Quality for Your Success

Annual Report 2013

The works of art depicted in this business report, entitled “Scheibeninsel, thewalkinghouse”, are by the artists Ulrich Beckert und Georg Soanca-Pollak and came about within the framework of LHI’s “Kunst am Bau” project.
Photographer: Gregor Ruster, Munich

Foreword

Dear Reader,

The government debt crisis and economic problems in the economies of southern Europe appear to have been overcome from the German point of view. Many of our customers are looking to the future with optimism. While this attitude is certainly justified, it does however obscure the negative effects from increasing regulation in the form of restricted leeway for action and increased production costs.

Notwithstanding these developments, we are pleased to report that in 2013 we were able to again improve upon the previous year's result under commercial law. We consider this proof of the continued viability of the diversified LHI business model. Compared to former competitors, it is evident that our combination of a focus on selected products and asset classes and a differentiated approach for addressing the market on the investor and property user side really is the right approach. In this context, we are aware of the fact that we can only acquire and retain customers if we are able to offer real added value to financing banks, investors and property users.

Following a traditionally quiet period at the beginning of 2013, the Solutions/Leasing segment increased during the course of the year and offered up an impressive finish. On the whole, the market for real estate leasing has stabilised at a low level. It must be noted that the overall market is characterised by a few large contracts. We have also observed increased demand for structured financial solutions, whereby the motivations and objectives of our customers can vary widely. Our structuring competence has allowed us to offer tailor-made solutions at all times, and we expect that demand will continue to grow in the future.

The business with equity-supported products was characterised by the special events of 2013. This was the first time that legislators have comprehensively – but not conclusively – regulated this market with the German Investment Code (KAGB). By the end of the year, the supervisory authority still had not responded to a number of questions regarding the implementation of the KAGB. This made it significantly more difficult to launch new products. As a result, we are very pleased that despite this situation, LHI came close to reaching the previous year's result in placed equity capital. With regard to the acceptance of our products, it was important that LHI limited its activities to the asset classes real estate and renewable energies in 2013 – areas in which we have above-average technical and industry competence. We are particularly pleased that we were able to convince our demanding investors of our strategy as part of numerous discussions. This is evidenced by the fact that in the Special Alternative Investment Funds segment, the former Private Placements segment, we were able to place most of our products at the end of the year.

In the segment of public funds, we had to acknowledge that the strict regulations of the Investment Intermediaries and Capital Investment Act, which went into force in 2012, together with the new provisions of the German Investment Code (KAGB), have created considerable uncertainty among our sales partners. At the same time, we successfully placed our two publicly-offered funds “LHI Immobilienfonds Deutschland Mieter: Technische Universität Berlin” and “LHI Solar Deutschland VII”.

The business administration of special purpose companies forms the third pillar of our business model, and again provided very stable fee earnings in 2013. On a strategic level, this segment also includes the takeover and integration of leasing portfolios. Therefore, while we were not able to report any closings in 2013, we were nevertheless successful in adding a portfolio of leasing agreements in the aviation sector in January 2014.

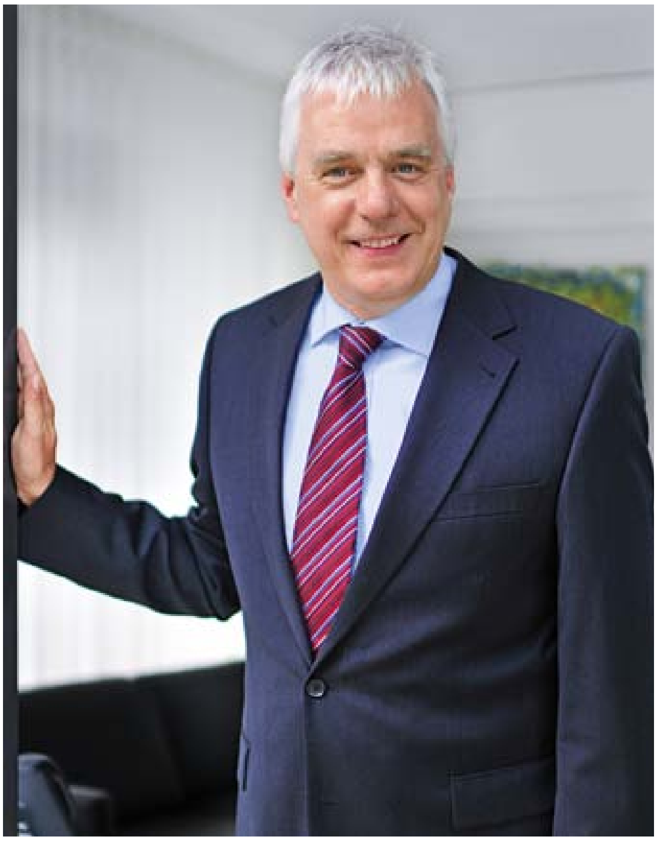
There are indications that growing regulatory requirements and in particular the KAGB will lead to a situation where many participants will exit the market for equity-supported products. This also leads to opportunities for the takeover of fund portfolios. Although this is not a strategic objective for LHI at present, we will nevertheless take a look at any opportunities that may arise.

As a future-oriented company, LHI is already in a position to meet the regulatory requirements. We submitted a request for approval for our investment company (formed in 2013) to the Federal Financial Supervisory Authority in February 2014, and expect that approval will be granted in the next few months.

Our customers are increasingly looking for reliable contacts that can assist them over the long term. Our management group is in an excellent position to live up to this requirement as Oliver Porr, Robert Soethe and Jens Kramer have been with the company for a combined total of more than 50 years. They are intimately familiar with LHI and its markets. This expertise allows them to successfully and safely manage the company even during difficult market phases.

If 2013 was another successful year, it is also due to the confidence that our business partners have placed in us. To this end, we would like to thank them, and would also like to express our gratitude to our employees for their commitment.

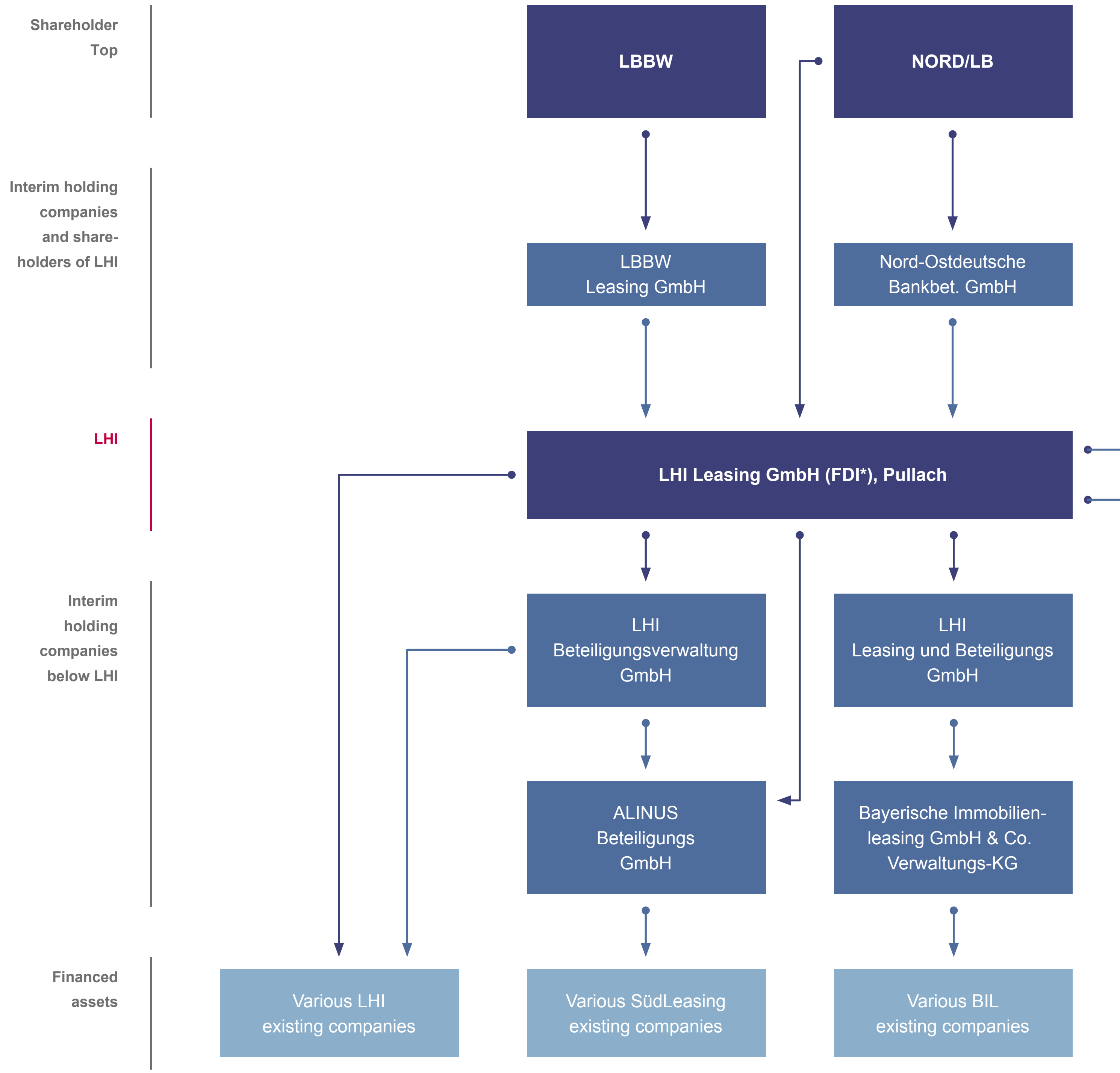
Oliver Porr
Managing Director



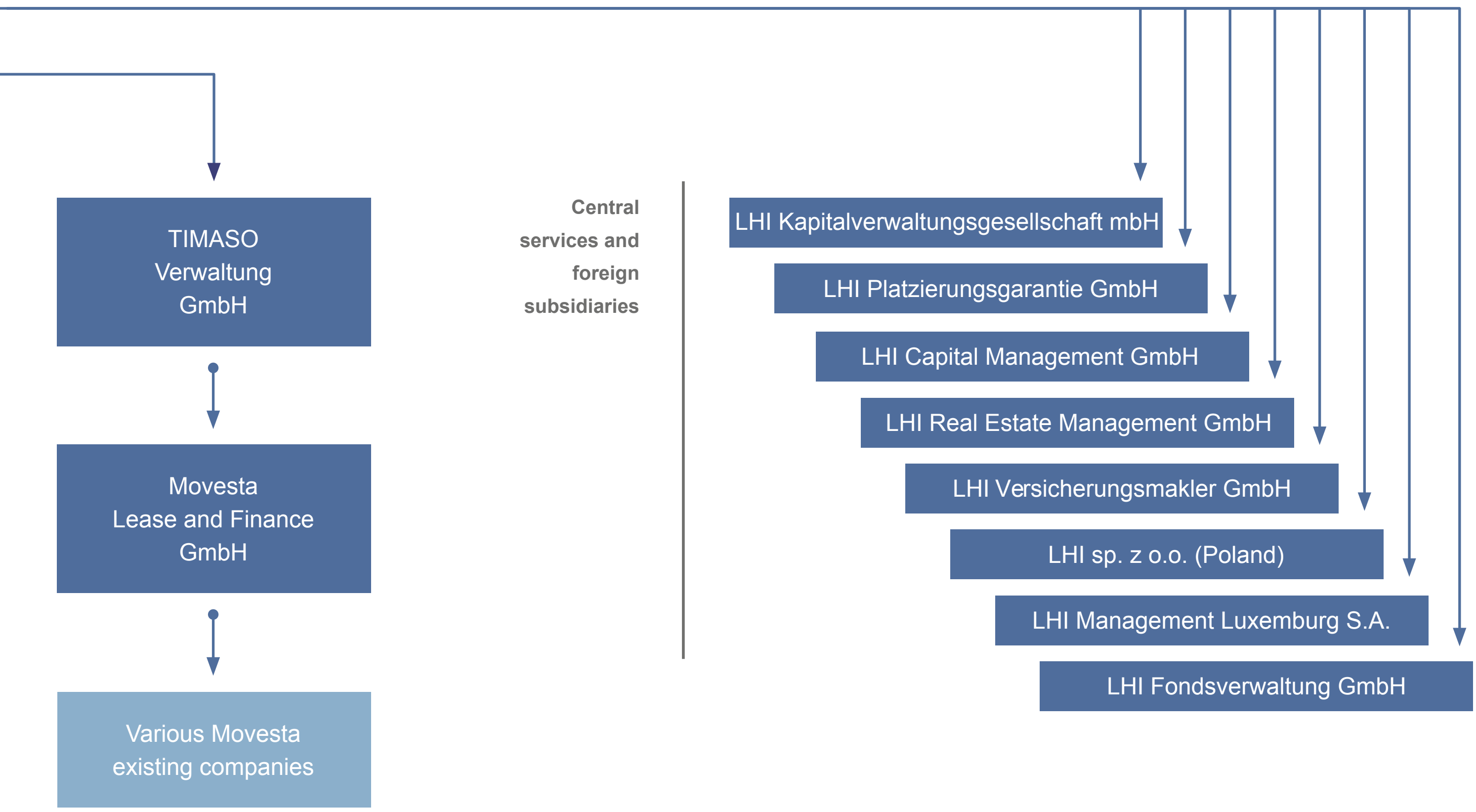
Robert Soethe
Managing Director

Jens Kramer
Managing Director

Structure of LHI group



*financial services institution


TIMASO
Verwaltung
GmbH
Movesta
Lease and Finance
GmbH
Various Movesta
existing companies
Central
services and
foreign
subsidiaries
LHI Kapitalverwaltungsgesellschaft mbH
LHI Platzierungsgarantie GmbH
LHI Capital Management GmbH
LHI Real Estate Management GmbH
LHI Versicherungsmakler GmbH
LHI sp. z o.o. (Poland)
LHI Management Luxemburg S.A.
LHI Fondsverwaltung GmbH

Strategy and positioning

The LHI business and risk strategy rests on a solid foundation. A sense of proportion and continuity form the foundation of our business activities. The strategy of diversifying the business model and supporting it with the three pillars solutions, equity-supported products and the take-over of existing portfolios and portfolio management has proven itself, and will be continued. LHI is in a strong position in terms of equity capital and also has a considerable amount of available financial resources. Hence the company has a comfortable risk bearing capacity, which makes it less vulnerable to crises than several other competitors. Even if consumer and business attitudes in Germany are decidedly optimistic at this time, and southern European economies are gaining a foothold again: the government debt crisis is still not solved, and will not be solved in the short term. Therefore we expect that the distortions and irritations in financial markets will continue. Against this background, we believe that a robust balance sheet structure is a decisive competitive factor for us.

Therefore we will maintain our conservative risk policy. Our business model presumes that we will be able to find partners that are willing to finance our products at reasonable conditions. Our strong equity capital position is our guarantee for adequate credit lines. They allow us to implement our business plans without restrictions. The LHI business model features a strong focus on Germany, which is an advantage given the current economic situation. We will maintain this focus in the future. Our products and services are extremely know-how driven. Thanks to our strong IT infrastructure, we are Germany's cost leader with respect to the business management of special-purpose companies. The software that is used in this context was developed by LHI, and reflects the requirements of German commercial and tax laws. Therefore we are only able to use this competitive advantage in Germany. Economic crises, financial crises, Euro crisis – LHI has successfully managed the difficult conditions of the last few years and has regularly generated attractive earnings. This provides an added impetus to maintain our strategy and hence our business model.

Solutions

The real estate leasing market remains at a low level – which has led to the departure of many competitors. This type of market cleansing obviously benefits the remaining companies – including LHI. Within this segment, business activities with government agencies (PPP) are only attractive with selected projects. These extensive focus process, which started in 2012, generated results as early as 2013: the number of projects pursued was much lower than in previous years, while the earnings that were generated increased. In the future, we will mainly bid on selected PPP projects. We have experienced a very positive market response with the co-investment models that were developed in the solutions segment.

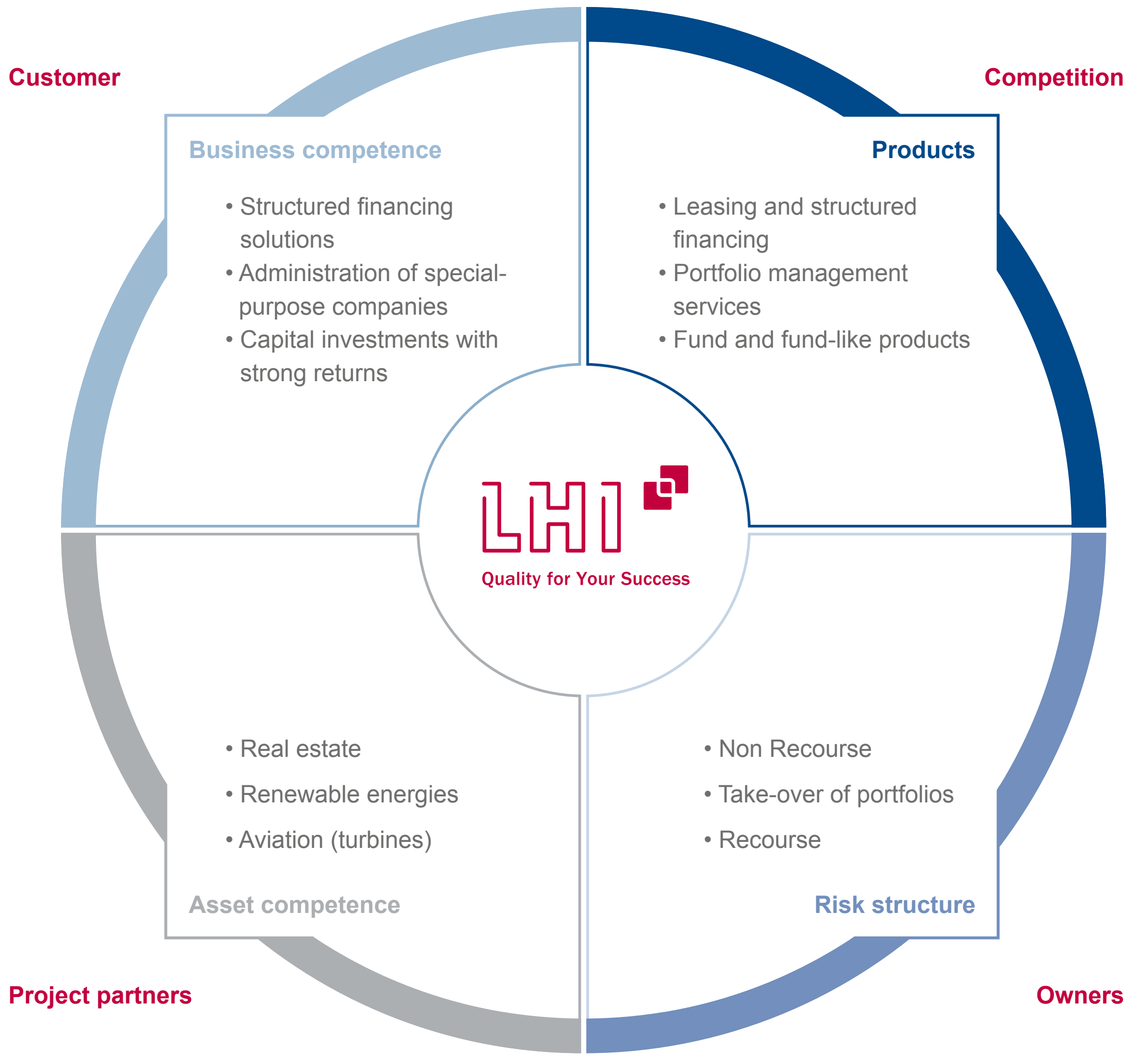
Equity-supported products

The market for public products continues to shrink. Following the going into force of the KAGB, the German Financial Supervisory Authority (BaFin) will be reviewing each product for KAGB conformity. A dedicated administrative opinion must still be developed for a variety of issues. Together with the required approval processes for the required capital investment companies, this has led to a standstill with regard to the generation of new products. Therefore the market only contained products that fall under the transition regulation.

Moreover, the image of public products was also damaged on account of various scandals from the world of the so-called grey capital market. Even though regulation now ensures a very high level product quality, it will take some time until the image of the products and the industry has recovered. Therefore LHI will continue to take a cautious approach in the area of public-alternative investment funds (AIFs). Our assessment of the developments in the special AIFs, the former private placements, is quite the opposite however. Here, proven product expertise forms the foundation for customer trust and customer loyalty. LHI has been concentrating on this segment for many years. Our strong brand and the verifiably good performance of our products are the basis of future sales successes. In addition, continued regulatory activities will also increase the attractiveness of our products for new investor groups. Following the establishment of LHI Kapitalverwaltungsgesellschaft mbH in 2013, we expect that the approval request for LHI Kapitalverwaltungsgesellschaft mbH will be obtained during the first six months of 2014. Special AIFs for clearly defined investor groups will remain the focus of our activities.

Portfolio management

The management of special-purpose companies forms a central and reliable pillar of our business model. Stable fee earnings provide the basis for a level of profitability that can be calculated over the long term. In this context, we are planning on additional acquisitions for the leasing portfolio. Our service product “Corporate Service Providing” has seen successful growth and is established in the market. This offering is mainly directed at foreign companies that maintain a special purpose company in Germany and either are not able or not willing to assume the business administration function for these companies. The number of potential interested parties for this product is limited, so that we are only expecting moderate growth for this segment. The following principle also applies to the segment of portfolio management: expansion of activities in areas that offer opportunities, and a cautious approach in areas with emerging risks. We believe that this healthy combination provides us with a good position for the future.



Customer
Competition
Business competence
• Structured financing solutions
• Administration of special-purpose companies
• Capital investments with strong returns
Products
• Leasing and structured financing
• Portfolio management services
• Fund and fund-like products
LHI
Quality for Your Success
• Real estate
• Renewable energies
• Aviation (turbines)
Asset competence
• Non Recourse
• Take-over of portfolios
• Recourse
Risk structure
Project partners
Owners

Company history of LHI Leasing GmbH

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 financing for German food retailers' real estate investment projects. The business segments financing of production equipment and structured financing were established in 1977.

Two years later the Berliner Bank AG acquired 40% of the shares in LHI from Dr. Schmitt's holding. In the process of designing leasing projects LHI acquired considerable knowledge of accounting, the management of special-purpose companies and legal and tax matters. LHI has always focused on not just providing customers with ideas but also actively supporting the implementation of these ideas and managing the properties on a long-term basis.

In subsequent years, this know-how was increasingly used for developing and realising structured financing projects. Since 1981 private capital has also been involved in financing investments. LHI launched its first publicly-offered fund in 1994.

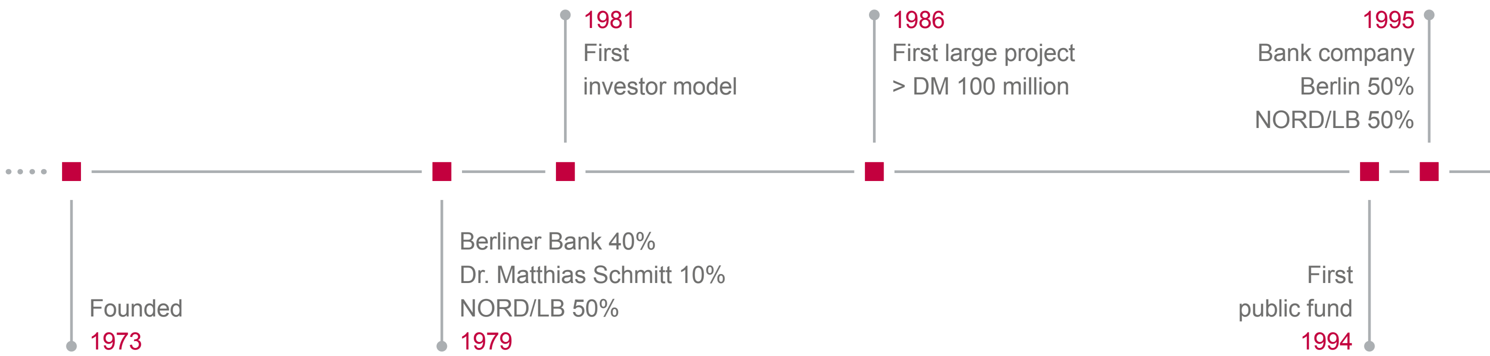
A number of food retailers expanded into Eastern Europe following the fall of the iron curtain. LHI followed its main client base by establishing its own company in Poland in 1995. Over the next few years LHI sp. z o.o., domiciled in Warsaw, grew into the largest national provider in the field of real estate leasing.

In 1995, Dr. Schmitt, the founder of the company, sold his last remaining shares to Bankgesellschaft Berlin, the successor company to the Berliner Bank. The turn of the millennium saw the expansion of LHI's business strategy, with the aim of also focusing on external acquisitions in addition to the continuous organic expansion of business. In this context, the first company to be acquired was Bayrische Immobilienleasing in 2002.

In 2004, Norddeutsche Landesbank became LHI's sole shareholder. It has operated the company as a profit centre and preserved its business independence. This enabled Landesbank Baden-Württemberg (LBBW) to assume 51% of shares in LHI in 2006. At the same time, SüdLeasing's real estate leasing segment was also integrated into LHI.

Movesta Lease and Finance were also taken over in 2009 in continuation of the strategy. During that year, the company also closed the two locations in the greater Munich area and moved into the new head office in Pullach i. Isartal.

National governments have agreed that all capital segments in Europe should become subject to regulation. With the Investment Intermediaries and Capital Investment Act, which went into effect on 1 June 2012, German legislators focused on the marketing of limited partnership interests, as well as silent partnerships and participation rights as part of a first step.



All of the aforementioned investments are now qualified as financial instruments under sec. 1 subsect. 2 VermAnlG (Capital Investment Act). The placement and brokerage of shares in closed publicly-offered funds and of shares in private placement, along with investment advice relating to such shares, has been regulated since 1 June 2013, regardless of the target group.

In response to these requirements we established LHI Capital Management GmbH in June 2012. This company is responsible for marketing the investment products designed by LHI. LHI Leasing GmbH is the sole shareholder of LHI Capital Management GmbH. The capital stock of the company is EUR 1 million.

On 22 July 2013, the German Investment Code (KAGB) went into force, with the aim of also regulating the providers of investment products. Section 1 KAGB defines criteria according to which a large number of closed-end funds that have been issued (since that date) are qualified as “Alternative Investment Funds” (AIF products). The KAGB further sets out that companies whose business operations focus on the management (portfolio and risk management) of AIF products must be described as capital investment companies (AIF-KVG), and that the business operations of an AIF-KVG require written BaFin approval.

We established LHI Kapitalverwaltungsgesellschaft mbH (KVG) in July 2013. This company is responsible for the design, portfolio management and risk management of AIF products, and we submitted a corresponding application for approval to BaFin in February 2014. LHI Leasing GmbH is the sole shareholder of LHI Kapitalverwaltungsgesellschaft mbH. The capital stock of the company is EUR 3 million.

Purchase and Integration of BIL
2002

2004
NORD/LB 100%

Purchase of real estate leasing and fund segment of SüdLeasing
2006

2006
LBBW 51%
NORD/LB 49%

2009
Acquisition of Movesta Lease & Finance

Full integration Movesta Lease & Finance
2011

2012
Formation of LHI Capital Management GmbH

Formation LHI Kapitalverwaltungsgesellschaft
2013

Human Resources

HR strategy

The transformation of the business environment has gained considerable momentum and complexity in recent years. LHI is undergoing a constant change process at an economic, structural and cultural level. In a dynamic market environment, we can only obtain and secure sustainable competitive advantages by implementing the corresponding adjustments and new structures and processes.

As a result of this change, the task of Human Resources management in future years will be to implement the strategic corporate objectives in an increasingly regulated environment by planning, developing and managing staff assignments in the best manner possible.

In this context, it is not only important to provide staff at the right time at the right place with the right qualifications, but also to establish the balance between operational efficiency and qualitative excellence in the future.

The strategic objectives of the HR initiatives are aligned to the business strategy and are characterised by the following central themes:

Identifying and analysing changes, and implementing suitable measures

Our environment is changing due to a constant flow of new regulatory requirements. For us, this means that administrative processes must be adjusted. This can only be accomplished successfully if the appropriate change management measures are initiated and implemented in a responsible manner. This also includes an established demographic management system.

Promoting and retaining employees

The potential of our employees forms the basis of our business success. Therefore it is very important that the potential of each employee is recognised and promoted on an individual basis. Quickly changing regulatory conditions and changing market environments require strong leadership qualities. It is the only way we can successfully manage the demands and requirements of tomorrow.

Transparency and knowledge management for a future-oriented business model

There is no doubt that know-how is the basic requirement for business success. In addition, long-term and above-average success also requires the bundling and continuous growth of each person's knowledge and skills. To this end, knowledge must be available across segments, and must be conveyed. In this vein, our departments conduct internal training programmes and provide information about current projects. Thus we view knowledge management not just as an abstract term but as corporate culture.

Consistent further development of the HR area

Regular reviews of whether the processes within one's own area still comply with all requirements form a part of a successful HR strategy. We continuously examine the current situation by working closely with LHI management and controlling. This allows us to consistently and promptly implement the required adjustments to processes, organisations and competencies.

Similar to previous years, our long-term human resources policy will continue to focus on the three key elements employee qualifications, compensation and corporate culture. The balanced combination of all three elements means that LHI is considered an extremely attractive employer, and this allows us to select from the best candidates. Quality for your success – our brand provides the promise, which is delivered by our employees.

Employees

LHI is a medium-sized company with almost 280 employees. More than 75% of new hires have a university degree. When searching for new employees, our aim is to ensure that they are good fit with the company in terms of personality and education. The competencies of our employees are continuously enhanced through support and professional development programmes.

LHI Code of Conduct

LHI's success is based on a corporate culture that is characterised by integrity, mutual respect and individual responsibility. Our actions are centred on achieving sustainable business success with maximum benefits for our customers.

This code of conduct serves as a guideline for all LHI employees. It contains the values, basic attitudes, approaches and rules of conduct and applies as a binding guideline to all employees when dealing with our business partners, customers, competitors and authorities.

General principles

Compliance with laws and regulations

With respect to all of our business activities, we commit to observe the applicable laws and other authoritative provisions in the countries in which we are active.

Fight against money laundering, terrorism financing and corruption

We implement internal security measures and mechanisms that are oriented to the potential level of risk for the prevention of money laundering and the fight against terrorism financing and corruption.

Data protection compliance

The personal data of our business partners, customers and employees is protected against access and illegal use through security standards.

Fair competition

We comply with the applicable laws and provisions that regulate competition, and we aim to protect and promote fair competition.

Principles for personal interactions

Mission statement
Our interactions with each other are characterised by the following values and attitudes, among others: mutual respect, loyalty, reliability and engagement, correctness and fairness, authenticity and performance orientation, and discretion. Our actions should be as transparent as possible.

Preventing conflicts of interest
We commit to preventing situations in which personal and/or financial interests come into conflict with those of our company.

We do not obtain benefits in particular by accepting personal gifts or advantages that result from business relationships.

Principles for interactions with business partners and customers

Business relationships
We provide respectful and individualised support and advice to our business partners and customers, or potential business partners/customers.

Confidential handling of information
We are committed to protecting the business secrets and other confidential information and documents of our business partners and customers that are conveyed to us within the limits of the statutory provisions.

Completeness of information
The information that is communicated and distributed by us is complete and easy to understand, so that we may offer business partners and customers, along with potential business partners/customers, a basis for long-term business relationships.

Quality
Our products and services are characterised by the highest quality standards and are continuously adjusted to market developments and customer requirements.

Principles of social responsibility

Health protection
We warrant occupational safety and health protection at the workplace in accordance with the authoritative provisions.

Environmental protection
The construction of our building was based on sustainability and energy efficiency.

Societal responsibility
We conduct ourselves in a manner that is fitting with our company’s responsibility in society.

LHI data

Management

Oliver Porr, Robert Soethe, Jens Kramer

Supervisory Board

LBBW: Hans-Jörg Vetter (Chairman),
Ingo Mandt, Karl-Manfred Lochner
NORD/LB: Eckhard Forst (Vice-Chairman),
Thomas S. Bürkle, Martin Hartmann

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Tel. +352 26362071

Key figures

	31/12/2013 in EUR 000s	31/12/2012 in EUR 000s	31/12/2011 in EUR 000s
LHI Leasing GmbH			
Total assets	150,803	183,047	151,781
Shareholders' equity	50,339	48,750	46,192
Result from ordinary operations	7,886	5,347	3,954
Net income for the year	6,589	6,058	3,594
Equity ratio in %	33.4%	26.6%	30.4%
Financial result	8,820	6,640	6,310
LHI group			
New business volume	760,000	900,000	1,300,000
Managed investment volume	22,380,000	24,190,000	24,890,000
Cumulative placed equity capital	3,150,478	3,061,496	2,960,500
Cumulative number of investors	24,125	23,156	22,669
Cumulative fund volume	7,816,918	7,551,988	7,260,000
Number of employees	268	282	280

Management report for the 2013 business year

Basic information about the company

Company at a glance

LHI Leasing GmbH (LHI) was founded on 1 October 1973. Its shareholders are Landesbank Baden-Württemberg (51%) and Norddeutsche Landesbank (49%). In both corporations, LHI functions as the exclusive competence centre for real estate leasing, real estate and movable property funds, and funds with intangible assets. In addition, it implements financing arrangements together with commercial and municipal business partners. Supplementary services are also offered alongside financing solutions. Moreover, LHI also offers its services as a corporate service provider and manages property portfolios. LHI is a regulated company in the financial industry. It is subject to the provisions of the German Banking Act (KWG) subject to sec. 1 subsect. 1a no. 10. Its business activities are focused on users and financing providers in Germany. Business segments are divided into the non-recourse business, the recourse business and other services and participating interests.

With respect to capital brokerage and the management of equity arrangements, the majority of services is provided by two wholly-owned subsidiaries, each of which has concluded a profit and loss transfer agreement. To this end, LHI Capital Management GmbH (LHI CapMan) was established in 2012, and LHI Kapitalverwaltungsgesellschaft mbH (LHI KVG) in 2013. The establishment of LHI KVG became necessary as a result of the implementation of the European AIFM directive into German law with the introduction of the German Investment Code (KAGB). Both companies were provided with the required personnel resources.

LHI has a branch office in Pöcking and a business location in Stuttgart. In addition, it is also active in the Polish market through an interest in LHI Sp. z o.o. Warsaw, and manages capital arrangements under Luxembourg law through its interest in LHI Management Luxemburg S.A.

LHI takes a leading role in the Bundesverband Sachwerte und Investmentvermögen e.V. (bsi). In addition, it is also a member of the Bundesverband Deutscher Leasinggesellschaften e.V. (BDL) and the Zentraler Immobilien Ausschuss e.V. (ZIA).

Management of the company/performance indicators

Financial performance indicators

Since LHI's actual income situation and composition of income cannot be directly derived from the items in the income statement, the company uses business key figures from the management income statement for management purposes (cost income ratio). It also uses key figures that use the company's risk-bearing capacity as a reference point. For the purpose of managing its business activities, LHI applies performance indicators that can be derived from the new business for a period (present value of earnings from new business). The new business volume is not used for corporate management purposes, but continues to play a role in market comparisons.

The cost income ratio (CIR) compares the business costs and business income of individual projects, segments or the entire LHI. To this end, the following strategic targets apply to all product groups and business segments, and to LHI itself.

An average CIR of 80% to 90% must be attained (given the current business volume) to achieve the intended return on equity. All new business is reviewed for this key figure prior to an engagement. Engagements in the administration phase are subject to on-going monitoring in this regard. In 2013, the company reached the target values for new and existing business. This also applies to the previous three years.

As part of the risk-bearing capacity analysis, LHI compares the risk potential of all individual transactions against the available financial resources (AFR). The latter includes equity capital deposits including free revenue reserves and available risk provision items, as well as the discounted contribution margin from future management fees under firm contracts, with the aim that the sum of all risk values for assessable risks, which are determined on the basis of recognised methods, never exceed 75% of the AFR in a basic scenario. In a stress scenario, the value must be under 100% of the AFR. LHI continues to enhance its measurement methods. In the past years, risk values were always well within the defined range. The values declined again during the last period. Additional details can be found in the „Risk report“ section.

The present value of new business income is calculated as the sum of all fees from newly-contracted business transactions in a period, which have been discounted to the reporting date. Taking into account the corresponding costs, the amount of the present value provides an indication of the future profitability of business activities. The minimum objective for each period is that attributable costs are covered by the present value of earnings. The company also plans to achieve a CIR of 80%-90% in this segment. In the past four years, costs were always covered; in one year, the profitability target was not reached.

Non-financial performance indicators

There were no non-financial performance indicators with a material effect on the asset, financial and earnings position and the risk situation. LHI does not conduct controlling activities based on non-financial performance indicators.

Economic report

Overall economic and industry environment

The global GDP grew by 2.9% in 2013, which is a relatively weak gain in a historical context, and similar to the previous year. A growth of 3.7% is expected for 2014. The GDP in the Eurozone declined by 0.4% in 2013 compared to the previous year. Growth of 0.9% is expected for 2014. The situation looked more promising at the end of 2013 and the beginning of 2014.

The German economy fared better than other countries in the EU. Total production grew by 0.4% in comparison to the previous year, with an inflation rate of 1.5% (expectation for 2014: 1.7%). A growth of 1.7% is expected for 2014.

The monetary environment continues to favour the general economic situation. It is not expected that historically low interest rates will increase in the short term.

(The data above was obtained from the on-line portal of the Federal Statistics office [as at 10 February 2014] and the economic report of the Institut für Weltwirtschaft der Universität Kiel from 19 December 2013)

The leasing portion in total investment costs in Germany was 15.5% in 2013, and similar to the previous year attained a new business volume of EUR 48.5 billion. Of this figure, EUR 44.0 billion were attributable to providers that are organised in the BDL (previous year: EUR 43.8 billion). This corresponds to a growth of 0.5%. Divided by assets, movable assets leasing rose by 0.8% to EUR 42.4 billion, whereby real estate leasing declined by 7.1% to EUR 1.6 billion.

In the case of movables, demand was particularly brisk for vehicles and production equipment, similar to the previous year. Taken together, these two segments made up almost 70% of the entire volume. In real estate investments, on the other hand, there was significant growth with respect to business and office buildings, which rose by almost 50% compared to 2012. In contrast, the market for production buildings and warehouses, along with other buildings, suffered a marked decline. The leasing business with commercial real estate, which also represents one of LHI's main focus areas, grew again in 2013.

(The figures regarding the leasing ratio and total market were obtained from a press release of the BDL in November 2013. The BDL volume and development of asset classes was obtained from the BDL trend report for contracted new business dated 27 February 2014)

In the 2013 business year, the introduction of new regulatory requirements in the form of the KAGB caused considerable uncertainty in the market for equity capital placements. At the same time, sales figures were still above previous year levels at EUR 5.5 billion (EUR 4.2 billion). A distinction must be made between the products prior to the effective date of the KAGB, and those after that date. EUR 4.2 billion was invested in structures according to the present law. Equity capital of EUR 1.3 billion was obtained for KAGB-conforming structures.

Since 2013, the industry – following the approach of the KAGB – has focused on the asset portfolios managed by market participants, in addition to sales figures. The fund volume will become a key focus point of comparisons in the future and will highlight the financing potential of the companies organised in the bsi. Together, these companies managed a volume of EUR 205.4 billion (based on total investment costs) in closed structures as at 31 December 2013.

Real estate, ships, air planes and energy are the major asset classes for new business and management. In addition, the portfolios also contain a significant volume of leasing funds independent of asset classes.

With regard to investors, there is a growing trend towards professional investors. While in the case of placed equity capital (relevant former market) the number of public subscribers declined by another 26% to EUR 2.3 billion in 2013, the share of institutional investors grew by more than 40% to EUR 1.9 billion. In the case of KAGB-conforming structures, the focus is on real estate arrangements, which made up 90% of the entire sales volume.

The number of organised companies that can contribute to the market data declined markedly as a result of the regulations. Following a number of 174 „asset managers“ organised in the bsi in 2012, this figure fell to 148 in 2013. On the other hand, 124 participated in the market data collection, compared to 111 in the previous year. Hence most of the market is covered with more than 83%. With respect to previous year’s comparisons, it is important to note that the collection system itself was also changed in addition to the number of included companies.

(The aforementioned figures are obtained from the publication „bsi Branchenzahlen 2013“ from 18 February 2014)

Business developments

Based on contract volume, LHI was not able to maintain its market position in real estate leasing during the preceding business year. According to in-house calculations, the market share for new business is 33.8% in a continuously declining market in relation to the BDL trend report on the contracted volumes by association members. It means that LHI was significantly below the positive level of the previous year (49.5%). However, this development is not of material importance due to the decoupling of earnings and financing volumes.

Together with LHI CapMan and LHI KVG, LHI was able to continue the positive numbers of the previous year in terms of the structuring and placement of equity capital arrangements. In a slightly smaller market, LHI held a 2.2% share in sales figures (previous year: 2.3%) measured by the relevant former market. EUR 91.8 million of investor capital was distributed for new and existing structures.

In the year 2013, LHI’s entire new business was again distributed over differentiated financing structures with different business partners. With respect to the embedded values from the new business, budget figures were exceeded by almost 10% mainly due to one-time contracts in the municipal financing segment, whereas LHI lagged almost 30% behind its own budget figures in terms of volumes. This development confirms the increasing decoupling of the earnings situation from the financing volumes in the relevant market. Compared to the previous year, the contract volume fell from EUR 0.9 billion to EUR 0.8 billion. The ratio between volume and embedded value improved significantly.

LHI continues to participate in Germany’s overall stable growth. Financing and structuring requirements have reached a bottom, whereby t he trend towards leasing solutions and complex arrangements for different customer groups continues. In sub-segments such as LHI’s portfolio investment offering, there is a considerable rise in investment interest due to continued low capital market interest rates. The further development of some framework conditions, such as international accounting rules, continue to be stalled in the announcement stage, and are not expected before the end of 2015.

The market for equity capital arrangements is trending towards quality products as a result of increasing regulation. The implementation of the AIFM directive into German law through the German Investment Code (KAGB) led to a situation in 2013 in which a part of market participants suspended their new business. At the same time, the competitive situation has also become more crowded, as providers from other segments such as open funds have entered the market. This was also the reason why the expected collapse in sales figures at the industry level (bsi figures) did not occur. Rather, sales figures even increased with the inclusion of new structures. LHI was able to defend its position in this environment with EUR 91.8 million in marketed equity capital due to its high quality requirements and despite the appearance of competitors. Particularly the offering of portfolio funds for medium-sized investors was well accepted and further expanded. A volume of EUR 60 million was placed with institutional investors.

New business was also acquired in the area of management services for third-party portfolios. However, the planned takeover of another leasing portfolio failed on account of the incompatible ideas of LHI and potential sellers. Since leasing portfolios tend to feature long residual terms, it is important that a purchase can also be managed profitably in view of sustainability aspects. That was not the case for the opportunities of the year 2013.

On the whole, we believe that business developments are positive, taken into account the challenging environment.

Business segments

Non-recourse business

This business segment combines structuring and leasing arrangements for which LHI does not have to provide equity in the form of liquidity or guarantees. The discussion below centres mainly on the products "structured financing (simple/complex)" and the "municipality business".

Demand for financing arrangements without the inclusion of investor capital was stable in 2013. In addition to LHI, this segment features only a few notable market participants, whereby providers that had not been involved in new business transactions in the past are looking to re-enter the market. LHI is recognised as a quality provider for complex structures and the management of the same. The procurement of financing on a non-recourse basis was and continues to be difficult. While there is still liquidity in the refinancing sector, it is made available almost exclusively to customers with good financial standing. Regionally active institutions are showing great interest in new credit business, but are only able to implement the volumes structured by LHI in the form of consortia.

The good networks established by LHI in the refinancing segment form a basic prerequisite for jointly developing and implementing individual optimised arrangements. The company's long-standing structuring know-how ensures the development of a great number of solutions, even in a constantly changing regulatory environment. At the same time, the environment for classic financing structures remains nevertheless difficult.

The new business is characterised by classic arrangements, as in previous years. The extension or expansion of existing structures forms a major part in this regard. In addition, complex models are implemented jointly with well-known German companies.

The restructuring process in the municipal segment was completed in 2013. Profitability has increased significantly since that time. It is possible that a contract with shareholder Landesbank BadenWürttemberg (LBBW), with the aim of pursuing parallel interests in the municipal segment, will nevertheless only be continued until the year 2015. However, a large case was jointly structured in 2013, which had a great impact on the achieved new business value and the result for the business segment.

The transaction volume in the non-recourse segment was at the previous year's level at a total of EUR 0.6 billion. The embedded values increased compared to the previous year. Contributors in this context were arrangements whose structures also contain investor capital, but where LHI was not required to provide guarantees for procurement purposes, or where capital was already available on a binding basis at the time the transaction was concluded.

The earnings from the existing business declined compared to the previous year, but still make an important contribution to the result for the business segment. The expiry of existing cases from the strong 1990s leasing years could not be compensated by the current new leasing business. The objective of delaying the attrition in the portfolio by purchasing an external portfolio could not be achieved in 2013. In the medium term, this will lead to a reduction in managed portfolios, which is compensated with the expansion of the complex structures business.

The CIR for the segment registered very good growth in the preceding business year due to the one-time earnings from the municipal business, and even fell below the target corridor. The embedded values from the new business greatly covered the corresponding costs, and were 50% over budget due to the aforementioned effects. We assess the growth of the business segment in 2013 as very good, but also expect that the values without extraordinary one-time effects will return back to budget levels in the future.

Recourse business

This business segment depicts the results from closed-end public funds, investor models and co-investments with temporary own capital expenditure. The LHI group generally provides placement guarantees or interim financing for the equity capital that is required for business purposes or corresponding surrogates.

Equity capital marketing activities in Germany have changed significantly as a result of the introduction of the KAGB. Market participants have disappeared, while others that were not previously perceived as competitors have appeared on the scene. The volume of marketed equity capital rose compared to the previous year, even though established providers also marketed significantly fewer new arrangements. New market participants, for example participants from outside of Germany or the open fund segment, also played a fairly significant role in this regard.

LHI launched selected new arrangements for institutional investors together with LHI CapMan and LHI KVG. As part of retail activities for a broader public the company limited its activities to the further placement of two products from the year 2012. Placement figures were satisfactory in an environment of quickly changing framework conditions. On 31 December 2013, only residual portions of 8% of the capital to be marketed were still open for both products. The business with portfolios for institutional investors that are already subject to the new legal regime was successful. New investments were implemented and additional investors were acquired for two portfolios. In addition, other existing engagements were refined and restructured, and placed with the inclusion of investor capital.

LHI took a cautious attitude with respect to the development of new projects. Only selected properties were investigated, as market change risks have increased significantly due to high asset prices in connection with longer lead times in the regulated market. Moreover, an exit was negotiated for one project in Hanover, which has been managed since 2011 and will be completed in 2014.

Similarly, LHI also was also cautious with respect to renewable energies. Investments in this area are subject to new framework conditions due to cabinet decisions by the federal government. Therefore only assets with grandfathering rights are currently being designed. New product approaches are in development. However, LHI still believes that this is an interesting asset class. The same applies to the aviation asset business. In this segment, there are no new statutory restrictions which would be a hindrance to new business, but the aviation industry is currently undergoing a technological renewal phase in response to high fuel costs. As a result, the market for existing equipment (turbines) of older planes has come under pressure. Therefore LHI did not engage in any new business in this area in 2013.

LHI was able to continue strengthening its position as a quality provider. It will continue to pursue a strategy of securing properties early on, and (where possible) jointly with other partners. Capital market demand for joint projects with well-known users is stable. Accordingly, more than 50% of a project that was implemented in 2012 with a large German commercial enterprise has already been placed.

The valuation of a private equity portfolio, which was added to own accounts after the end of the marketing phase in 2009, has continued to stabilise after the recovery of recent years. The first return flows already started in 2013. The same applies to a US real estate portfolio, which was also subscribed by LHI after the end of marketing activities. It too has generated initial return flows.

The weak new business in the segment caused the CIR to rise to a value outside of the target corridor. But the costs for the business segment were more than covered. The embedded values from the new business lagged almost 40% behind budgeted values. We believe that this development in line with the regulatory changes is dramatic but not sustained. We expect that we will again reach our budget figures and yield targets after a transition phase.

Other services and participating interests

This area depicts the respective activities for portfolio management, strategic real estate analysis (SIA), construction management and the holdings.

As a whole, the "Corporate Services" area managed a portfolio volume (total LHI Group) of EUR 21.3 billion. 1,080 companies are managed through agency agreements. Compared over several years, these figures are declining due to a lower number of new business transactions. The structure of the new business has undergone a tremendous change. Moreover, the lower number of managed companies also highlights LHI's aim to maintain a lean organisation. During the past year, many companies that were no longer engaged in operating activities were wound down to make available resources for new business.

Another takeover of existing portfolios that runs counter to this development was not implemented in 2013. Market participants with declining portfolios generally want to wind them down on their own initially.

The management of special purpose companies made a significant contribution to the entire earnings position, as in previous years. The efficiency of the administration units remains high even in a changing environment due to the technical infrastructure, and despite falling unit numbers. While cost pressures on the management process continue to increase due to the regulatory requirements in the leasing and fund industry, LHI nevertheless also believes that there is potential for additional business on a strategic level. In this environment, the company negotiated the takeover of an existing aviation portfolio in 2013; the portfolio came under LHI management in 2014.

With its recognised management competence and own needs-appropriate technical systems, LHI would still be in a position to manage or integrate additional portfolios on the order of third parties in the future. This strategic competitive advantage will create good opportunities to generate additional contributions to the earnings position with little risk.

The SIA area mainly focuses on the valuation of LHI Group real estate arrangements. The ability to secure our own quality standards represents an important competition criterion in view of increasing regulations and growing requirements for capital markets with regard to properties. In addition, fees were generated from property valuations for customers.

The building-related aspects of LHI financing projects are managed by the construction management area. Contribution margins are mainly generated by the management of building projects in connection with equity capital projects. Construction measures are professionally monitored by LHI specialists as part of the project. This makes it possible to ensure optimum processes, and possible investment risks can be kept transparent and minimised at an early stage.

The results situation of LHI in Poland continued to strengthen in 2013. The transformation from a provider of conventional financing leasing solutions to the structuring of complex arrangements continues to progress.

LHI's market presence in Luxembourg is currently limited to a management company. This allows the company to meet international investor requirements. It is designed to facilitate access to institutional providers of capital with the help of various platforms. At the same time, only one LHI in-house arrangement is currently managed in Luxembourg. The business volume can be expanded to external market participants at any time.

On the whole, the influence of this segment on LHI's overall situation is minimal, hence the lack of controlling by performance indicators and assessment of the same.

Other

LHI launched media funds between 1999 and 2005. Claims have been asserted against LHI out of prospectus liability. The reason for this situation lies in the tax treatment of the investments, which has still not be conclusively decided. What has been clarified to date is that the initial losses must be attributed to the investors with tax effect. But it is not clear whether the final payment must be distributed over the expected investment period on a pro rata basis. The lawsuits are based on investments with a nominal amount of EUR 15.7 million (previous year: EUR 17.9 million). Added to these amounts are third-party notices relating to a nominal investment volume of EUR 0.4 million (EUR 1.2 million). LHI management still expects that no claims will be enforced out of the lawsuits.

In the case of two media arrangements, an LHI associated company made an offer to investors to purchase the shares in 2013, and did so following an earlier termination. Investors with an original subscription sum of EUR 79.5 million took advantage of this offer.

With its leasing, fund and company management systems, LHI is able to meet the current regulatory requirements on a mostly automated basis with SAP R/3. Additionally, a software platform that supports the risk management process was also implemented in 2013. As part of a first step, the calculation of the net asset value as a central component of available financial resources was standardised and automated. Other milestones include the structured preparation of reports to the German Bundesbank, and support with the growing requirements for the risk management of specialized investment enterprises. Statutory reporting requirements, which are currently met as part of an agreement with LBBW, can now be fulfilled independently.

All new requirements in relation to the administration of special purpose companies are implemented promptly within LHI's system environment. The advanced technical state of development will remain a basis for the integration of new business or additional portfolios and for the corporate service provider business. LHI will also be able to use the competencies acquired in this respect to meet the growing requirements for investment transactions within the LHI KVG with a high level of efficiency.

Situation of the company

Earnings position

The interest result increased to EUR 2.2 million (previous year: EUR 1.3 million) on account of the continued moderate refinancing rates. In this context, the premiums on loans for the interim financing of own arrangements were adjusted to the risk profile.

Income from investments including profits and losses from profit and loss transfer agreements rose from EUR 6.0 to EUR 7.7 million. Regular income from investments includes a one-time effect from a special purpose company in the amount of EUR 1.3 million. At the same time, the income from profit and loss transfer agreements increased significantly (and as expected) following the initial losses of LHI CapMan in the previous year. On a net basis, profit transfers generated positive results of EUR 2.1 million (previous year: EUR -1.3 million) in 2013.

The commission result rose from EUR 6.2 million to EUR 8.4 million mainly due to one-time earnings from a municipal financing transaction. Other operating income, which includes mainly regular payments for administration services but also one-time effects, declined from EUR 41.3 million to EUR 37.0 million. This development is mainly due to the disposal of participating interests in 2012.

Personnel expenses fell to EUR 22.3 million, following EUR 25.2 million in the previous year. This is mainly due to the transfer of staff to LHI CapMan (mid-2012) and LHI KVG (mid-2013). Nine employees left LHI and changed over to a new employment relationship with LHI KVG. Another 39 employees followed on 1 January 2014. Over the year 2013, LHI had on average 38 fewer employees than the year before. Twenty-seven employees left the LHI Group.

At 21.2 million, other administrative expenses and other operating expenses remained more or less at the previous year's level (EUR 20.7 million). The expected decline in expenses as a result of the transfer of tasks to the subsidiaries was compensated by the newly concluded agency agreements for services with LHI CapMan and LHI KVG.

Depreciation and value adjustments remained virtually constant in 2013 at EUR 3.1 million (previous year: EUR 2.7 million). In the previous year, the high value was mainly due to the write-down for an associated company, whose refinancing in Swiss francs led to significant charges. A loan receivable was adjusted in 2013, as a current appraisal makes full repayment unlikely. In addition, some parts of the repayment were not collected for another loan, since the disposal of the property resulted in prepayment compensation for the long-term debt as a result of current interest rate levels.

Similar to the previous year, the extraordinary result includes the graduated allocation of EUR 0.1 million to the pension provision due to the conversion to accounting pursuant to the BilMoG.

The pre-tax result of LHI increased to EUR 7.7 million (previous year: EUR 5.2 million). LHI had forecast a pre-tax result of approximately EUR 4.0 million for the year 2013. Two one-time transactions with extraordinary yields from the non-recourse segment were the reason for this deviation from the plan.

The actual income situation and income composition of LHI cannot be concretely derived from the income statement items. Therefore income and cost items from the management income statement, which are derived according to business parameters, are used for controlling purposes. Thus earnings are 14% above planned values, while planned costs were exceeded by 10%. The CIR was within the budget range.

We assess the earnings position as very good taking into account the challenging environment, but do not expect one-time effects that can be carried forward to the same extent in the future.

Financial position

Capital structure

The equity capital on the reporting date is EUR 50.3 million, and is thus almost 3% above the previous year's level (EUR 48.8 million). Net profits increased to EUR 8.5 million (+24%). The equity ratio improved to 33.4% (previous year: 26.6%) due to the lower balance sheet sum on the reporting date, which was EUR 150.8 million (EUR -32.2 million). The balance sheet total, which has decreased significantly, is mainly due to the lower volume in short-term interim project financing.

Investments

The asset side of the balance sheet is characterised by investments in own arrangements. Some of these have been placed in short-term investments, and are supposed to be returned with outplacements. Long-term investments in finance structures are of a strategic character, or had to be assumed after the end of the placement phase.

Short- and medium-term participating interests in own arrangements such as the currently marketed portfolio structures for institutional investors are also planned for the coming years. This means that LHI's fixed assets will continue to rise.

Refinancing and liquidity

The refinancing of medium- and longer-term investments is secured by a bearer note issued by LHI, and by the company's own resources. With regard to the interim financing of the products to be placed, LHI has access to a total of EUR 65.0 million in project financing lines of credit at various banks. Smaller short-term individual investments can be carried out of regular cash flow.

LHI finances its regular business with the company's own resources and, if required, by drawing on credit lines for operating funds at its companies totalling EUR 50.0 million. Another credit line for EUR 20.0 million at another bank that was just concluded during the past period was set to terminate at the end of 2013. The amount drawn from this line was fully repaid on 3 January 2014. From the remaining credit lines, LHI had freely available outside resources of EUR 26.8 million at the end of the business year (already taking into account the aforementioned repayment).

In addition, LHI also has access to the aforementioned credit lines for interim project financing. One of these lines was concluded during the business year. At the end of the business year, EUR 42.6 million was freely available from the project-bound credit lines.

LHI did not enter into any long-term liabilities in addition to the bearer bond with a maturity of 8 years for EUR 25.0 million.

Committed resources are continuously monitored and managed using a rolling liquidity forecast that uses conservative parameters for reference purposes. Seen over 12 months, LHI's liquidity that is available for the new business will not fall below EUR 74.0 million (previous year: EUR 33.0 million), with unchanged refinancing options.

Solvency was guaranteed at all times.

Guarantees and warranties vouched for by LHI are depicted in the off-balance sheet obligations, which may affect liquidity if they materialise. The monetary face value of these items declined from EUR 149.3 million to EUR 76.9 million. This development is mainly due to the reorganisation of interim project financing, the reduction of a credit line guaranteed by LHI, and the sale of a property.

In addition, there are placement and underwriting obligations of EUR 4.6 million (previous year: EUR 38.1 million). The reason for the decline is the scheduled outplacement of shares, and the return of a placement guarantee which was in effect until the beginning of 2013. In addition, there are off-balance sheet obligations from additions to amounts guaranteed and outstanding deposit obligations of EUR 18.4 million (EUR 27.0 million), which also declined due to successful placements. Investors' rights to tender for share certificates total EUR 10.7 million (previous year: EUR 10.7 million).

It is not expected that the company will be taken to task in any significant way on account of the off-balance sheet obligations.

Asset position

The company's asset position is orderly. Similar to previous years, the main items on the asset side of the balance sheet consist of receivables of EUR 76.6 million (previous year: EUR 118.6 million) and other assets of EUR 36.8 million (previous year: EUR 38.1 million). Both items declined due to the decrease in interim project financing. Participating interests rose from EUR 20.1 million to EUR 32.0 million. A number of larger equity capital tranches were placed during the business year.

One investment totalling EUR 21.6 million in a private equity interest could not be placed in the market in recent years; but now the value has stabilised to the point where a disposal at market prices is not considered an attractive option at this time. A call for another EUR 8.5 million in this context, which is possible on a formal level, is not expected due to the end of the investment phase at the target funds.

The considerable growth in fixed assets of EUR +13.5% in 2013 is mainly due to the reclassification of the private equity investment. In the coming years, LHI expects moderate growth in fixed assets. The main structural investments will continue to be held. The values experienced stable growth in 2013. Initial return flows were generated.

These assets on the balance sheet are accompanied by debt on the liabilities side, which consists mainly of short-term liabilities to banks of EUR 45.6 million (previous year: EUR 67.4 million) and provisions of EUR 25.0 million (previous year: EUR 36.0). In addition, the company also had a liability evidenced by certificate of EUR 25.1 million on the reporting date (previous year: EUR 25.1 million). LHI does not use any other financing instruments.

Supplementary report

The company's asset, financial and earnings position did not change materially after 31 December 2013. There were no events of special significance that occurred only after the end of the business year.

Forecast, risk and opportunities report

Outlook

The European government debt crisis remains the main risk factor for the further economic development of the Eurozone, despite the recovery in 2013. Germany continues to take on a supporting role as the economic engine in the Eurozone. In addition to exports, it is domestic economic activity that plays a key role in companies' willingness to invest. Interest rates are expected to rise only moderately in the short term, and can thus continue to act as a catalyst for capital investments in real property. This trend can lead to drastic increases in property prices within short cycles, and it also further increases the market change risks for investors.

In addition, the German financial industry has not yet fully integrated the regulations resulting from the introduction of the KAGB into its processes. Multipliers and traditional sales channels have been in a holding pattern thus far. This and the legally required inclusion of other process participants such as depositaries will have the effect of making project lead times even longer, at least temporarily.

On the other hand, it also means that users, financing parties and investors will be even more concerned with qualitative characteristics, such as property condition, structuring, project transparency and sustainable management security. LHI is well positioned to meet this expectation of the market with its core competencies in exactly these requirement profiles. Offerings for participations and financing solutions are adjusted to individual requirements and implemented jointly.

With this approach, LHI wants to offer its customers a large number of complex arrangements in addition to structured financing on a leasing-like basis, which enables the company to address user and investor requirements equally. Specifically, there are plans for 15 projects that will be implemented with the use of bank resources as well as other financing components. The requirement of own interim financing will be minimised as much as possible through advance equity capital commitments or sales guarantees. Investment offerings for a broader public will continue to form a part of the business model. However, LHI will search out partners for risk migration with respect to these arrangements.

In addition to new product approaches, another focus area will be the further marketing of equity capital projects from previous years by LHI CapMan. The currently marketed public arrangements were mostly placed by 31 December 2013. It is expected that they will be fully marketed in the first half of 2014. During the next period, projects will continue to be added to the portfolio offering with energy projects for institutional investors, which was already increased in volume in 2013. The investor group will be expanded, and investors with smaller individual subscription sums will also be able to participate.

LHI believes that it meets the KAGB requirements with respect to its business operations. The required spin-off of an investment company has been completed, and the main function and processes have been established and are functional. The application for approval to undertake equity capital transactions was submitted in February 2014. BaFin approval is expected during the first six months of 2014.

With its structuring competence, LHI will continue to offer its customers tailored solutions for individual financing issues without the inclusion of investor capital. Its competence in depicting highly-complex requirements in structures and accompanying the same over the entire term together with the customer provides the company with a sales channel in the high-quality premium segment. LHI wants to structure four new projects in this segment and also expects significant demand in the segment of less complex leasing-like solutions.

The municipal/PPP branch was restructured. LHI will continue to participate in selected projects with reduced resources, and foresees sufficient demand in the market. The joint municipal business with shareholder LBBW will probably be continued until 2015.

LHI will take a very selective approach with regard to the portfolio takeover business segment, which was intensely pursued until now. Due to the declining remaining terms, the portfolios that are still on the market are no longer very well suited on a structural level to generate sustainable contribution margins. Participation in or the provision of management services for existing fund portfolios appears to be more interesting from a financial point of view. LHI will continue to review this option and expects that this will result in new business approaches due to growing consolidation pressures. LHI's competence in the management of leasing portfolios may become a decisive competitive advantage in this context.

Two notable projects are planned for the LHI IT landscape. The document management system will be adapted to the newest technological and ergonomic requirements. In addition, the IT platform for supporting risk management and reporting processes, which was already initiated in 2013, will also continue to be enhanced. Adjustments as a result of increasing regulations will be made to on-going operations as in previous years. The project for the introduction of the European debit advice transactions/SEPA, which was started in 2013, was completed on 31 January 2014.

The respective opportunities and risk ratio is assessed thoroughly before each new transaction and prior to entry into a new market and product. This process is based on the current LHI business and risk strategy.

LHI expects that management fees will decline in 2014 due to the gradual reduction in the portfolio. This development will be addressed by adjusting resources and increasing one-time earnings from new business. For the coming years, LHI does not expect a repeat on the same scale of unplanned transactions with extraordinary returns, which led to a very good results situation in the year 2013.

Planning for the coming year expects that within the segments and at the level of the entire LHI, CIRs will be within the earmarked target corridor. We do not expect the CIRs in the segments to drift apart as they did in 2013. Embedded values will decline slightly and return to the level of 2013 budget figures. This means that the corresponding costs will be covered. The AFR is expected to be stable as per the budget, while risk values are expected to rise slightly in the recourse segment due to an increase in new business. However, risk utilisation will always be well short of the upper limit of 75% of AFR.

Specifically, the result before taxes is expected to be EUR 4.8 million in 2014, with moderate increases in subsequent years.

We believe that this forecast is ambitious given the expected challenging environment for 2014, but we are also convinced that the planned growth can be achieved with LHI's existing competencies. We do not expect external influences similar to the KAGB introduction in 2013.

Risk report

Organisation of risk management

Each business activity is associated with risks. These risks may occur at any point in the business, and it is not possible to anticipate or quantify all possible risks. LHI takes the following precautions to minimise the risk of "daily" business operations, including:

- training and awareness raising of employees
- publication of procedural instructions (emergency plans, work instructions)
- insurance policies (risk mitigation)
- doubling of resources (acting roles, technical back-up procedures etc.)

These preventative measures can thus be understood as a part of risk management in a wider sense. At the same time, they are specific enough that they mostly elude standardised controlling at the higher levels. In order to make this risk evident and manageable, LHI uses instruments such as the review of specific circumstances by internal audit, or the establishment of standard controls in line with an internal control system.

LHI views risk management in a narrower sense as the management of the risks that the company incurs or must take to generate profits. Such decisions are prepared by the respective departments in charge. The LHI competence regulation warrants that the regulatory requirement for functional separation can be ensured during the decision-making process. The competence regulation is designed in such a way that all decisions that are material in terms of risk aspects are finally made by management.

In addition to the decision-making process, it is the acknowledgement of a risk situation that forms the second important aspect for functional separation. In this context, LHI makes a distinction between the functions of risk management and those of risk controlling. While the risk controlling function is carried out by an independent organisational unit, the risk management function is organised on a decentralised basis. The tasks of risk management are characterised by the following:

- high degree of relevance to the individual business or individual transaction
- operational activity (e.g. initiation of business, maintenance, workout)
- interaction with customers, investors or project partners (considerable external effect)

while risk controlling
- performs risk analyses for the company as a whole (portfolio view)
- calculates risk potentials (no operational handling of risks)
- is mainly used for corporate management purposes (little outside effect)

The links between risk management and risk controlling are created through the so-called risk management groups. Those in charge of risk meet regularly in these groups, in order to analyse the current risk situation and define the further course of action on this basis.

Risk controlling for LHI comprises the entire LHI Group. The LHI KVG was founded in 2013; it has its own risk controlling unit. This unit assumes the risk controlling function for the LHI KVG and also for the AIF products managed by the same. The data and information obtained in this context is discussed with the corresponding LHI unit and then depicted in line with a comprehensive group risk report.

Risk categories

LHI completely revised the risk-bearing capacity model by 1 January 2013. This conversion was implemented in order to integrate the stress scenarios directly into the risk-bearing capacity model, and also to include the net asset value in the measurement of the available financial resources, as is typical in the leasing industry.

LHI also used this conversion to categorise the risks more closely in line with the terms used in the MaRisk. LHI uses its business model as a reference when allocating various risk types to the risk categories. That is, risk types are allocated on the basis of the business activities that are mainly responsible for the risks. As part of risk reporting, a distinction is made between five risk categories.

Property price risks refer to the risks that result from the business with equity-supported structures. This business segment involves the regular purchase of properties (real estate, solar parks etc.), which are then embedded into fund structures and placed. This phase is subject to the risk that the value of the properties changes and results in financial losses for LHI. In the worst case, the property may even be unsaleable, forcing LHI to be invested for an extended time period. On the basis of the specific character of the individual properties, these risks are assessed using score methods that are customised for each property.

Market price risks arise solely in ATG Abrechnungs-Treuhand GbR (ATG), which assumes the implementation of payment transactions for a majority of the companies that belong to the LHI Group. In this function ATG has access to a deposit base of free liquid resources, which can be invested in line with narrowly defined investment guidelines. The resulting opportunities and risks (interest rate change, debtor creditworthiness and share price risks) rest with LHI. Risks are quantified on the basis of a simulation that includes historical data.

Default risks result from the fact that LHI concludes fixed fee agreements with its customers (lessees) for the management of special purpose companies. If a lessee becomes insolvent, fee payments are not made although the costs for managing the special purpose company still continue. This risk is quantified with the help of the Gordy model, whereby the default probabilities of lessees is calculated with rating methods, and the present values of the fees are used to measure the credit equivalence amounts.

Operational risks result from general business operations, so that these risks can only be allocated to concrete business activities in individual cases. This risk type is quantified on the basis of the standard approach provided for under regulatory law. In this context, the sum of all fee claims for the next 12 months is used as the “relevant indicator”, while the weighting rate is calculated on the basis of a scoring model.

“Other risks” refers to a collective item that depicts all risks which only occur temporarily, i.e. are not a regular part of the LHI risk profile. For the most part, these are structural liquidity risks (liquidity shortfall in the gap analysis) and business strategy risks. These risks are quantified on the basis of expert assessments. On the reporting date, a risk amount was allocated in this category for the risks that result from the coming into effect of the KAGB (new business risk, project risk etc.).

All material sub-risk types are combined in these categories. It means that e.g. operational risks also include legal risks, among others. The aforementioned risk management groups were also established on the basis of the above risk categories.

Risk reporting
MaRisk AT 4.1 requires institutions to ensure that all important risks are covered by available financial resources, and that supporting information for the risk-bearing capacity must be maintained. Accordingly, the analysis of risk-bearing capacity forms the nucleus of LHI risk reporting.

The risk report is prepared by risk controlling and is the subject of regular discussions by management and the Supervisory Board. As part of risk reporting, the specifications from the risk strategy and compliance with the same are also reviewed alongside the risk-bearing capacity.

Beyond the risk-bearing capacity, it is the availability of liquidity that represents another important risk for LHI. To control this risk, a rolling liquidity forecast is prepared every 14 days and discussed by management. As part of this forecast calculation, all known important liquidity outflows for the next 12 months are calculated, and compared to the available liquidity including firmly committed free credit lines.

The liquidity forecast reliably shows whether a structural liquidity shortfall can occur during the examined period. The risk strategy defines that such situations must be avoided. If a shortfall occurs nevertheless, a corresponding risk value (liquidity at risk) is calculated on the basis of the missing liquidity amount; this value must then be funded with risk capital in the risk-bearing capacity model. Such a case also requires that the intervals for the preparation of the liquidity forecast are reduced.

Risk-bearing capacity
LHI has completely revised its risk-bearing capacity model during the reporting year. The new and old risk-bearing capacity model are based on an assumption of going concern. At the same time, the methods for risk quantifying are much stricter in the new model (e.g. no recognition of risk-minimising correlation or diversification effects). The model uses the conservative assumption that all risks occur simultaneously. Accordingly, the risk utilisation according to the old model was approx. 24% on the 31 December 2012 reporting date, and approx. 40% for the new model.

The basic structure of the risk-bearing capacity model that was introduced in the reporting year is designed in such a way that the risk potentials in the above risk categories are calculated in two scenarios (basic and stress scenario) and compared with available financial resources. To this end, the risk potential of each individual transaction/risk carrier is calculated as part of a first step, e.g. in the basic case on the basis of a value at risk with a confidence level of 95% and a holding period of one year. Accordingly, the risk potentials of all individual transactions were first added within the respective risk category and then aggregated into the total risk for LHI across all risk categories.

The LHI business model is characterised by frequent investments in property values and hence illiquid assets (illiquid in the sense that there is no trade on each trading day for these assets, and thus high-frequency market data is not available). In addition, the assets are very specific (e.g. location, condition, age and designated use of a property), so that valuations can only be applied on the basis of a mark-to-model approach (e.g. a property valuation). All methods and processes that are used are described in a method handbook. They are regularly reviewed and adjusted if needed.

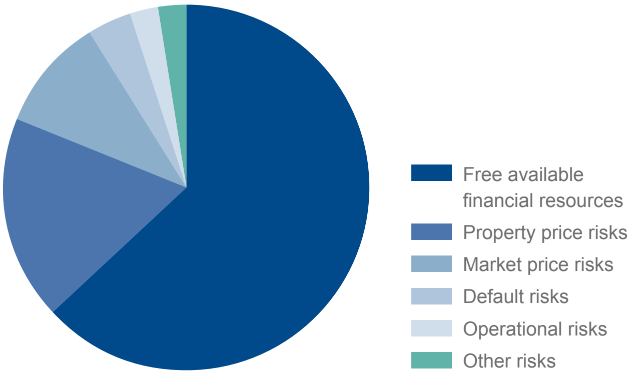
One special feature of the leasing industry is that available financial resources are determined on the basis of the so-called net asset value. To this end, the BDL (Fed. Assoc. of German Leasing Companies) has developed a corresponding procedure for which the IDW (Institute of Public Auditors) recently submitted a draft for an audit standard (IDW 910).

LHI follows this procedure, which is typical in the industry, and includes the net asset value in the calculation of its available financial resources. LHI only uses the already contracted portfolio of fee agreements (service income from the management of the special purpose companies) to determine the net asset value. The fee cash flow is accounted for at the net present value and a discount is applied.

The risk provision is created for anticipated utilisation on an individual case basis. In addition, a lump-sum risk provision for risks from new business and current portfolios is calculated on the basis of experience values.

The LHI risk profile is mainly characterised by property price risks. They account for approximately 50% of the overall risk potential. The next category consists of market price risks with a contribution of approx. 25%. The remaining quarter is made up in almost equal parts of the other aforementioned risk categories. The risk strategy objective of avoiding structural liquidity shortfalls was met at all times during the reporting obligations. Accordingly, no liquidity risks applied with respect to portions of available financial resources at any time.

The illustration below demonstrates the risk profile of LHI Leasing GmbH on 31 December 2013, which results from the above-listed quantification of the risks.



The risk situation continued to ease during the preceding business year. This is mainly due to the decline in interim project financing. The division of risks within the risk classes has not changed. A need to implement risk-minimising measures did not arise.

The risk-bearing capacity was guaranteed at all times during the reporting period, and all specifications of the risk strategy were adhered to. Risk utilisation was calculated on the last day of the year at approx. 37% for the basic case and approx 63% for the stress case. Compared to the beginning of the year, this represents a decline of approx. 3 percentage points, which is mainly due to the fact that our two public funds that are in the marketing stage were mostly placed during the course of the year, and no new properties were acquired for this segment.

Due to the relatively low risk utilisation and the insights from the capital planning process, we do not expect that the risk-bearing capacity will become a critical bottleneck for LHI in the foreseeable future. The current liquidity forecast points to a similar situation, as it does not indicate any structural liquidity shortfalls for the 2014 business year.

Opportunities report

Opportunities management is a part of LHI corporate culture, and is reflected in our business and risk strategy. The monitoring of the market, customer requirements, development of the company and the economic and legal environment form an integral part of our daily work activities. Regular meetings by the departments portfolio management and legal affairs/ taxes seek out dedicated optimisation potentials and systematically identify additional sources of income.

Opportunities management takes on a particular significance as part of our strategy days, which are conducted twice per year. At these events, the LHI business model is scrutinised and reviewed with regard to its sustainability. Adjustments are made if required.

In general, the LHI business model has proven to be very robust with regard to economic fluctuations and market crises. This is proven by the fact that since its formation, LHI has never closed a business year with a loss under commercial law. We believe that one of the reasons for our success has been our ability to diversify the earnings side with the three business segments structured financing, equity-supported products and the management of special purpose companies.

We also believe that our structuring competence leads to special opportunities in the structured financing business segment. It allows us to base transaction structures on the requirements of both customers (e.g. lessees) and investors (e.g. insurance companies). Thus we have been able to offer a unique selling point, which can be used to develop new business approaches on a regular basis.

In the area of equity-supported products, we benefit from the continued low interest environment and the inflation fears that exist beneath the surface. These circumstances make property investments a very attractive option for investors. Moreover, we expect that the most recent scandals in the fund industry will lead to a change in attitude on the part of investors and sales partners. In the future, the quality of the entity initiating an investment product will increase in importance, whereby continuity and long-standing management experience are becoming an increasingly decisive criterion for investment decisions. We believe that we are well positioned for an environment of quality competition.

In the case of special purpose company management, we see additional opportunities for growth through the acquisition of third party portfolios. In the past, we have focused exclusively on the purchase of leasing portfolios. In the future, we will also focus on the acquisition of fund portfolios.

The opportunities described herein form the central foundation for LHI's top priority as described in the current business and risk strategy, namely to achieve a return on equity of 10% to 20% and thus secure the company's independence over the long term. Due to the project rates of return, which are fixed on the market side, other earning potentials also arise mainly from disproportionately positive developments on capital markets and the associated excess returns to be generated from liquidity investments.

Pullach i. Isartal, 7 March 2014

Managing Directors

Oliver Porr

Robert Soethe

Jens Kramer

Financial statements on 31 December 2013

Balance sheet

	EUR	31/12/2013 EUR	Prev. yr EUR 000
Assets			
1. Cash reserves			
Cash on hand		4,673.27	3
2. Receivables due from banks			
due daily		58,930.80	26
3. Receivables due from customers thereof: financial services institutions EUR 0.00 (previous year: EUR 148,000)		76,554,134.60	118,618
4. Shareholdings thereof: financial services institutions EUR 11,250.00 (previous year: EUR 4,000)		32,013,347.95	20,141
5. Shares in affiliated companies		2,454,963.95	2,682
6. Intangible assets Concessions, commercial trademarks and similar rights and values, as well as licenses for such rights and values, purchased against payment		575,509.06	653
7. Tangible fixed assets		1,929,103.00	2,583
8. Other assets		36,837,867.69	38,144
9. Prepaid expenses and other current assets		374,108.55	197
Total assets		**150,802,638.87**	**183,047**

	EUR	31/12/2013 EUR	Prev. yr EUR 000
Liabilities			
1. Liabilities due to banks			
a) due daily	4,602,350,05		4,447
b) with agreed maturity or notice period	40,957,844,12		62,914
		45,560,194,17	67,361
2. Liabilities to customers thereof: financial services institutions EUR 0.00 (previous year: 0 EUR)		1,332,062,80	1,285
3. Securitised liabilities Debentures issued		25,112,083,32	25,129
4. Other liabilities		2,860,059,48	4,071
5. Deferred income		574,877,53	467
6. Provisions			
a) Provisions for pensions and similar obligations	6,314,296,20		5,517
b) Tax provisions	1,122,680,06		1,449
c) Other provisions	17,586,917,27		29,018
		25,023,893,53	35,984
7. Shareholders' equity			
a) Subscribed capital	40,000,000,00		40,000
b) Other revenue reserves other revenues reserves	1,838,989,18		1,895
c) Net profit	8,500,478,86		6,855
		50,339,468,04	48,750
Total liabilities		**150,802,638,87**	**183,047**
1. Liabilities from guarantees and warranty contracts		76,989,286,90	149,324
2. Placement and underwriting obligations		4,569,059,53	38,051

Income Statement from 1 January to 31 December 2013

	EUR	EUR	2013 EUR	Prev. yr EUR 000
1. Interest income from credit and money market transactions		4,639,403.83		3,748
2. Interest expense		-2,467,857.13		-2,480
			2,171,546.70	1,268
3. Regular income from				
a) investments		5,329,331.98		6,801
b) shares in affiliated companies		253,072.60		533
			5,582,404.58	7,334
4. Income from profit pools, profit transfer or profit-sharing agreements			2,149,288.15	746
5. Commission income		9,599,459.93		6,867
6. Commission expenses		-1,221,900.00		-672
			8,377,559.93	6,195
7. Other operating income			36,974,162.76	41,262
8. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-18,784,051.02			-22,553
ab) Social contributions and expenditures for pensions and support thereof: for pensions EUR -988,709.59 (previous year: EUR 167,000)	-3,478,896.48			-2,628
		-22,262,947.50		-25,181
b) Other administrative expenses		-16,589,731.10		-16,027
			-38,852,678.60	-41,208
9. Depreciation and value adjustments for intangible and tangible fixed assets			-821,016.67	-847
10. Other operating expenses			-4,592,887.50	-4,638
11. Write-offs and value adjustments of accounts receivable and certain securities as well as additions to provisions in the credit business			-2,311,784.78	-745
12. Write-down and value adjustments for participating interests, shares in affiliated companies and securities treated equivalent to fixed assets			-739,832.80	-1,955
13. Expenses from loss transfers			-50,731.51	-2,065
14. Result from ordinary operations			**7,886,030.26**	**5,347**
15. Extraordinary expenses = extraordinary result			-130,868.00	-131
16. Taxes on income		-1,147,088.91		852
17. Other taxes, if not shown under item 10		-18,636.22		-10
			-1,165,725.13	842
18. Net income for the year			**6,589,437.13**	**6,058**
19. Profit brought forward from previous year			1,855,178.46	797
20. Withdrawals from other revenue reserves			55,863.27	0
21. Net profit			**8,500,478.86**	**6,855**

Notes

Asset Schedule

Costs of acquisition in EUR	Brought forward 01/01/2013	Additions	Reclassification	Retirements	As at 31/12/2013
Investments	24,421,249.38	13,061,234.34	165,682.88	1,130,231.81	36,517,934.79
Shares in affiliated companies	3,313,563.63	256,350.00	-165,682.88	265,909.76	3,138,320.99
Intangible assets	4,182,727.48	14,960.00	0.00	63,550.57	4,134,136.91
Tangible fixed assets	5,532,232.64	111,495.67	0.00	89,279.29	5,554,449.02
Total	**37,449,773.13**	**13,444,040.01**	**0.00**	**1,548,971.43**	**49,344,841.71**

Depreciation in EUR	Brought forward 01/01/2013	Extra-ordinary write-downs	Business year	Retirements	Write-up	As at 31/12/2013
Investments	4,280,425.51	687,979.11	0.00	455,560.53	8,257.25	4,504,586.84
Shares in affiliated companies	631,503.35	51,853.69	0.00	0.00	0.00	683,357.04
Intangible assets	3,529,600.42	0.00	92,578.00	63,550.57	0.00	3,558,627.85
Tangible fixed assets	2,949,222.64	0.00	728,438.67	52,315.29	0.00	3,625,346.02
Total	**11,390,751.92**	**739,832.80**	**821,016.67**	**571,426.39**	**8,257.25**	**12,371,917.75**

Book value in EUR	31/12/2013	Prev. yr.
Investments	32,013,347.95	20,140,823.87
Shares in affiliated companies	2,454,963.95	2,682,060.28
Intangible assets	575,509.06	653,127.06
Tangible fixed assets	1,929,103.00	2,583,010.00
Total	**36,972,923.96**	**26,059,021.21**

Information on liabilities as at 31/12/2013

Liabilities	Total	thereof with a residual term of			
		up to 3 months	3 months up to 1 year	1 to 5 years	more than 5 years
Due to banks	45,560,194.17	45,560,194.17	0.00	0.00	0.00
(previous year)	(67,361,328.81)	(67,361,328.81)	(0.00)	(0.00)	(0.00)
Securitised liabilities	25,112,083.32	112,083.32	0.00	0.00	25,000,000.00
(previous year)	(25,129,083.33)	(129,083.33)	(0.00)	(0.00)	(25,000,000.00)
Due to customers	1,332,062.80	1,298,087.23	27,575.57	6,400.00	0.00
(previous year)	(1,284,905.31)	(1,250,821.97)	(5,232.38)	(28,850.96)	(0.00)
Other	2,860,059.48	2,859,931.58	0.00	127.90	0.00
(previous year)	(4,070,933.66)	(4,070,933.66)	(0.00)	(0.00)	(0.00)
Total	**74,864,399.77**	**49,830,296.30**	**27,575.57**	**6,527.90**	**25,000,000.00**
(previous year)	(97,846,251.11)	(72,812,167.77)	(5,232.38)	(28,850.96)	(25,000,000.00)

I. General information for the annual financial statements

1. Preliminary comments

LHI Leasing GmbH (hereafter LHI) is in the business of providing financial services in terms of sec. 1 subsect. 1a no. 10 KWG. The annual financial statements for the period ending on 31 December 2013 were therefore prepared in accordance with the provisions of sec. 340 ff. HGB (German Commercial Code) in conjunction with the Banking and Financial Services Institutes Accounting Regulation (RechKredV).

The previous year's figures (shown in brackets) have been added for comparative purposes.

2. Accounting Policies

a) Cash reserves and receivables due from banks

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

b) Receivables due from customers

Receivables due from customers are entered at the nominal value or the lower fair value. In accordance with sec. 256a HGB, short-term receivables denominated in foreign currencies were converted at the average rate of exchange on the financial statement cut-off date. Profits and losses from the conversion were shown in the statement of income as "other operating income" or "other operating expenses".

c) Shares and other variable yield securities

In accordance with § 246 section 2 sentence 2 of the Commercial Code, marketable investment fund shares acquired for employees in line with a present value model were offset against the underlying liabilities at the corresponding amounts. Acquisition costs for offset assets are EUR 1.106 million (EUR 1.413 million), while the fair value of the assets amounts to EUR 1.067 million (EUR 1.342 million) pursuant to the bank's securities account statement; the amount repayable for the offset debt is EUR 1.067 million (EUR 1.342 million). The fair value was calculated using the market value of the investment fund shares on the balance sheet date. The company did not guarantee that the capital will be maintained.

d) Investments and shares in affiliated companies

Investments and shares in affiliated companies were valued at the lower of acquisition costs or the fair value.

e) Intangible and tangible fixed assets

Intangible assets acquired for a consideration and tangible fixed assets are shown at their costs of acquisition less scheduled, use-related and unscheduled depreciation. Scheduled depreciation is applied on a straight-line basis; the depreciation period is derived from the customary useful life. Low-value items totalling EUR 4,000 (EUR 24,000) were capitalised during the year of acquisition and are depreciated over five years.

f) Other assets

In accordance with sec. 246 subsect. 2 sentence 2 HGB, claims from pension insurance, which was obtained for the employees for reinsurance purposes as part of a present value model, were offset against the underlying liabilities at the corresponding amounts. Acquisition costs for offset assets are EUR 108,000 (EUR 72,000), while the fair value of the assets amounts to EUR 114,000 (EUR 74,000) pursuant to the insurance confirmation; the amount repayable from offset debt is EUR 114,000 (EUR 74,000). The company did not guarantee that the capital will be maintained.

Other assets are entered at the nominal value or the lower fair value.

g) Prepaid expenses

Accruals and deferrals contains expenditures that represent expenses attributable to a specific period after the balance sheet cut-off date. These items will be released almost in entirety into the next year's statement.

h) Liabilities

Liabilities are entered at the amounts repayable. In accordance with sec. 256a HGB, liabilities denominated in foreign currencies were converted at the average rate of exchange on the financial statement cut-off date. Profits and losses from the conversion were shown in the statement of income as "other operating income" or "other operating expenses".

i) Deferred income

The deferred income item is released as scheduled on a straight-line basis.

j) Provisions for pensions and similar obligations

The valuation of direct pension obligations was carried out according to the internationally recognised projected unit credit method.

The calculations are based on the following actuarial assumptions:

Actuarial interest rate	4.89% p.a.
Salary and wage trend	2.25% or 3.0% p.a.
Pension trend	2.25% p.a. or 6% every three years or 1.75% p.a.

The actuarial interest rate for discounting was entered as a flat rate using the average market rate according to the Bundesbank that results from an assumed remaining term of 15 years.

The 2005 G reference tables of Prof. Dr. Klaus Heubeck are used as a basis for calculating the mortality and disability probability.

k) Tax provisions and other provisions

Provisions are entered at the amount repayable as required on the basis of a reasonable business assessment. Future price and cost increases were included in the valuation of provisions. Provisions with a remaining term of six and ten years were shown at a discounted basis at a market rate that is dependent on the term and that corresponds with the respective remaining term.

l) Shareholders' equity

Shareholders' equity corresponds with the provisions of the articles of association.

m) Deferred taxes

Deferred taxes are created for time-related differences between the balance sheet approach under commercial and that under tax law, which are expected to reverse in the future, insofar as this is permitted according to sec. 274 HGB.

n) Interest result

Interest is entered at the pro rata temporis amount that is attributable to the business year.

Interest expenses include compounding of the pension provision in the amount of EUR 406,000 (EUR 364,000) and a discount amount from other provisions in the amount of EUR 14,000 (EUR 29,000).

Other amounts from compounding or discounting are not included in the interest result.

o) Regular income from investments and shares in affiliated companies

Dividends are collected as earnings in the year of distribution.

p) Commission result

Commission income includes one-time fees as well as commissions for debt capital brokerage; this income is always collected after services are rendered. Commission expenses are booked as expenses in accordance with the services utilised.

q) Other operating income

Other operating income includes in particular earnings from management services and agency fees, and are settled annually.

r) General administrative expenses

General administrative expenses are entered on a cause and accrual basis.

s) Other operating expenses

Other operating expenses mainly consist of allocations to anticipated losses. These are created on the basis of a reasonable business assessment if it is likely that they will be utilised.

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

This item includes impairments and value adjustments for receivables.

II. Explanations regarding the 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, including interim financing arrangements within the LHI group particularly on the asset side.

Other assets consist mainly of liquidity-like resources and receivables from the tax office. Liabilities to banks result from the on-going refinancing of LHI at its two shareholder banks and three other banks.

Receivables and other assets include foreign currency receivables of EUR 2.875 million / USD 3.966 million (EUR 4.552 million / USD 6.006 million) and EUR 0 / GBP 0 (EUR 3,000 / GBP 3,000).

Liabilities include total foreign currency liabilities of EUR 2.834 million / UD 3.909 million (EUR 4.525 million / USD 5.971 million).

1. Assets

a) Receivables due from banks

Receivables from banks maturing daily amount to EUR 59,000 (EUR 26,000) and include receivables from companies in which participating interests are held, in the amount of EUR 35,000 (EUR 17,000). Receivables from banks include an amount of EUR 35,000 (EUR 17,000) from shareholders.

b) Receivables due from customers

Receivables due from customers include receivables from affiliated companies in the amount of EUR 40.114 million (EUR 18.059 million) and receivables from companies in which participating interests are held, in the amount of EUR 21.346 million (EUR 61.165 million).

On the financial statement cut-off date, LHI had issued subordinate debt and deposits to IFRS special purpose companies totalling EUR 3.2 million (EUR 3.4 million).

The information shown on the balance sheet is organised by maturity, as follows:
- Receivables up to three months
  EUR 24.262 million (EUR 16.619 million)
- Receivables three months up to one year
  EUR 39.533 million (EUR 88.284 million)
- Receivables one to five years
  EUR 141,000 (EUR 58,000)
- Receivables more than five years
  EUR 12.538 million (EUR 13.577 million)
- Receivables indefinite
  EUR 80,000 (EUR 80,000)

c) Investments and shares in affiliated companies

Investments and shares in affiliated companies are listed in a shareholdings list as at 31 December 2013 as part of the Notes.

d) Intangible and tangible fixed assets

The composition and development of fixed assets is shown in the asset overview as part of the Notes.

Similar to the previous year, tangible assets refer solely to business and office equipment.

e) Other assets

Other assets are comprised mainly of ATG transfer balances in the amount of EUR 27.016 million (EUR 29.891 million), capital interests for further placement in the amount of EUR 6.339 million (EUR 0) and receivables from the tax office due to eligible taxes totalling EUR 3.422 million (EUR 8.187 million).

f) Deferred taxes

Deferred tax assets are mainly due to tax-related loss carry-forwards, provisions for anticipated losses and a fund holding, and were netted against deferred tax liabilities for the valuation of interests in partnerships, which differ under commercial and tax law. Deferred tax assets that exceed the netted tax assets and liabilities were not capitalised in exercising the option under sec. 274 subsect. 1 sentence 2 HGB.

Deferred taxes were calculated using a tax rate of 24.94% and 15.8% for investments in partnerships. In addition to 15.0% corporation tax and 5.5% solidarity surcharge, the specific company trade rate of 9.1% was also included in this calculation.

2. Liabilities

a) Liabilities due to banks

Liabilities due to banks refer to EUR 7.613 million (EUR 34.050 million) in liabilities to shareholders. Another EUR 10.447 million (EUR 29.058 million) relate to the parent company LBBW and EUR 27.501 million (EUR 4.253 million) to three (one) other banks.

b) Liabilities to customers

Liabilities to customers include liabilities of EUR 1.187 million (EUR 1.005 million) to companies in which participating interests are held.

c) Securitised liabilities

In 2011, LHI issued a barer note with a total volume of nominal EUR 25.000 million to an affiliated company. The contract matures on 28 February 2021.

d) Other liabilities

Other liabilities mainly refer to liabilities to the tax office.

The maturities of the liabilities are shown in the attached liability overview.

e) Provisions for pensions and similar obligations

Provisions for pensions relate to individual commitments to LHI Managing Directors and employees.

In the case of the pension appraisals, a shortfall of 1.570 million was noted as at 1 January 2013 due to the revaluation (BilMoG). The distribution option under sect. 67 subsect. 1 sentence 1 EGHBG (Introductory Act for the German Commercial Code) over 15 years is utilised.

A partial amount of EUR 131,000 (EUR 131,000) was allocated in the 2013 business year in exercise of the option allowing for the gradual allocation of this difference. This partial amount is also shown in the extraordinary result. Accordingly, a shortfall of EUR 1.440 million (EUR 1.570 million) remains on 31 December 2013.

f) Tax provisions and other provisions

Tax provisions relate to provisions for corporation taxes including solidarity surcharge of EUR 896,000 (EUR 1.100 million) and business taxes of EUR 227,000 (EUR 334,000).

Other provisions relate mainly to risk provisions, bonuses, other personnel costs and outstanding invoices.

3. Information regarding the balance sheet

Of the information shown in the balance sheet, EUR 3.8 million (EUR 3.8 million) relates to affiliated companies.

Contingent liabilities

Liabilities from guarantees and warranty contracts
Liabilities arising from guarantees:

- "Saxony Decree"
  EUR 49.2 million (EUR 77.8 million)
- Credit facility cash pooling
  EUR 25.0 million (EUR 50.0 million)
- Letter of comfort for a special purpose company
  EUR 1.0 million (EUR 1.0 million)
- Other guarantees
  EUR 1.0 million (EUR 1.0 million)
- Other bonds
  EUR 0.1 million (EUR 0.1 million)
- Obligations regarding mandates to provide credit for a third party
  EUR 0.0 million (EUR 18.8 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 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 natural hazards. 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. The reduction for the year 2013 is due to the termination of a company.

One of the shareholder banks has provided an overdraft facility of EUR 25 million for internal group cash pooling purposes. LHI has assumed a guarantee for this facility of the same amount. The cash pooling is managed solely on the basis of cash surpluses. LHI manages liquidity, so that it is unlikely that the guarantee will be used.

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

Other obligations

Placement and underwriting obligations
Guarantees in foreign currencies are converted at the average rate of exchange on the financial statements cut-off date

The following placement guarantees were provided as at 31 December 2013:
- Growth portfolio USA
  EUR 3.7 million (EUR 3.9 million)
- LHI Immobilienfonds Deutschland
  EUR 0.9 million (EUR 24.8 million)
- Private Equity IV
  EUR 0.0 million (EUR 9.1 million)
- LHI Solar Deutschland VII
  EUR 0.0 million (EUR 0.3 million)

In the case of the USA growth portfolio, the investment phase for the target fund ended in 2011. It is not expected that the still outstanding guarantee sum will be called.

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

Other financial commitments total EUR 76.2 million (EUR 87.8 million), of which EUR 4.6 million (EUR 1.7 million) relate to affiliated companies.

Additions to amounts guaranteed/outstanding payment obligations
Additions to amounts guaranteed (liability deposits) of EUR 5.7 million (EUR 7.6 million) above the subscriptions were entered in the Trade Register as at 31 December 2013. 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 customers 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.

Unclaimed payment obligations of EUR 12.7 million (EUR 19.4 million) are in place from participating interests and shares in affiliated companies. Of this amount, EUR 5.3 million (EUR 2.5 million) relate to incorporated companies. The capital of these companies is not used for financing purposes. At this time, there are no indications that these funds will be called. The remaining EUR 7.4 million (EUR 16.9 million) relate to deposit obligations in partnerships. They mainly relate to outstanding limited partner's shares of two fund companies, which are intended for further placement in 2014.

Investors' right to tender
EUR 10.7 million (EUR 10.7 million)

Rights to tender mainly consist of three lease entry obligations.

After a period of 10 or 15 years, investors have a termination right or right to tender vis-a-vis LHI. In this case, the special purpose company would have to obtain substitute financing to pay out the investor capital, insofar as the lessees do not exercise their property option rights. The risk for the special purpose company is that it cannot obtain the required amount of outside financing.

Usually, so-called "goodwill declarations" by the financing banks are in place, which confirm that the loans will be increased on the corresponding date. The design of the existing rental contracts ensures that higher interest and repayment expenses can always be serviced with the graduated rents.

In addition, there are default risks in relation to the tenants, as is the case for all leasing engagements. For this reason, properties are only leased to tenants with a good credit rating. It is currently unlikely therefore that the rights to tender will have to be honoured.

Obligation from a project agreement
LHI is a joint and several debtor for up to EUR 0.9 million (EUR 0.9 million) with the partners of a bidding consortium for obligations from a PPP project agreement until construction is complete. The partners released LHI from the obligation. Management does not expect that this obligation will have to be honoured.

Obligation from a guarantee agreement
As part of a guarantee agreement, LHI guarantees the fulfilment of deposit obligations towards an umbrella fund in the amount of EUR 8.25 million by its limited partner. Management does not expect that this obligation will have to be honoured.

Liability exemptions
LHI has exempted a number of employees from liability in connection with their functions in the special purpose companies.

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

Leasing relationship
A leasing contract for a self-used office property is subject to the risk of a residual term of almost 16 years with a fixed annual leasing payment of EUR 2.9 million (EUR 2.9 million). Advantages offered include the removal of all owner obligations and complete flexibility after the leasing period has expired.

5. Income statement

The items of the income statement are not broken down by geographic regions since activities are mainly focused in Germany and domestic markets do not markedly differ from each other.

The regular income from investments mainly consists of income from two partnerships in the amount of EUR 655,000 (EUR 1.297 million) and dividends from two investment holdings of EUR 2.501 million (EUR 3.163 million).

The commission result of EUR 8.4 million (EUR 6.2 million) includes in particular one-time remuneration for the preparation of equity capital arrangements, commissions for the brokerage of debt capital and one-time fees for the earlier termination of management contracts. The increase in the commission result is mainly due to higher one-time fees for new business.

Other operating income of EUR 37.0 million (EUR 41.3 million) includes in particular income from management fees in the amount of EUR 19.0 million (EUR 21.3 million) and agency fees of EUR 6.9 million (EUR 5.0 million), along with the results contribution from cash pooling in the amount of EUR 3.9 million (EUR 4.3 million). Other operating income includes realised exchange gains of EUR 19,000 (EUR 44,000) and unrealised income from valuation of EUR 122,000 (EUR 136,000) from currency conversion.

Other operating expenses during the business year of EUR 4.6 million (EUR 4.6 million) relate mainly to expenses for risk provisions in the amount of EUR 3.2 million (EUR 3.2 million). Other operating expenses include realised exchange losses of EUR 5,000 (EUR 4,000) and unrealised expenses of EUR 140,000 (EUR 26,000) from currency conversion.

A new profit and loss transfer agreement was concluded on 1 January 2013. The loss transfer from such an agreement is included in expenses from loss transfers in the amount of EUR 40,000 (EUR 2.048 million). The profit transfers from two already existing and one new profit and loss transfer agreement are shown in the item income from profit pools, profit transfer and profit-sharing agreements in the amount of EUR 2.149 million (EUR 746,000).

Extraordinary expenses = extraordinary result relate to the allocations (1/15) to the pension provisions required under BilMoG.

III. Other information

During the 2013 business year, LHI's workforce averaged 242 (282) employees, consisting of 3 (3) Managing Directors, 1 (1) fully authorised representative and 238 (278) salaried and executive employees.

The parent company is Landesbank Baden-Württemberg, with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. The consolidated financial statements prepared by the parent company are published in the electronic Federal Gazette, Cologne.

Board of Management

Oliver Porr, Managing Director of LHI Leasing GmbH
Robert Soethe, Managing Director of LHI Leasing GmbH
Jens Kramer, Managing Director of LHI Leasing GmbH

Supervisory Board

Chairman
Hans-Jörg Vetter,
Chairman of the Board of Landesbank Baden-Württemberg

Vice Chairman
Eckhard Forst,
Member of the board of Norddeutsche Landesbank

Members
Martin Hartmann,
Managing Director, Head of Markets at Norddeutsche Landesbank
Karl-Manfred Lochner,
Member of the Board of Landesbank Baden-Württemberg
Ingo Mandt,
Member of the board of Landesbank Baden-Württemberg
Dr. Johannes-Jörg Riegler, until 28 February 2014,
Member of the board of Norddeutsche Landesbank

Fees paid to the managing directors and members of the Supervisory Board

The total remuneration paid to the active members of the Board of Management during the 2013 business year was EUR 1.277 million (EUR 1.297 million).

Provisions for pension obligations related to former members of management total EUR 1.262 million (EUR 1.193 million) as at 31 December 2013. On-going pension payments for the business year totalled EUR 112,000 (EUR 124,000).

LHI's Supervisory Board received a total remuneration of EUR 77,000 (EUR 77,000) during the financial year.

Investments in large limited liability companies exceeding 5% of the voting rights:

INTENA Leasing GmbH, Pullach i. Isartal
MITAMA Verwaltung GmbH, Pullach i. Isartal
RATIS Beteiligungs GmbH & Co. Mobilienleasing KG, Pullach i. Isartal
LOPANO Verwaltung GmbH, Pullach i. Isartal

The total fee calculated by the auditor for the 2013 business year totals EUR 335,000 (EUR 292,000), consisting of EUR 178,000 (168,000) in services for the audit of the financial statements, including the audit fee for the consolidated financial statements, EUR 33,000 (EUR 13,000) for other confirmation services, and EUR 124,000 (EUR 111,000) for other services.

LHI did not undertake transactions with related parties at non-arm's length conditions.

IV. Appropriation of results

During the preparation of the annual financial statements, management reversed an amount of EUR 55,863.27 from other revenue reserves in favour of the net profit.

Management recommends that EUR 6,000,000.00 is distributed out of the net profit of EUR 8,500,487.86. The remaining amount is carried forward onto new account.

Pullach im Isartal, 7 March 2014

The Managing Directors

Oliver Porr

Robert Soethe

Jens Kramer

Audit opinion

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 2013 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 10. März 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
Wirtschaftsprüfer

(Lepple)
Wirtschaftsprüfer

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft
WIRTSCHAFTS-PRÜFUNGS-GESELLSCHAFT
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München

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