogue with each other, in November 2009 all LHI employees working in the Munich area relocated from what had previously been three separate company locations into its newly built joint company headquarters in Pullach im Isartal.

Human Resources

The appreciation of customers and associates is not the only evidence of the quality of a company. Just as meaningful is its attractiveness on the employment market. LHI received impressive proof of this last year. About 30 new employees placed their trust in LHI last year and started working for us. If so many colleagues are to feel at home in a company, it is obviously important that concepts should be provided for their human and technical integration. Every new employee is therefore accompanied not only by the manager responsible for him and the human resources department but also by his personal LHI godfather: an experienced employee who helps in understanding LHI even better and in establishing networks with colleagues even beyond the immediate professional area of responsibility. A series of events “Departments introduce themselves” and an internal training calendar are also provided so that an overview and an understanding of LHI’s range of services, functional areas, technical content and structure is achieved as quickly as possible. In 2011, both of these were once more extremely well received.

Our managers see themselves as brand ambassadors who actively live out LHI’s system of values in the presence of the employees. The LHI Leadership Compass was introduced in 2010 as an orientation guide in order to implement permanent and reproducible quality in this area. It embraces four dimensions of management: the management of oneself, relationships, organisation and change. The Leadership Compass demands from LHI managers an authentic and committed approach to employees based on trust. It also shows that the constructive use of responsibility creates added value through motivation for the whole company and for each employee. For example, through personal freedom to operate and actively sponsored employee development. LHI invests here not just in targeted further education in technical matters but also in social and method skills and cultural enrichment.

LHI can only ensure its ability to perform and quality through its employees’ skill and dedication. In order always to maintain this unique capital at the highest level, we continually invest in our employees’ further training. The main priority is always the goal of offering training that is individually tailored to the employee’s requirements. Systematic training controlling shows us how well LHI meets this challenge.

LHI’s keynote is: anyone is welcome who is both competent and prepared to take responsibility for his work. Commitment of the employee’s own initiative lies at the core of LHI’s mission statement and is the benchmark for every employee. In return, LHI offers a working environment of the highest quality: modern individual offices in a stylish architecture whose transparency is an expression of an open company culture. This is certainly a reason why LHI employees enjoy working for their company. LHI also takes account of the employees’ needs and the demands of family life, which is expressed, amongst other things, in the fact that 20 % of the jobs are occupied by part-timers. Flexible working hours and contacts to pre-school care and kindergartens provide our employees with better opportunities to harmonise work and family life.

There are many reasons for LHI employees’ motivation, identification and loyalty, but one of the most important is certainly the direct and perceptible recognition of their own performance – which is of course chiefly defined in terms of remuneration. But also the personal opportunities to fulfil and develop themselves through their own ability and dedication.

Working for LHI – exactly what that means is also illustrated by the new website with an improved structure and fresh layout. It is lively and animated throughout, providing interesting insights into our working environment, especially in the recruitment video.

LHI's Code of Ethics

LHI's success lies in its company culture characterised by integrity, mutual respect and individual responsibility that prevails throughout the whole company. We place our sustained commercial success together with the greatest possible benefit for our customers at the very centre of our work.

This Code of Conduct serves all employees of LHI as a guide to correct behaviour. It includes values, basic convictions, attitudes and rules of conduct to which everyone must comply in their dealings with our business partners, customers, competitors and public authorities.

General principles

Compliance with laws and regulations

We undertake in all our business activities and decisions to comply with the relevant laws and other regulations of the countries in which we work.

Countering money laundering, financing terrorism and corruption

We employ internal security measures and mechanisms, oriented to the potential risk, to prevent money laundering and to counter the financing of terrorism and corruption.

Compliance with data protection

Security standards protect access to and unauthorised use of our business partners', customers' and employees' personal data.

Fair competition

We comply with the applicable laws and regulations that regulate competition and protect and promote fair competition.

Basic principles in dealings with each other

Role model
Our dealings with each other are characterised amongst other things by the following values and basic convictions: mutual respect, loyalty, reliability and dedication, correctness and fairness, genuineness and orientation towards achievement as well as discretion. Our actions should be as transparent as possible.

Avoidance of conflicts of interest
We undertake to avoid situations in which personal and/or financial interests come into conflict with those of our company.

We do not procure any advantages for ourselves, in particular by accepting personal gifts or benefits that arise from business relationships.

Basic principles in dealings with business associates and customers

Business relationships
We advise and support our business associates and customers as well as potential business associates and customers respectfully and individually.

Confidential handling of information
We undertake to safeguard our business associates' and customers' business secrets and other confidential information disclosed to us, as required by the law.

Completeness of information
The information we communicate and distribute is complete and comprehensible in itself in order to provide business associates and customers as well as potential business associates and customers with a basis for a permanent business relationship.

Quality
Our products and services are characterised by the highest quality standards and a continual adjustment to market developments and customers' requirements.

Basic of social responsibility

Protection of health
We ensure safety and the protection of health in the workplace.

Protection of the environment
In constructing our building, we placed the emphasis on sustainability and energy efficiency.

Social responsibility
We behave in a manner that matches our company's responsibility in society.

LHI Data

Board of management
Oliver Porr, Robert Soethe, Heimo Koch

Supervisory board
LBBW: Hans-Jörg Vetter (chairman),
Ingo Mandt, Karl-Manfred Lochner
NORD/LB: Eckhard Forst (deputy chairman),
Dr. Jürgen Allerkamp, Martin Hartmann

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Key Figures

	31.12.11 in kEUR	31.12.10 in kEUR
Balance sheet total	151,781	161,496
Shareholders' equity	46,192	46,598
Result from normal operations	3,954	5,340
Net income	3,594	3,700
Equity ratio	30.4 %	28.8 %
Financial result	6,310	6,310
New business	1,300,000	1,240,000
Investments managed	24,890,000	26,220,000
Total equity placed	2,960,500	2,900,000
Total number of investors	22,669	21,365
Total fund value	7,260,000	7,000,000
Number of employees (in both cases average)	280	274

Business Development Report

Overall economic development

Following the considerable recovery in the previous year, the pace of economic expansion in the world slowed down. Certain countries in the European Union are on the edge of a recession and have to deal with considerable refinancing problems.

The German economy on the other hand proved to be immune to the crisis: Germany is going through a powerful economic revival. Following an increase of 3.7 % in the previous year, there was a further increase of 3.0 % in 2011.

This recovery has several components. Exports remain a success factor, albeit without noticeable growth. The domestic economy is developing well, in spite of insecurity generated by the debt crisis in the European Monetary Union. Industry profited from continuing incoming orders through into the third quarter, in the fourth quarter however this effect weakened. Private consumption has also increased considerably. Overall, the pace of economic development slowed down in the fourth quarter of 2011 and fell marginally below the level of the previous quarter. Nevertheless, adjusted for prices, it is still 1.5 % above the value of the fourth quarter in the previous year.

As international economic expansion slackened off in the second half of 2011, external trade contributed less to growth in gross domestic product. However, a positive special effect must be considered in the third quarter in that the German car industry was able to report uninterrupted production. Following a strong first half-year, building investments declined again in the third quarter.

The monetary situation favours the overall economic situation. Interest rates are at an historic low. The situation on the labour market continues to be regarded as highly positive. This is reflected not only in the decline in unemployment from 7.7 % to 7.1 % versus 2010 but also in the highest number of people ever employed since reunification. In view of the continuing positive outlook for employment, private consumption could remain a pillar of economic recovery during the coming quarters.

The continued course of the Euro crisis will determine development in 2012. Not only does a large part of the export industry depend on this but it is also the major factor in domestic demand. Germany's exporters profit chiefly from the economic stability and strength of its European neighbours. Domestic demand depends strongly on people's trust in the markets. Should politics succeed in restoring confidence in the Euro and the financial markets, private consumption can remain at a positive level and increase still further.

The inflation rate increased to 2.3 % in 2011 compared with 2010. 1.8 % and 2.0 % respectively are forecast for 2012 and 2013.

The increase in the government's budget deficit will decline as the economy recovers. At 2.5 %, the deficit rate is considerably lower than in 2010 (3.3 %) due chiefly to higher than expected tax income. The federal government is aiming for a balanced budget by 2015.

(The above data was obtained chiefly from the online portal of the German Federal Statistical Office [situation on 16.01.2012] and the Economic Report issued by the Economic Institute of the University of Kiel on 20.12.2011).

Developments in the leasing industry

The leasing market in Germany grew by 13 % in 2011 and generated new business of EUR 45.9 billion. Of this, EUR 43.4 billion is due to new business in movable assets. This corresponds to an increase of 14.2 %. Real estate leasing increased slightly in 2011 by 3.2 % to EUR 2.5 billion (contracted business).

Overall, the figures emphasise the fact that the recovery in the German economy has now also reached the leasing business and that leasing as a form of financing is again being used more frequently as an investment opportunity than in the last two years.

The structure of leased properties remained largely stable in 2011. The largest segment is represented by road vehicles (that includes cars and commercial vehicles) with a share of 69.6 % of new business. This is followed by manufacturing equipment (13.1 %) and office/IT equipment (7.8 %). In volume terms, the largest segment road vehicles increased by 15.9 %.

The structure of the leasing customer base also showed little change in comparison with the previous year. The majority of customers are still to be found in the service sector (32.5 %), then comes the manufacturing industry (21.4 %). They are followed by the retail sector (12.1 %), the transport and information transmission sector (10.2 %) and the private household sector (9.9 %).

(The data on market volume is derived from the Trend Reports issued by the BDL [Federal Association of German Leasing Companies]. The information on leasing customers was derived from a BDL press release issued in November 2011).

With EUR 5.85 billion, the market for closed funds relative to placed equity in the financial year 2011 was at the same level as in the previous year. The picture was somewhat varied however in the individual asset classes. Investments in domestic and foreign real estate continue on a highly positive trend. The share of placed equity in these assets was over 50 % throughout the market. Business in leasing funds also increased considerably. Transactions in ship and aircraft investments on the other hand declined markedly. Turnover in energy funds (including among other things solar models) also declined. The reason for this decline is principally a lack of suitable investment projects in Germany as well as a slackening-off of investments in Southern Europe due to the sovereign debt crisis.

Particularly worthy of mention is the investment activity by institutional investors that increased considerably by 67 % compared with the previous year. They now represent 18 % of the total market.

Overall, the ongoing Euro crisis exercised a negative influence on placement figures. Investors show little willingness to tie up their available liquidity in medium and long-term investments in an uncertain environment with low interest rates. It is anticipated that demand will recover in the medium term with investors' increasing interest in physical assets as a hedge against inflation and that a market volume (excluding institutional investors) between EUR 5 and 6 billion will develop with private investors.

(The placement figures referred to above are derived from VGF [German abbreviation for the Association of Closed Funds] industrial sector data for 2011. The overall review of past and future trends is taken from a VGF press release issued on 11.11.2011).

Development of the business – asset, financial and income situation

In 2011 LHI profited from the favourable economic situation in Germany. Financing and structuring requirements in the commercial sectors exceeded those of the previous year and once more picked up speed. In spite of low interest rates, demand for capital investment products stagnated at the previous year's level with a clear trend towards institutional investors. LHI countered this development with individually structured investment products and its traditional orientation towards professional subscribers. Particularly in the field of energy funds, with more than 7 %, LHI had a noticeable share of the industry's placed equity. The previous year's favourable result (EUR 3.7 million) was sustained with a net income of EUR 3.6 million.

A positive interest result of EUR 0.4 million was again achieved (EUR 0.4 million). Income from investments increased from EUR 3.2 million to EUR 9.5 million due to payments for restructuring services received within special-purpose companies. Net commission income declined from EUR 13.8 million to EUR 10.0 million. Other operating income declined slightly by EUR 1.8 million to EUR 33.8 million. The factors contributing to income emphasise the increasing importance of net commission income.

Following a period of consolidation, LHI once more made targeted investments in human resources in 2011. 16 new employees were appointed, partly to carry out the integration of the third party leasing portfolio but also to strengthen the company's core skill of real estate and to bring in additional know-how from outside. As a result of successful recruiting measures, an average of seven additional employees were available to the company in 2011 compared with the previous year. Total personnel costs increased by EUR 1.5 million to EUR 24.9 million. Of this increase, EUR 0.9 million is accounted for by the variable remuneration components that increased due to the new business situation.

The remaining administrative expenditure and other operating expenses increased overall by EUR 1.1 million. This was due to one-time expenses as a result of the acquisition of a complete management portfolio, which is matched by a corresponding amount of income. Without this item, expenses would have declined by EUR 2.0 million. This is partly due to the one-time effect of costs incurred in 2010 as a result of the move into the new company headquarters in Pullach. Above all, however, considerably lower reserves for pending losses in connection with shareholdings and investments were required in 2011. LHI's risk-focussed business policy caused these costs to decline by EUR 2.0 million. As in the previous year, the net extraordinary loss of EUR 0.1 million is due to the gradual increase in the pension reserve as a result of the application of the accounting requirements of the Law to Modernise Accounting Rules.

As in the previous year, the main items on the assets side of the balance sheet were accounted for by receivables of EUR 102.3 million due from customers (previous year EUR 63.9 million) and other assets of EUR 23.9 million (EUR 81.4 million). The large variances in each of these items are due to the required reporting of interim product financing costs over the year-end. Due to the same situation, the value of investments increased from EUR 9.3 million to EUR 17.1 million. These are matched on the liabilities side principally by reserves and accrued liabilities of EUR 41.4 million (previous year EUR 44.0 million) and securitised liabilities of EUR 25.2 million (previous year EUR 25.1 million). Liabilities due to banks declined from EUR 39.9 million to EUR 28.0 million.

Shareholders' equity was EUR 46.2 million on the balance sheet cut-off date and as such roughly at the prior year's level (EUR 46.6 million). Due to the slight reduction in the total balance sheet (minus EUR 9.7 million) to EUR 151.8 million, the equity ratio increased to 30.4 % (previous year 28.9 %). As in previous years, the change in the total balance sheet is chiefly due to differing ways of financing fund products at the year-end during the placement period.

With the exception of a bearer bond for an amount of EUR 25.0 million due to mature in nine years, LHI has not entered into any long-term liabilities. The company finances current operations with this securitised liability, with its own resources as well as with the occasional use of credit lines from the shareholder banks and a further bank.

LHI provided interim financing of equity for fund products and investor models. Major equity tranches were placed during the financial year. Committed resources are constantly monitored and managed by way of a rolling liquidity forecast. The company's asset situation is properly structured and its solvency was ensured at all times.

Risk report

The aim of LHI's risk management is to ensure the company's continued and sustained success through suitable procedures to support the identification, evaluation and monitoring of risks. The risks that the company is required to bear in order to ensure its sustained success are coordinated by means of risk management. From an organisational and operating point of view, the risk management function is divided between the organisation, compliance, internal audit and corporate risk management departments. The board of directors is responsible for overall risk management.

The organisation department is responsible for organising the company's structure and processes as well as for defining and introducing efficient processes. A compliance committee handles issues related to the subject of compliance. Apart from the board of management, the departments legal affairs, organisation, corporate risk management and internal audit are represented on the compliance committee. The internal audit department carries out independent checks in all areas of the company.

Corporate risk management (risk management in the strictest sense of the word) is responsible for assessing the company's capacity to bear risks, risk monitoring throughout the company and regular risk reporting.

A risk committee consisting of the board of management and the managers of the internal audit, accounting/controlling and risk management departments meets at regular intervals to ensure that the company is able to bear risks.

Decentralised risk managers from all departments in the company are responsible for the identification of risks and at least once a quarter present ad hoc reports directly to the risk management department. The risk management department is integrated into new business processes.

The risk management department summarises all the risks in the existing portfolio and in new business and, as an independent unit reporting directly to the board of management, monitors the company's (long-term) capacity to bear risks, taking account of the resources available to cover risks and contingency reserves in the balance sheet.

Types of risk

LHI has carried out a categorisation of risks suited to its business model according to which risks are assessed, managed and monitored.

Company default and market price risks

Investments:
The category "Investments" includes projects in which LHI's own funds are invested on the balance sheet cut-off date and that are to be placed.

Every investment is analysed with respect to the risk it entails and receives its individually calculated risk value before entering into a commitment with the business partner.

LHI uses a value-at-risk procedure adapted to the needs of its business model in order to determine the risk value. The value-at-risk calculations are based on a consolidated multi-accounting period spread of losses that uses the probability distributions of future cash flows and residual values. The risk value takes account of notional risk costs and, where appropriate, an earmarked risk contingency for each individual investment.

The risks arising from investments are included in the risk-bearing capacity calculation.

Financial investments:
The category "Financial Investments" includes both short-term and long-term financial investments.

Short-term capital investments are coordinated and monitored every month by an investment committee made up of two members of the board of management together with the managers of the treasury, accounting/controlling and risk management departments. Coordination takes place by way of an annual value-at-risk based on a classical mean-variance approach.

Long-term capital investments are managed and monitored by means of a value-at-risk that takes account of the long-term nature of the investment. The value-at-risk calculation is carried out in accordance with the nature of the investment. The value-at-risk is based on a consolidated spread of risk derived from a simulation of possible cash flow and residual value developments. Notional risk costs as well as, where appropriate, earmarked risk contingencies are taken into account.

The risks of both short-term and long-term capital investments are consolidated in an appropriate manner and included in the risk-bearing capacity calculation.

Special-purpose companies:
LHI establishes special-purpose companies in order to isolate risks.

The risks in these investments are limited to the loss of the capital invested. The risk consists in the fact that the customer defaults and that the value of the property cannot be maintained.

The risks are assessed, managed and monitored by way of standardised LHI rating procedures. They are included in the risk-bearing capacity calculation.

Liquidity risks

LHI requires interim financing in order to carry out its part of the commitment. This gives rise to a liquidity risk as a result of payment obligations that possibly cannot be met on the due date (liquidity risk in the narrowest sense of the word). There is a risk when interim financing is extended or fresh interim financing provided that financing will have to be concluded at worse conditions.

Liquidity risks are managed and monitored on an ad hoc basis but at least every fourteen days by the accounting and risk management departments. The board of management considers the liquidity situation of every project decision with major liquidity requirements.

Liquidity is managed by means of a detailed liquidity plan that is thoroughly discussed by the board of management every fourteen days. This includes all the major liquidity requirements during the coming 12 months and takes account of available credit lines within the group, from shareholders and other lenders.

Commitments for which interim financing is provided can also be held over a longer period by applying conservative assumptions to the forecast payment flows and the available credit lines. Seen from today's perspective therefore, there is no market liquidity risk.

Liquidity risks have so far been evaluated apart from the risk-bearing capacity calculation.

Operating risks

LHI summarises risks identified in the fields of information technology (IT), human resources, process flows as well as external events in the operating risk category.

The principle risk in the field of information technology relates to the functioning of the systems used and possible damage through loss of data. Precautions have been taken to ensure the trouble-free operation of the systems and IT security. Appropriate plans are available to deal with emergency situations, including the required back-up procedures.

LHI counters risks arising from errors or malicious actions on the part of employees by a variety of measures as part of its internal control system, compliance with which the internal audit department verifies as part of its audit plan.

In evaluating operating risks, risk values are determined largely on the basis of expert assessments and included in the risk-bearing capacity calculation.

Other risks

Product structures

LHI summarises the risks arising from contingent liabilities, conceptual risks, legal risks etc. in the risk category “Product Structure Risks”. Risks arising from contingent liabilities arise largely in connection with guarantees or warranties given by LHI. Conceptual risks might arise as a result of changes in the tax or legal environment. Legal risks cover ongoing or pending litigation cases.

The risk value is evaluated individually depending on the circumstances of the case. LHI refers to both empirical values and expert assessments in this context.

This category is also included in the risk-bearing capacity calculation.

Summary of the risk situation

Taking into account the current resources available to cover risks and contingency reserves shown in the balance sheet, the company is able to bear the risks valued on the basis of the situation on 31 December 2011.

Outlook

The European sovereign debt crisis is also the major risk factor in economic forecasting. The question is whether a further escalation of the sovereign debt crisis can be prevented. As the most stable member state, Germany is particularly challenged here. The country’s dependence on the international economy is just as great an economic factor as the domestic economy. Currently, considerable “cheap money” is being made available to the financial markets. However, the increasing money supply entails considerable inflationary potential. Investors’ fears increase the longer the low-interest period lasts. That makes increases in inflation and associated interest rate increases ever more likely. This would also affect the refinancing of LHI investment products. In addition, the interest spreads between fund products and German government bonds could be further reduced. On the other hand, increasing interest rates over the long term will lead to a strengthening in demand for physical assets. Interest in offers to acquire a stake in real estate or other assets will then return to centre stage.

LHI will continue to see the rapid structuring and placement of its equity products as its major priority. The preliminary stage of a project successfully begun in 2011 to strengthen market presence in order to realise price advantages in procuring assets and thereby to avoid interest and market risks will be continued. In addition, the continuing transformation from a pure provider of finance to a specialised problem-solver will acquire an ever more important role.

In concrete terms, it is planned to implement three publicly-offered funds in the core asset classes in order to consolidate the market’s current positive perception. Furthermore, at least ten additional products are to be structured in varying asset classes, to which LHI will add equity through its access to investors. A major priority will be given to involving institutional investors in this connection. The current product start-up has been positive and serves therefore as a basis for the successes in recourse business.

Placing the models first distributed at the end of 2011 and beginning of 2012 will represent a key element in activities in equity areas in 2012. Current sales data and market assessments are positive. It is anticipated that the place will be made.

A further priority in 2012 is to be the new business approach in the field of existing portfolios. Following the complete integration of portfolios from previous management contracts, the market shows clear signs of further integration potential. LHI's position in the field of management, that is already strong, is to be expanded by the acquisition of additional portfolios.

LHI's traditionally high degree of skill in structuring models provides excellent opportunities to prepare tailor-made solutions to its customers' financing issues. The new approach of increasingly developing and implementing solutions for individual problems and, where required, providing support after the term allows us to continue to anticipate excellent sales opportunities.

Increasing demand in the local authority/PPP sector was already evident in 2011. This trend is to be increased. As in the past, LHI takes part in a number of tenders for public projects, whereby the trend is towards models in which ongoing operating services are also offered. This requirement can be fulfilled with the assistance of strategic business partners. Given this background, business prospects are regarded as positive.

No major new projects are planned in LHI's IT landscape. Adjustments are being made to current operations on account of regulatory requirements or in order to implement the client processing ability of applications. The optimisation of LHI's business partner management (CRM project), begun in the previous year, is to be concluded in 2012. The emphasis of the first step in this project is placed on the uniform management of investor data throughout the company to which target-oriented access may be achieved from integrated IT applications. Safeguarding the security of personal data plays a particular role in this connection. In addition, the payment transaction system is currently being adjusted to the European SEPA standard and accounting systems prepared for the fully automated generation of data for the electronic fiscal accounts required by Germany's Federal Ministry of Finance.

LHI is refining its risk management continually. In this context, regulatory requirements, for instance of the third revision of MaRisk of 15.12.2010 (German abbreviation of "Minimum requirements of risk management" – a circular issued by the German Ministry of Finance) will be given particular attention. The measures agreed in this area during the reporting period are currently being carried out and will be concluded in 2012. The refinement of risk management is an ongoing process for LHI that is closely intermeshed with the development of the business model.

International activities remain concentrated on Poland where LHI offers a platform for German companies to enter into business with Polish local authorities. An initial agreement has already been signed. Following a successful test phase, LHI is implementing in Poland a pre-determined range of tasks in the management process of German special-purpose companies and acquiring suitable properties for real estate investment funds.

Before new transactions are signed or prior to entering new markets and products, the relevant risks and opportunities ratio, especially with respect to all key risks, are thoroughly evaluated. This is based on LHI's integrated business and risk strategy.

After two years of similarly successful results, in 2012 LHI is also planning a net income at the previous year's level. In 2013, it plans a profit before taxes of approximately EUR 4 million. The profit situation is to continue to improve in the following years.

Annual Financial Statements on 31 December 2011

Balance sheet

	EUR	31.12.2011 EUR	Previous year kEUR
Assets			
1. Cash reserves			
Cash on hand		4,748.61	3
2. Receivables due from banks			
a) Due at one day's notice	23,740.71		0
b) Other receivables	1,703,581.59		4
		1,727,322.30	4
3. Receivables due from customers thereof: from financial services institutions EUR 0.00 (previous year: kEUR 1,612)		102,314,373.86	63,875
4. Investments thereof: from financial services institutions EUR 1,875.00 (previous year: kEUR 2)		17,120,378.95	9,300
5. Shares in affiliated companies		2,552,842.93	2,700
6. Intangible assets Including franchises, trademarks, patents, licences and similar rights acquired for a consideration		706,846.06	376
7. Property, plant and equipment		3,065,037.00	3,548
8. Other assets		23,928,815.16	81,386
9. Deferred charges and prepaid expenses		360,376.35	304
Total assets		**151,780,741.22**	**161,496**

	EUR	31.12.2011 EUR	Previous year kEUR
Liabilities and shareholders' equity			
1. Liabilities due to banks			
a) Due at one day's notice	26,591.59		63
b) With agreed maturity or notice period	27,967,286.11		39,854
		27,993,877.70	39,917
2. Liabilities to customers thereof: to financial services institutions EUR 0.00 (previous year: kEUR 417)		7,756,874.88	1,350
3. Securitised liabilities Debentures issued		25,228,750.00	25,095
4. Other liabilities		2,728,118.23	3,969
5. Deferred items		495,265.74	530
6. Reserves and accrued liabilities			
a) Pension reserves and reserves for similar obligations	5,908,337.00		5,397
b) Accrued taxes	2,294,068.34		5,529
c) Other reserves and accrued liabilities	33,183,211.80		33,111
		41,385,617.14	44,037
7. Shareholders' equity			
a) Subscribed capital	40,000,000.00		40,000
b) Revenue reserves and other revenue reserves	1,894,852.45		1,895
c) Retained earnings	4,297,385.08		4,703
		46,192,237.53	46,598
Total liabilities and shareholders' equity		**151,780,741.22**	**161,496**
1. Contingent liabilities Liabilities due to guarantees and warranty contracts		221,643,086.90	230,403
2. Other obligations Placement and underwriting obligations		32,234,997.98	26,748

Statement of income

	EUR	EUR	2011 EUR	Previous year TEUR
1. Interest income from credit and money market transactionsInterest expense		2,365,387.07		1,967
2. Zinsaufwendungen		1,952,668.63		1,532
			412,718.44	435
3. Current income from				
a) Investments		8,690,716.15		2,531
b) Shares in affiliated companies		412,171.00		303
			9,102,887.15	2,834
4. Income from profit pools, profit pooling or partial profit pooling agreements			439,125.80	398
5. Commission income		14,693,585.88		17,740
6. Commission expenses		4,655,166.11		3,972
			10,038,419.77	13,768
7. Other operating income			33,803,512.74	35,646
8. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	21,412,016.06			19,833
ab) Social security, pension and other benefit costs thereof: pension costs EUR 758,888.78 (PY kEUR 996)	3,442,442.44			3,543
		24,854,458.50		23,376
b) Other administrative expenses		19,035,814.38		14,518
			43,890,272.88	37,894
9. Depreciation and value adjustments of intangible assets and property, plant and equipment			804,254.65	688
10. Other operating expenses			4,312,558.76	7,726
11. Write-offs and value adjustments of accounts receivable and certain securities and additions to reserves in the credit business			733,462.24	707
12. Write-offs and value adjustments of investments, shares in affiliated companies and securities treated as fixed assets			88,017.94	713
13. Expenses of loss transfers			14,462.67	13
14. Result from ordinary operations			**3,953,634.76**	**5,340**
15. Extraordinary expenses = extraordinary result			130,868.00	131
16. Taxes on income		216,198.82		1,162
17. Other taxes, unless shown under item 10		12,314.00		347
			228,512.82	1,510
18. Net income			**3,594,253.94**	**3,700**
19. Profit brought forward from previous year			703,131.14	696
20. Withdrawals from other earned surplus			0.00	307
21. Retained earnings			**4,297,385.08**	**4,703**

Notes

Schedule of fixed assets

Cost of acquisition in EUR	Brought forward 01.01.2011	Additions	Reclassification	Disposals	Situation on 31.12.2011
Investments	11,557,537.42	11,376,420.91	82,870.71	3,570,309.15	19,446,519.89
Shares in affiliated companies	3,389,959.69	12,782.30	–82,870.71	135,525.00	3,184,346.28
Intangible assets	3,669,109.20	356,783.28	91,367.00	0.00	4,117,259.48
Property, plant & equipment	5,098,009.09	295,455.25	–91,367.00	14,792.51	5,287,304.83
Total	**23,714,615.40**	**12,041,441.74**	**0.00**	**3,720,626.66**	**32,035,430.48**

Depreciation in EUR	Brought forward 01.01.2011	Non-scheduled depreciation	Financial year	Disposals	Situation on 31.12.2011
Investments	2,257,436.67	68,704.27	0.00	0.00	2,326,140.94
Shares in affiliated companies	689,548.28	19,313.67	0.00	77,358.60	631,503.35
Intangible assets	3,293,419.34	0.00	116,994.08	0.00	3,410,413.42
Property, plant & equipment	1,549,799.77	0.00	687,260.57	14,792.51	2,222,267.83
Total	**7,790,204.06**	**88,017.94**	**804,254.65**	**92,151.11**	**8,590,325.54**

Book value in EUR	31.12.2011	Previous year
Investments	17,120,378.95	9,300,100.75
Shares in affiliated companies	2,552,842.93	2,700,411.41
Intangible assets	706,846.06	375,689.86
Property, plant & equipment	3,065,037.00	3,548,209.32
Total	**23,445,104.94**	**15,924,411.34**

Information on liabilities on 31.12.2011

Liabilities	Total amount	Thereof with a residual period of			
		Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Due to banks	27,993,877.70	12,093,877.70	15,900,000.00	0.00	0.00
(Previous year)	(39,916,864.58)	(39,916,864.58)	(0.00)	(0.00)	(0.00)
Securitised liabilities	25,228,750.00	228,750.00	0.00	0.00	25,000,000.00
(Previous year)	(25,094,750.00)	(25,094,750.00)	(0.00)	(0.00)	(0.00)
Due to customers	7,756,874.88	4,234,423.92	3,500,000.00	22,450.96	0.00
(Previous year)	(1,350,121.27)	(1,324,045.14)	(0.00)	(26,076.13)	(0.00)
Other	2,728,118.23	2,728,118.23	0.00	0.00	0.00
(Previous year)	(3,968,694.56)	(3,968,694.56)	(0.00)	(0.00)	(0.00)
Total	**63,707,620.81**	**19,285,169.85**	**19,400,000.00**	**22,450.96**	**25,000,000.00**
(Previous year)	(70,330,430.41)	(70,304,354.28)	(0.00)	(26,076.13)	(0.00)

I. General information on the annual financial statements

1. Preliminary comments

LHI Leasing GmbH (hereafter abbreviated to LHI) operates financial services commercially within the meaning of § 1 section 1a no. 10 of the German Banking Law. The annual financial statements for the period ending on 31.12.2011 were therefore prepared in accordance with the provisions of §§ 340 ff. of the Commercial Code in conjunction with the Banking and Financial Services Institutes Accounting Regulations.

The previous year's figures are shown in brackets for comparative purposes.

2. Individual presentation of accounting and valuation methods

a) Cash reserves and receivables due from banks

Cash reserves and receivables due from banks were shown at their nominal value.

b) Receivables due from customers

Receivables due from customers are shown with their nominal value or lower attributable value. In accordance with § 256a of the Commercial Code, short-term receivables denominated in foreign currencies were converted with the average spot rate on the balance sheet cut-off date. Profits and losses arising on conversion were shown in the statement of income as "other operating income" or "other operating expenses".

c) Shares and other non-fixed interest securities

In accordance with § 246 section 2 sentence 2 of the Commercial Code, marketable investment fund shares acquired as part of current value models for employees were netted against the corresponding amounts of the underlying liabilities. The acquisition costs of the netted assets were kEUR 1,807, the current value of the assets kEUR 1,623 and the amount of the netted liabilities due for payment kEUR 1,623. The current value was calculated using the market value of the investment fund shares on the balance sheet cut-off date. The company has not guaranteed that the capital will be maintained.

d) Investments and shares in affiliated companies

Investments and shares in affiliated companies were valued with the lower of their costs of acquisition or attributed value.

e) Intangible assets and property, plant and equipment

Intangible assets acquired for a consideration and property, plant and equipment are shown at their costs of acquisition less scheduled, use-related depreciation and unscheduled depreciation. Scheduled depreciation was calculated on a linear basis; the depreciation period was based on the customary useful life in an operating environment. Low value items with a total value of more than kEUR 73 (kEUR 128) were capitalised in the year of acquisition and depreciated over five years.

f) Other assets

Other assets are shown at the lower of their cost of acquisition or attributed value.

g) Deferred charges and prepaid expenses

The deferred charges and prepaid expenses include outgoings representing expenses attributable to a certain period after the balance sheet cut-off date. These items will all be released into the statement of income next year.

h) Liabilities

The liabilities are valued with the amounts due for payment. In accordance with § 256a of the Commercial Code, liabilities denominated in a foreign currency due in less than a year were converted at the spot exchange rate on the balance sheet cut-off date.

i) Deferred items

Deferred items will be released into income as planned on a straight-line basis.

j) Reserves for pensions and similar obligations

Direct pension obligations are valued in accordance with the internationally recognised Projected Unit Credit Method.

The calculations are based on the following actuarial assumptions:

Interest rate	5.14 % p.a.
Trend of wages and salaries	2.25 % or 3.0 % p.a.
Pensions trend	2.25 % p.a. and 6 % (every 3 years) or 1.75 % p.a.

The average market interest rate provided by the German Bundesbank over an assumed residual period of 15 years was used as an across-the-board rate for discounting purposes.

Mortality and invalidity probabilities were based on the 2005 G mortality tables developed by Professor Dr. Klaus Heubeck.

k) Other reserves and accrued liabilities

Reserves and accrued liabilities reflect a rational commercial judgement of the likely amount that will be required. Future increases in prices and costs were also included in valuing reserves. Moreover, reserves with a residual term in excess of a year were discounted with the market interest rate of the last seven years published by the German Bundesbank reflecting the length of the residual period.

l) Shareholders' equity

The shareholders' equity complies with the provisions of the company's articles of association.

m) Deferred taxes

Deferred taxes were established to the extent permitted by § 274 of the Commercial Code to reflect timing differences between the commercial and fiscal balance sheet rates that will probably be reversed in the future.

n) Interest result

Interest relating to the current financial year is included on a pro rata basis.

The interest expense includes part of the addition to the pension reserves of kEUR 376 (kEUR 378).

The interest result does not include amounts resulting from compounding and discounting.

o) Current income from investments and shares in affiliated companies

Dividends are posted as income in the year in which the distribution is made.

p) Commission result

The result from commissions includes one-time fees and commissions for capital procurement, each received after the service has been provided in full. Commission expenses are shown as expenses in accordance with the services used.

q) Other operating income

Other operating income includes in particular management and agency fees and is invoiced annually.

r) General administrative expenses

General administrative expenses are shown in accordance with the causation principle in the accounting period to which they relate.

s) Other operating expenses

The other operating expenses include mainly additions to reserves for pending losses. These are established in accordance with rational commercial judgement in so far as the need arises.

t) Write-offs and value adjustments of accounts receivable and certain securities as well as additions to accrued liabilities in the credit business

This position includes value adjustments of receivables.

II. Explanations of the annual financial statements

Accounts receivable due from customers and liabilities due to customers include transactions conducted as part of current leasing business and LHI's customer relationships specific to certain business models and, on the assets side, particularly interim financing arrangements within the LHI group.

The other assets reported include mainly receivables due from the fiscal authorities, near-liquid resources and the on-placement of shares held. The liabilities due to banks result from current refinancing of LHI by its two shareholder banks.

Receivables and other assets include liabilities in foreign currencies of kUSD 8,332 (kUSD 5,995).

The liabilities include a total amount of liabilities in foreign currencies of kUSD 3,601 (kUSD 13,902).

1. Assets

a) Receivables due from banks

The other receivables due from banks are kEUR 1,704 (kEUR 4) and have a residual term of up to 3 months and this financial year were represented by borrowing from the parent company LBBW.

b) Accounts receivable due from customers

The receivables due from customers include receivables of kEUR 2,697 (kEUR 2,811) due from affiliated companies and kEUR 63,207 (kEUR 19,830) due from associated companies.

On the financial statements cut-off date, LHI had granted subordinated loans and capital contributions of approximately EUR 3.4 million (EUR 3.5 million) to IFRS special-purpose companies.

The classification by residual term of the amount reported in the balance sheet is as follows:

- Receivables due in up to 3 months
  EUR 7,006,419.50 (EUR 7,880,331.28)
- Receivables due in 3 months to a year
  EUR 84,383,751.39 (46,745,479.32)
- Receivables due in 1 to 5 years
  EUR 55,005.35 (EUR 0.00)
- Receivables due in more than 5 years
  EUR 10,789,397.62 (EUR 9,157,497.02)
- Receivables with an indefinite time limit
  EUR 79,800.00 (EUR 91,300.00)

c) Investments and shares in affiliated companies

Investments and shares in affiliated companies are listed in a share ownership list showing the situation on 31.12.2011 that is included in the Notes to the financial statements.

d) Intangible assets and property, plant and equipment

The composition and development of the fixed assets are shown in the fixed asset schedule included in the Notes to the financial statements.

Total operating and office equipment to the value of kEUR 2,285 (kEUR 2,386) are used by the company itself.

e) Other assets

The other assets include essentially cash pooling balances of kEUR 17,355 (kEUR 40,373), interim financing of shares and equity for on-placement of kEUR 1,648 (kEUR 36,109) and receivables of kEUR 4,891 (kEUR 4,811) due from the fiscal authorities arising from deductible taxes.

f) Deferred taxes

Deferred taxes on the assets side result from reserves for pensions and pending losses and were deducted from deferred taxes on the liabilities side due to different valuations of investments in partnerships in the commercial and fiscal financial statements. Using the option provided for in § 274 section 1 sentence 2 of the Commercial Code, non-offsettable deferred taxes on the assets were not capitalised.

Deferred taxes were calculated using a tax rate of 25.4 %. In addition to 15.0 % corporation tax and 5.5 % solidarity surcharge, the specific company trade tax rate of 9.5 % was also included in this calculation.

2. Liabilities and shareholders’ equity

a) Liabilities to banks

kEUR 14,482 (kEUR 17,311) of the liabilities to banks relate to liabilities to shareholders. A further kEUR 11,700 (kEUR 22,559) relates to the parent company LBBW.

b) Liabilities to customers

The liabilities to customers include liabilities of kEUR 4,639 (kEUR 765) to associated companies.

c) Securitised liabilities

In 2011 LHI issued a bearer bond to an associated company with a total nominal value of kEUR 25,000. The contract matures on 28.02.2021.

d) Other liabilities

The other liabilities relate to liabilities to the fiscal authorities.

The remaining terms of the liabilities may be found in the attached liabilities schedule.

e) Pension reserves and reserves for similar liabilities

The pension reserves relate principally to individual commitments to directors and employees of LHI.

Due to the revaluation carried out in accordance with the Law to Modernise Accounting Rules, an appraisal revealed a shortage in the reserve of kEUR 1,832 on 01.01.2011. Use is made of the option provided for in article 67 section 1 sentence 1 of the Introductory Law to the Commercial Code to make up the difference over 15 years.

Using the option to make up the difference by way of regular instalments, an amount of kEUR 131 was added to the pension reserve in financial year 2011. This amount is reported in the extraordinary result. Accordingly, the shortage in the reserve was kEUR 1,701 on 31.12.2011.

f) Accrued taxes and other reserves and accrued liabilities

The accrued taxes include principally accruals of kEUR 1,811 (kEUR 1,796) for corporation tax and solidarity surcharge and kEUR 475 (kEUR 251) for trade tax.

The other reserves and accrued liabilities relate chiefly to contingency reserves, bonuses, other personnel costs and outstanding invoices.

3. Information below the balance sheet

EUR 27.4 million (EUR 32.4 million) of the amounts reported below the balance sheet relate to affiliated companies.

Contingent liabilities

Liabilities arising from guarantees and warranty contracts

Liabilities arising from guarantees
- “Saxony Decree”
  EUR 115.9 million (EUR 120.0 million)
- Cash pooling credit facility
  EUR 50.0 million (EUR 50.0 million)
- Interim financing of various cooperative projects
  EUR 16.3 million (EUR 16.3 million)
- Shareholders’ credit order
  EUR 14.2 million (EUR 14.2 million)
- JVA Gräfentonna
  EUR 0.0 million (EUR 0.9 million)
- Polska
  EUR 0.9 million (EUR 0.9 million)
- Other bonds
  EUR 0.1 million (EUR 0.1 million)

LHI assumed the absolute guarantee vis-à-vis local authority tenants in accordance with the “Saxony Decree”. The local authorities have declared that they will not insist on a rent reduction in the event of total or partial destruction or total or partial accidental loss of the building. The special-purpose companies have released the local authorities from all disadvantages arising from this waiver. LHI for its part guarantees the deeds of release. The buildings are adequately insured against damage caused by the elements. Loss of rent guarantees for two years’ rent have also been issued. LHI may only be made liable under these guarantees should it take longer than two years to restore a building or should the risk of its loss not be insured. For these reasons, it is currently considered unlikely that the guarantee will ever be exercised.

One of the shareholder banks has provided an overdraft facility of EUR 50 million for internal group cash pooling purposes. LHI has assumed a guarantee for this facility of the same amount. The cash pooling is operated solely on the basis of cash surpluses. LHI ensures liquidity management so that it is unlikely that the guarantee will be used.

LHI is co-liable for a nominal amount of up to EUR 16.3 million (EUR 33.3 million) in connection with the interim financing of two building projects. The loans are secured on the properties being financed. LHI establishes reserves for pending losses for any fluctuations in value exceeding this amount. It is currently unlikely that they will be used.

LHI has accepted a credit order of EUR 14.2 million (EUR 14.2 million) to refinance the special-purpose company for investments as part of a stake in the Growth Portfolio USA. The loan is secured by the investment portfolio being financed. LHI establishes reserves for pending losses exceeding this amount. It is unlikely that any additional liability will arise.

Liabilities under warranty contracts
- Liquidity guarantees
  EUR 23.5 million (EUR 27.3 million)
- Other guarantees
  EUR 0.7 million (EUR 0.7 million)

In a structured financing project, the rent surpluses accumulated in nine years will be invested in the LHI Group. LHI has undertaken to keep this accumulated liquidity available in order to service the loans. LHI ensures the coordination of liquidity within the group.

The obligations under the liquidity guarantee are counter-financed by highly rated bonds with matching maturities, so that it currently appears that the guarantee will not be exercised.

Other obligations

Placement und underwriting commitments
Guarantees in foreign currencies are converted at medium spot rate on the financial statements cut-off date.

The following placement guarantees existed on 31.12.2010
- Private Equity IV
  EUR 16.0 million (EUR 20.1 million)
- Fachmarktzentrum Erding
  EUR 11.8 million (EUR 0.0 million)
- Wachstumsportfolio USA
  EUR 3.9 million (EUR 3.8 million)
- LHI Solar Deutschland VI
  EUR 0.5 million (EUR 0.0 million)
- Campus Pullach
  EUR 0.0 million (EUR 1.9 million)
- LHI Solar Deutschland III
  EUR 0.0 million (EUR 0.9 million)

The Fachmarktzentrum Erding und LHI Solar Deutschland VI funds are currently being placed. The value of the funds and the sales figures are currently developing according to plan. An exercise of the guarantee is assumed to be unlikely or only temporary. The amount guaranteed in the case of the Wachstumsportfolio USA was considerably reduced in 2009 and 2010. The investment phase in the target fund ended in 2011. An exercise of the guarantee is therefore not anticipated. The Private Equity IV fund is currently not being actively offered on the market. EUR 4.1 million of LHI's still open placement guarantee was exercised in 2011. Additional payments are anticipated in 2012. It is assumed however that the remaining guarantee will not be completely taken up. Since 2009, the market value of the investment has increased by 28 percentage points to 95 % (situation on 30.09.2011) of the amounts paid in.

4. Contingent liabilities, other financial commitments and off-balance sheet transactions

The total amount of other financial transactions is EUR 81.0 million (EUR 81.1 million), of which EUR 1.2 million (EUR 1.3 million) relates to affiliated companies.

Additions to amounts guaranteed/outstanding payment obligations

Additions of EUR 7.6 million (EUR 7.6 million) to the amounts guaranteed (liability capital) beyond the subscribed amounts had been recorded in the commercial register on 31.12.2011. LHI could only be called upon to honour these liability amounts were the current tenant to leave and it not be possible to dispose of the property without incurring a loss For this reason, LHI checks the creditworthiness of the customer and the quality of the property both beforehand and at regular intervals thereafter. It is currently unlikely therefore that these commitments will have to be honoured.

Payments of EUR 2.2 million (EUR 2.1 million) in connection with investments and shares in affiliated companies have not yet been requested. Of this amount, EUR 2.2 million (EUR 2.0 million) relate to limited liability companies. The special-purpose companies' capital is not used for financing purposes, so that there is currently no indication that this money will be requested. No necessity to pay the full amount is foreseeable.

Investors' rights to tender
EUR 18.2 million (EUR 18.2 million)

The rights to tender include three main rental guarantee obligations.

Investors are entitled to terminate LHI or have a right to tender after 10 or 15 years. In this case, the special-purpose companies would have to procure substitute loans in order to pay out the investors' capital should the lessees not exercise their option rights on the property. The special-purpose companies' risk lies in the fact that they might not be able to arrange the required amount of outside financing.

The financing banks generally provide "goodwill declarations" that they will increase the loans at the required time. The present rental agreements are framed in such a way that increased interest and repayment expenses can be covered by the graduated rents at any time.

As with all leasing commitments, there is also a risk of default on the part of the tenants. For this reason premises are only let to tenants of proven creditworthiness. It can therefore be assumed that the rights to tender will not be exercised.

Liability exemptions

LHI has exempted a number of employees from liability in connection with their functions in the special-purpose companies. LHI has also exempted a fund company from claims by third parties based on the investment structure and/or the prospectus.

There are currently no indications that would give rise to the expectation that these liability exemptions will be exercised.

Leasing relationships

A leasing contract for an office property is subject to the risk of a residual term of almost 18 years with a fixed annual leasing payment of EUR 2.9 million (EUR 2.8 million). This situation has advantages however in that the owner has no obligations and has complete flexibility after the leasing period has expired.

5. Statement of income

Since the company's activities are predominantly domestic and the domestic markets do not differ from each other in any essential respects, a geographical distribution of the items on the statement of income has been dispensed with.

Current income from investments is accounted for principally by income of kEUR 2,828 from two partnerships and a dividend of kEUR 3,365 from an investment holding.

The commission income of EUR 14.7 million (EUR 17.7 million) relates principally to fees received for the preparation of fund and investor models, financing and reorganisation concepts, payment and placement guarantees and commissions for procuring outside and equity financing.

Other operating income of EUR 33.8 million (EUR 35.6 million) includes principally income from management fees of EUR 15.8 million (EUR 16.1 million) and business procurement fees of EUR 7.6 million (EUR 4.8 million) as well as a contribution of EUR 3.5 million (EUR 6.6 million) from the results of cash pooling. The other operating income includes realised exchanged gains of kEUR 133 (kEUR 315) and unrealised income of kEUR 238 (kEUR 308) from foreign currency conversion.

The other operating expenses of EUR 4.3 million (EUR 7.7 million) in the financial year relate chiefly to the expenses of EUR 2.4 million (EUR 4.4 million) for contingency reserves. The other operating expenses include realised exchanged losses of kEUR 314 (kEUR 63) and unrealised losses of kEUR 87 (kEUR 385) from foreign currency conversion.

The extraordinary expenses (= extraordinary result) relate to additions (1/15) to the pension reserves required by the Law to Modernise Accounting Rules.

III. Other information

LHI employed an average of 280 (274) people in 2011, composed of 3 (3) managing directors, 1 (1) general manager and 276 (270) salaried and managerial staff.

The parent company is Landesbank Baden-Württemberg with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. The group financial statements it prepares are published in the electronic Federal Gazette "Bundesanzeiger" in Cologne.

Directors:

Oliver Porr, Munich, managing director of LHI Leasing GmbH
Robert Soethe, Rain, managing director of LHI Leasing GmbH
Heimo Koch, Leinfelden-Echterdingen, managing director of LHI Leasing GmbH

Supervisory board:

Chairman
Hans-Jörg Vetter, Königstein, since 01.10.2011
Chairman of the board of management of Landesbank, Baden-Württemberg
Joachim E. Schielke, Stuttgart, until 30.09.2011
Member of the board of Landesbank Baden-Württemberg

Deputy chairman
Eckhard Forst, Hannover
Member of the board of Norddeutsche Landesbank

Members of the board
Dr. Jürgen Allerkamp, Hannover,
Chairman of the board of Deutsche Hypothekenbank
Martin Hartmann, Hannover,
Managing director, Head of Markets
Dr. Peter A. Kaemmerer, Mannheim, until 31.03.2011
Member of the board of Landesbank Baden-Württemberg
Ingo Mandt, Frankfurt am Main, since 01.04.2011,
Member of the board of Landesbank Baden-Württemberg
Rudolf Zipf, Stuttgart,
Member of the board of Landesbank Baden-Württemberg

Fees paid to the directors and members of the supervisory board:

The total remuneration paid to the active members of the board of management in the financial year 2011 was kEUR 1,259 (kEUR 1,186).

Total reserves of kEUR 1,889 (kEUR 1,877) had been provided for pension obligations due to former members of the board of directors on 31.12.2011. Pension payments of kEUR 192 (kEUR 189) were made in the financial year.

LHI's supervisory board received total remuneration of kEUR 77 (kEUR 75) during the financial year.

LHI did not conduct any transactions with related companies and persons at conditions not in line with those of the rest of the market.

Investments in companies classified as "larger limited liability companies" exceeding 5 % of the voting rights:

ELGOL Verwaltung GmbH & Co Anlagen-Vermietungs- KG, Pöcking

INTENA Leasing GmbH, Pullach i. Isartal

Ulla Grundstücksverwaltungs-GmbH & Co. Vermietungs-KG, Pullach i. Isartal

RATIS Beteiligungs GmbH & Co. Mobilienleasing KG, Pullach i. Isartal

The auditors charged total fees of kEUR 317 (kEUR 317) in financial year 2011, of which kEUR 195 (kEUR 135) relates to the audit of the annual financial statements including the fee for the group financial statements, kEUR 7 (kEUR 9) to other certification services and kEUR 115 (kEUR 173) to other services.

IV. Appropriation of results

The board of management proposes that an amount of EUR 3,500,000.00 should be paid from the retained earnings of EUR 4,297,385.08. The remaining retaining earnings will be carried forward

Pullach i. Isartal, 28 February 2012

The Board of Management

Oliver Porr
Managing Director

Robert Soethe
Managing Director

Heimo Koch
Managing Director

Auditor’s certificate

Bestätigungsvermerk des Abschlussprüfers

Wir haben den Jahresabschluss – bestehend aus Jahresbilanz, Gewinn- und Verlustrechnung sowie Anhang – unter Einbeziehung der Buchführung und den Lagebericht der LHI Leasing GmbH, Pullach i. Isartal, für das Geschäftsjahr vom 1. Januar bis 31. Dezember 2011 geprüft. Die Buchführung und die Aufstellung von Jahresabschluss und Lagebericht nach den deutschen handelsrechtlichen Vorschriften liegen in der Verantwortung der Geschäftsführung der Gesellschaft. Unsere Aufgabe ist es, auf der Grundlage der von uns durchgeführten Prüfung eine Beurteilung über den Jahresabschluss unter Einbeziehung der Buchführung und über den Lagebericht abzugeben.

Wir haben unsere Jahresabschlussprüfung gemäß § 317 HGB unter Beachtung der vom Institut der Wirtschaftsprüfer festgestellten deutschen Grundsätze ordnungsmäßiger Abschlussprüfung vorgenommen. Danach ist die Prüfung so zu planen und durchzuführen, dass Unrichtigkeiten und Verstöße, die sich auf die Darstellung des durch den Jahresabschluss unter Beachtung der Grundsätze ordnungsmäßiger Buchführung und durch den Lagebericht vermittelten Bildes der Vermögens-, Finanz- und Ertragslage wesentlich auswirken, mit hinreichender Sicherheit erkannt werden. Bei der Festlegung der Prüfungshandlungen werden die Kenntnisse über die Geschäftstätigkeit und über das wirtschaftliche und rechtliche Umfeld der Gesellschaft sowie die Erwartungen über mögliche Fehler berücksichtigt. Im Rahmen der Prüfung werden die Wirksamkeit des rechnungslegungsbezogenen internen Kontrollsystems sowie Nachweise für die Angaben in Buchführung, Jahresabschluss und Lagebericht überwiegend auf der Basis von Stichproben beurteilt. Die Prüfung umfasst die Beurteilung der angewandten Bilanzierungsgrundsätze und der wesentlichen Einschätzungen der Geschäftsführung sowie die Würdigung der Gesamtdarstellung des Jahresabschlusses und des Lageberichts. Wir sind der Auffassung, dass unsere Prüfung eine hinreichend sichere Grundlage für unsere Beurteilung bildet.

Unsere Prüfung hat zu keinen Einwendungen geführt.

Nach unserer Beurteilung aufgrund der bei der Prüfung gewonnenen Erkenntnisse entspricht der Jahresabschluss der LHI Leasing GmbH, Pullach i. Isartal, den gesetzlichen Vorschriften und vermittelt unter Beachtung der Grundsätze ordnungsmäßiger Buchführung ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage der Gesellschaft. Der Lagebericht steht in Einklang mit dem Jahresabschluss, vermittelt insgesamt ein zutreffendes Bild von der Lage der Gesellschaft und stellt die Chancen und Risiken der zukünftigen Entwicklung zutreffend dar.

München, den 29. Februar 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Bögle)
Wirtschaftsprüfer

(Löffler)
Wirtschaftsprüfer

11-12-31--JA--LHI (0020)

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