

2021

ANNUAL REPORT



FOREWORD	3
THE LHI GROUP	5
Strategy and positioning	8
Sustainability	10
Structure	11
Human Resources	12
Milestones	14
Key figures	15
Code of Ethics	16
LHI GROUP BUSINESS DEVELOPMENT 2021	18
Earnings position	20
Outlook	20
Figures from the balance sheet and income statement	21

FOREWORD



LHI Management Board:

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- Florian Heumann
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- Dr. Nicole Handschuer
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- Markus Niedermeier (from left to right)

The business model of the LHI Group proved highly robust again this past year, during which financing of and investments in real assets remained largely stable even though public life and some industries were impacted by the pandemic. Increased demands for accelerated implementation of the Green Deal had a beneficial effect to some extent.

Against this background, our results for financial year 2021 were very good. We remain a reliable partner for our customers, for whom the LHI Group completed transactions with a volume of €1.4 billion in the financial year ended. Of that total, €1.1 billion was invested in new projects. The structured financing division and the investment business both exceeded their targets for the year. As of the end of 2021 our assets under management totaled €14.4 billion.

New business volume for structured financing totaled €753 million. We completed financing deals for new construction projects and for existing properties under sale-and-lease-back and buy-and-lease arrangements. Deals in the Real Estate segment involved properties ranging from warehousing/logistics centers to production and industrial plants, health care centers, offices and retail. The structured financing for acquisition of the iconic department store Konen in downtown Munich by fashion retailer Breuninger was of particular note. Additionally, we see the intensified partnership with logistics and industrial real estate developer Panattoni as essential for gaining further market share in this segment.

We financed another large local passenger rail transport network for DB Regio, backed by the state of Bavaria. Foreseeing an overall increase in investment in rail infrastructure, principally in sustainable and climate-friendly propulsion technologies, we have further expanded in the Rolling Stock business.

The focus in the investment business was on impact and ESG strategy funds in the real estate and renewable energy asset classes. Last year for the first time since founding of LHI, we managed an open-ended real estate special fund at our Luxembourg office.

The acquisition of three solar parks and three wind farms increased our renewable energy assets under management by €97 million up to €1.6 billion. This success was recognized in 2021 in the form of the Scope Award, presented to Germany's top asset manager in the category of 'Alternative Investments Infrastructure Equity'. The electrical power generated by these parks saved 354,721 tons of CO₂, powering 264,392 households.

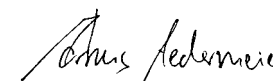
We invested €274 million in the real estate asset class in 2021, with a strategic focus on office and infrastructure properties. Our "Wohnen im Alter" (senior living) impact fund is one of the first German investment funds launched in the real estate asset class that meets the requirements per Art. 9 of the Disclosure Regulation. Additionally, our asset management company took part in ESG scoring for the first time this past financial year, qualifying for the grade "very good". This was key in enabling the company to launch the first impact and ESG strategy funds in its 50-year history in the year 2021. The LHI Group's achieving climate positive status in late 2020, continuing on into 2021, was crucial for achieving such favorable scoring.

This success was only possible thanks to our reliable and dedicated employees and our relationships with clients, many of which are long-term. Both are high values for us and a very important foundation that we want to continue to cultivate and expand.

We would thus like to thank our clients, business partners and staff expressly for the confidence and trust they place in us.


Dr. Nicole Handschuh


Florian Heumann


Markus Niedermeier





The LHI Group

The LHI Group consists of LHI Leasing GmbH, founded October 1, 1973 as a real estate leasing company, and its subsidiaries. Since 2015, LHI Leasing GmbH has been a wholly owned subsidiary of LHI Holding GmbH, which in turn is wholly owned by four private individuals who were also managing directors of LHI until December 31, 2020.

The LHI Group is a provider of structured financing vehicles and serves as an investment manager for companies and investors. Complementary services, such as insurance solutions, real estate valuations, the performance of functions related to construction controlling or the management of external real estate portfolios, round out the product range.

LHI is a regulated company in the financial sector and is therefore subject to the provisions of the German Banking Act. With regard to capital procurement and the management of equity investment products, major parts of the services are provided by two wholly-owned subsidiaries, LHI Capital Management GmbH and LHI Kapitalverwaltungsgesellschaft mbH. Both Companies are also subject to German financial supervision, have their own staff and are linked to LHI by profit and loss transfer agreements.

LHI has a branch in Pöcking and an office in Stuttgart. In addition, the Group has indirect shareholdings in the Polish LHI sp. z o. o. and LHI Management Luxembourg S.A., through which business activities in the Polish and Luxembourg markets are supported.





Strategy and positioning

The present macroeconomic environment is dominated more now by the Ukraine crisis than the pandemic. Although uncertainty and unpredictability are inherent in this situation, there are also opportunities.

Rising inflation, interest rates, and commodity and energy prices pose both opportunities and risks for our business model.

In line with our business and risk strategy, we address this situation by applying two principles:

Our diversified business model is based on two pillars: Structured Finance and Investment Management. For us, long-term aspects are more important than short-term yield optimization. Maintaining our basis of stable earnings is also critical. We seek to apply foresight and prudent judgment in our decision making.

LHI has a strong equity base. We have high risk cover amount available in relation to our business activities. This makes us less susceptible to crises than our competitors. In addition, we employ a conservative risk policy. We observe in some cases that our potential risk exposure is inaccurately priced, thus we deliberately avoid such transactions. Like any major enterprise, LHI operates within a larger economic environment, through which we are exposed to factors beyond our control. For example, it lies in the nature of our business model that products we design are refinanceable. Although our equity strength and the number of credit lines available help here, this cannot replace refinancing at the project level in the long term. We thus work with a large number of domestic and foreign credit institutions and incorporate subordinated capital from institutional investors.

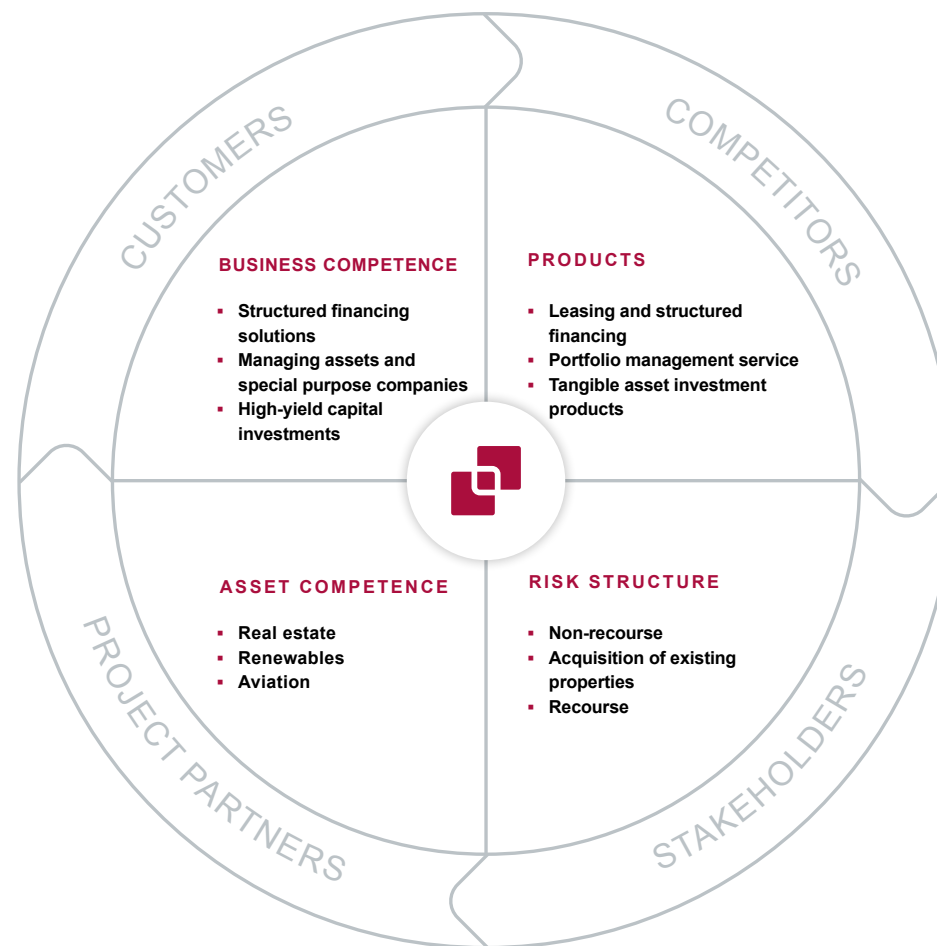
This results in a link between the two pillars of our business model: We connect the asset side with the liability side. This generates the greatest possible benefit for both investors and property users. This integrated business model has also proven its worth in the years since the last financial crisis and will be continued accordingly. The efficient management of special purpose vehicles is another integral part of our business model.

LHI has a very robust IT infrastructure based on SAP-HANA. Our software reflects the requirements posed by our business model as well as those of German and international commercial and tax laws. This distinguishes LHI from many other service providers. We not only design but also implement and manage projects – in some cases for more than 20 years. We offer management services to third parties as part of our “Corporate Service Providing” product. This offer is primarily targeted at foreign companies that maintain a special purpose company in Germany but cannot or do not want to handle business administration themselves. This gives us the advantage of generating stable fee income in addition to our own special purpose companies.

LHI has acquired leasing portfolios on numerous occasions in the past along with a one-time acquisition of a fund portfolio. We would continue to do this in future if the associated risks can be quantified and opportunities can be forecast, for example through the use of cost digression. We go far beyond traditional leasing solutions in the field of Structured Finance. We achieve customerspecific requirements and objectives through the use of complex and highly-tailored structuring solutions. For example, we design successionfocused corpo-

rate structures for companies just like we optimize financing related financial covenants or help companies to better meet balance sheet and regulatory requirements. Especially in the area of Investment financing we pay attention to tax implications and make any necessary adjustments during the term of the respective contract.

We offer investment management services for asset classes: Real Estate, Renewables and Aviation. LHI products in these asset classes satisfy the requirements of institutional investors. Design, asset management as well as portfolio management - including risk management and reporting - are all performed completely by LHI. An important part of our strategy in this area is to ensure that investment designs precisely satisfy the specific requirements and needs of the respective investor group. Accordingly, we intentionally focus on business with institutional investors and family offices. We have developed investments especially for foundations, pension schemes, pension funds and insurance companies. This allows the specific requirements of each respective investor group to be better taken into account during the term of the investment. Going forward, our investment products will have an even greater focus on offerings that are sustainable and create social benefits.



**IDENTIFY POTENTIAL, MINIMIZE RISKS.
THAT'S HOW WE CREATE
AND ADD VALUE**



Sustainability

For the LHI Group, sustainability is a fundamental business philosophy. We consider both long-term and social consequences in all areas of our business.

Structured finance is designed for the long term. Commitment terms average 20 years, and the customer relationships are correspondingly long-term.

The question of how sustainable a product is is a decisive factor for its success in the area of investments.

LHI has a Sustainability Advisory Board consisting of people from different departments within LHI and two external members. The Advisory Board meets at least twice a year. LHI has established reporting for its investments to fully comply with all requirements of the EU Disclosure and Taxonomy Regulation. Certain requirements will only be clearly defined later on this year or thereafter, thus in addition to the tasks addressed by the Sustainability Advisory Board, LHI holds a sustainability jour fixe meeting at regular intervals for the discussion of operational progress and implementation on an ongoing basis. The general guiding principles comprise the United Nations Principles for Responsible Investment (PRI) (as amended).

LHI has joined the industry initiative ESG – Circle of Real Estate (ECORE). The objective of this initiative is to work in common across the industry to develop a uniform real estate ESG scoring as a standard for the European real estate market.

Our proprietary LHI scoring model will continue to be used as a differentiator until an industry standard is adopted, and selectively if necessary beyond that point. The LHI model makes it possible to assess the environmental, social and governance (ESG) profile of real estate investments in different real estate use classes.

Additionally, LHI Kapitalverwaltungsgesellschaft obtained a sustainability rating for the first time in 2021, qualifying for the grade 'very good'. The rating agency furthermore found that LHI Kapitalverwaltungsgesellschaft is not a party to any controversial investments. Also, the company's first-ever impact and ESG strategy funds were launched in 2021, for which sustainability ratings were also externally obtained. The 'very good' rating reflects the LHI Group's crucially important overall climate positive status, discussed below.

LHI Kapitalverwaltungsgesellschaft also joined the Institute for Corporate Governance (ICG) in the Real Estate Industry and became a member of the International Ethics Standard Coalition (IES). The IES and the ICG are both the fruits of a United Nations initiative for implementing uniform, recognized standards of governance in the real estate industry.

In conjunction with Fokus Zukunft GmbH & Co. KG, we determined the company's own CO2 footprint for the year 2019, and more than offset this for years 2020, 2021 and 2022 by purchasing emissions reduction certificates. In total, we bought twice as many certificates as were needed to offset our CO2 footprint. The LHI Group is thus a climate-positive company.

We have joined the Alliance for Development and Climate Foundation and the climate neutrality alliance Bündnis Die Klimaneutralen, supporting regional projects. Since April 2021, we have had a collaboration with beefuture through which we have adopted bee colonies that have moved onto the LHI campus.

Structure

SHAREHOLDER

LHI Holding GmbH

MANAGEMENT

LHI Leasing GmbH

Financial services institution; management of the LHI Group, **founded in 1973**

LHI Leasing GmbH is a financial services institute and operates according to the provisions of the German Banking Act (Kreditwesengesetz). The company thus has risk management systems in place that fulfill the stringent regulatory requirements under the Act.

OPERATING SERVICE COMPANIES

LHI Kapitalverwaltungsgesellschaft mbH

Asset management company within the meaning of the KAGB, management of AIFs, **founded in 2013**

LHI Capital Management GmbH

Distribution, investor relationship management, **founded in 2012**

LHI Luxembourg Group LHI Management Luxembourg S.A.

Fund issues and fund management according to Luxembourg Law, **founded in 2009**

LHI Securitization S.A.

Luxembourg securitization company, **founded in 2017**

LHI Versicherungsmakler GmbH

Investment advice and insurance, **founded in 2005**

LHI sp. z o.o. (Poland)

Polish subsidiary headquartered in Warsaw, **founded in 1995**

LHI Real Estate Management GmbH

Construction consulting and management, **founded in 1988**

MANAGEMENT OF SPECIAL PURPOSE VEHICLES

Intermediary holding companies

Various intermediary holding companies, some of which acquired in leasing portfolio purchases.

Special purpose vehicle companies

Special purpose vehicle projects

Human Resources

We consider the needs and expectations of our business partners and employees in all relevant business matters. A company can only be successful if it considers both of these factors.

Our business partners have become aware of our superior market and industry knowledge, which we draw upon in designing high-quality products. Our staff are dedicated, high-performing individuals capable of developing concepts for both today and tomorrow, who want to play a part in shaping the company's future.

We had realized well before the pandemic how flexible work arrangements are becoming more and more important to employees, and a key factor for business success. Many companies then faced major challenges in the spring of 2020 in attempting to transition into decentralized working, while our already digitalized business operations simply carried on smoothly, largely as before. Now as we emerge from the pandemic, flexible structures will remain a fixed part of our value chain. Employee retention will remain important, through flexible work arrangements and other means, in ensuring creative processes and close client relationships. The highly flexible hybrid in-office/remote working model we have adopted forms an optimal basis in this regard.

Systematically promoting career pathing and skills development for all staff is a long-established, high-priority practice at LHI, as reflected in the modular programs regularly offered to our employees. While specific seminar content varies by target group, content is always strictly designed to advance the skillsets and careers of our staff and optimally prepare them for upcoming challenges. One take-away from the nearly 50 years this company has been doing business is that change is the only constant.

Our success rests in no small way on how we blend the expertise of experienced market veterans with ideas from younger staff that can shake things up. For this allows meeting business partners' expectations while at the same time achieving the strategic objectives of LHI.

To us, career pathing means more than climbing a hierarchical company ladder, and non-management career pathing receives particular attention. All employees have opportunities to explore and potentially move into different areas of the company with differing work content.

The individual at the heart of our activities. Accordingly, our employees' health is of high priority, which is why we hold regular 'health days' and provide opportunities for interested staff to take part in athletic and cultural activities organized by LHI.

It is also important to us to provide staff members options enabling a healthy, balanced diet, thus salads, soups, vegetarian and light-fare dishes are available at the in-house company restaurant, which uses regionally farmed products whenever possible.

We also offer fresh fruit daily for a balanced range of vitamins. We provide coffee points with free coffee, tea and water to foster social contact and communication amongst employees from different areas.

**FOCUS ON PEOPLE:
WORKING TOGETHER
WITH OPENNESS AND
MUTUAL RESPECT.**



Average number of employees 2021
at LHI

Employees

from ten different countries

Human Resources
by the numbers



Milestones



Key figures

	12/31/2021 in kEUR	12/31/2020 in kEUR	12/31/2019 in kEUR	12/31/2018 in kEUR
Equity ratio in %	47.2	40.6	43.8	35.8
Economic result	21,130	31,900	45,900	21,310
	in million EUR	in million EUR	in million EUR	in million EUR
New business volume	1,130	1,123	1,202	991
Investment volume under management	14,441	14,697	15,512	16,409
Transaction volume	1,400,000	2,000,000	1,500,000	1,500,000
Companies under management	1,356	1,421	1,476	1,499
Number of employees	264	265	256	249

Code of Ethics

LHI's success lies in its company-wide corporate culture, which is characterized by integrity, mutual appreciation and individual responsibility. We place our long-term economic success with the greatest possible benefit for our customers at the center of our actions.

This Code of Ethics serves as a code of conduct for all LHI employees. It contains values, basic behavior, attitudes and rules of conduct which are binding for all of us when dealing with our business partners, customers, competitors and authorities.

General principles

Compliance with laws and regulations

We undertake to comply with all applicable laws and other applicable regulations in countries in which we operate in all business activities and decisions.

Combating money laundering, financing of terrorism and corruption

We use internal security measures and mechanisms based on potential risk to prevent money laundering, to combat the financing of terrorism and to combat corruption.

Compliance with data protection requirements

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

Fair competition

We comply with applicable laws and regulations governing competition, and we want to protect and promote fair competition.

Principles for interacting with each other

Guiding principles

Our dealings with each other are guided by the following values and fundamental attitudes: mutual respect, loyalty, reliability, commitment, propriety, fairness, authenticity, performance orientation and discretion. Our actions should be as transparent as possible.

We respect the prohibition of discrimination in the European Convention on Human Rights, i.e. no discrimination against people on the grounds of sex, skin color, language, religion, political or other opinion, national or social origin, membership of a national minority, property, birth or other status.

Avoidance of conflicts of interests

We are committed to avoiding situations in which personal and/or business interests may conflict with those of our company.

We shall refrain from obtaining any advantages, in particular by accepting personal gifts or advantages resulting from business relationships.

Principles for dealings with business partners and customers

Business relationships

We advise and support our business partners and customers or potential business partners/customers respectfully and personally.

Handling confidential information

Within the scope of applicable laws and regulations, we commit to safeguard trade secrets or other confidential information and documents from business partners and customers disclosed to us.

Completeness of information

Information we communicate and disseminate is complete and understandable in itself in order to provide business partners and customers as well as potential business partners/customers with a basis for a long-term business relationship.

Quality

Our products and services are characterized by the highest quality standards and continuous adaptation to market developments and customer needs.

Principles of Social Responsibility

Occupational health protection

We guarantee occupational safety and health protection at the workplace in accordance with applicable regulations.

Environmental protection

Environmental protection is relevant and important to us and is given consideration in all company affairs. We focus on sustainability and energy efficiency in the construction of our buildings.

Social responsibility

We behave in a manner that reflects the responsibilities of our company toward the society we live in.

**THE MOST IMPORTANT
FACTOR TO OUR
SUCCESS: A CORPORATE
CULTURE SHAPED BY
CLEAR PRINCIPLES**



2021



Business review for 2021

Earnings and other performance metrics were very good for the period under review. We significantly exceeded our strategic earnings target again in 2021, recording a German GAAP book result of €6.3 million before profit transfer.

One-time effects contributed to this result coming in above-estimate. The nominal result from new business was significantly above forecast, with target achievement at 152%.

In the year under review we structured €1,130 billion in new-business transactions, this volume representing new assets under management.

Our business volume is well-diversified overall, although real estate projects comprise the lion's share at 62%.

LHI managed assets for 1,356 companies as of the end of 2021.

The LHI Group also includes other units that complement or round-out the range of services offered.

The company Real Estate Management GmbH (REM) performs construction management for our financing projects. LHI REM also makes its range of services available to external third parties and generates additional fee income from such sources. LHI REM enjoyed a successful 2021. Earnings for purposes of commercial law were positive.

Currently, LHI Management Luxembourg S.A. mainly manages structures created for internal group purposes. The company also provides administrative services for a Luxembourg fund (FCP) for the real estate holdings of a professional investor. This fund is presently in the investment phase. LHI also took over portfolio management for the fund in Luxembourg during the period under review. Securitization company LHI Securitization S.A., which is also located in Luxembourg, has been active in the securitization business since 2018. Luxembourg as a business location has consistently gained in importance for the LHI Group. Investments in space and human resources have been increased accordingly. Earnings from investments are in line with projections.

LHI Versicherungsmakler GmbH is a joint venture between conTRACT Versicherungsmakler GmbH and LHI Leasing GmbH. LHI Versicherungsmakler GmbH acts as go-to for all insurance-related issues, being primarily tasked with optimizing insurance coverage for the special purpose companies managed. Earnings are influenced by the generation of brokerage commissions and may be described as good for the past financial year. LHI Versicherungsmakler GmbH also provides services to outside third parties. However, we continue to be very selective regarding the third-party clients we market to.

Earnings position

LHI recorded pre-tax earnings of €6.3 million for financial year 2021.

Recurring fees for managing special purpose companies totaled €34.1 million. Income from investments after profits and losses under earnings transfer agreements came to a net €15.3 million.

Commission income of €3 million was recorded. Substantial income was generated in the year under review from commitments terminated on an early basis.

Net interest income declined slightly to €-0.9 million, due primarily to significantly lower interest income for interim financing and to modified

calculation rules for treating the interest share of pension provisions (interest declines) in place since 2015.

Total personnel expenses declined from €25.2 million to €21.6 million, reflecting variable pay linked to company profits, which came in significantly lower for the year under review. It was therefore unnecessary to increase provisions for pension commitments. The average number of employees over the course of the year increased slightly.

Other administrative and other operating expenses fell from €25.3 million to €21.8 million.

In view of the current environment, we view LHI earnings as very good, and the same goes for the larger LHI Group. Net income for 2021 was again impacted by one-time charges, but after adjusting these out the figure remains within the defined strategic corridor. We believe 2021 earnings does not represent an appropriate benchmark for longer-term forecasting. Due however to certain distributions taking place after year-end, for 2022 we estimate unusually strong net income for the year of €8.1 million. Calculated on share capital of €20 million remaining after the distribution of capital slated for June 30, 2022, this represents an estimated return of 40% on paid-in share capital.

Outlook

The low interest rate environment will continue having a significant impact on how we structure our business activities. In connection with our proprietary asset purchases and sales we are observing strong demand for but a low supply of investments linked to real assets. In dialogue with our clients we are also regularly told how important it is to them that financial structuring be precision-tailored to their individual requirements. We believe that these observations are valid for the overall structured financing and investment product market, and that such factors will likely become even more important in connection with the pandemic. Investors' willingness to provide financing for the asset classes of interest to us appears to remain entirely intact. In the financial year ended, none of our projects failed due to insufficient financ-

ing. We thus conclude that the current environment, exacerbated by the pandemic, is such that clients attach particular importance to working with a partner with structuring expertise and an awareness of quality, in addition to offering the right asset classes and properties with specific asset characteristic. We believe we are well capable of delivering on these desires, despite the challenges of the situation.

Changes to the legal framework are another factor that can influence our business activities in a major way. We foresee increasing regulation. The current requirements are complex, yet compliance is manageable at reasonable expense for us as an SME. We continuously monitor the situation as to whether specific business activities are still financially viable.

It will remain a top priority for LHI KVG given this business context to fully invest outstanding capital commitments in existing projects. As before, new products are mainly designed for specific target groups: institutional investors and wealthy private clients, principally. The products offered to these target groups will thus remain the focus in equity project sales conducted by LHI CM. In view of the forecast environment we remain skeptical about investment offers aimed at the general public, and will either be refraining from such or only offering such on a highly selective basis. We are expanding our activities in Luxembourg in line with demand.

We view our business, earnings and risk targets as ambitious but reasonably attainable overall in this environment. External influences, such as a slowing economy and tightening regulation, have been factored into our projections. Possible system shocks, such as further escalation of the Ukraine crisis, a drastic resurgence of the pandemic or a eurozone breakdown have not been factored into in our projected figures. We do run stress tests to analyze such scenarios but have not incorporated these into our planning.

Figures from the balance sheet and income statement

	12/31/2021 in kEUR	12/31/2020 in kEUR	12/31/2019 in kEUR	12/31/2018 in kEUR
Loans and advances to customers	28,036	34,950	24,652	45,687
Investments and shares in affiliated companies	48,042	45,210	48,280	41,076
Cash equivalents	20,062	20,076	18,479	26,892
Liabilities to banks	7,642	17,234	7,165	20,300
Provisions	36,097	35,891	32,335	28,726
Equity	48,043	41,697	41,697	41,697
Total assets	101,679	102,708	95,234	116,335
INCOME STATEMENT				
Recurring income from investments and affiliated companies, income from profit and loss transfer agreements	15,255	26,569	26,484	20,323
Income from current fees	27,948	26,144	23,736	25,702
Personnel expense	-21,646	-25,185	-24,172	-22,472
Other administrative expenses	-19,886	-20,258	-21,194	-19,996
Result for the year*	6,346	7,214	10,424	14,341

*transferred under profit and loss transfer agreement until 2020.

The complete Management Report
can be found [here](#)

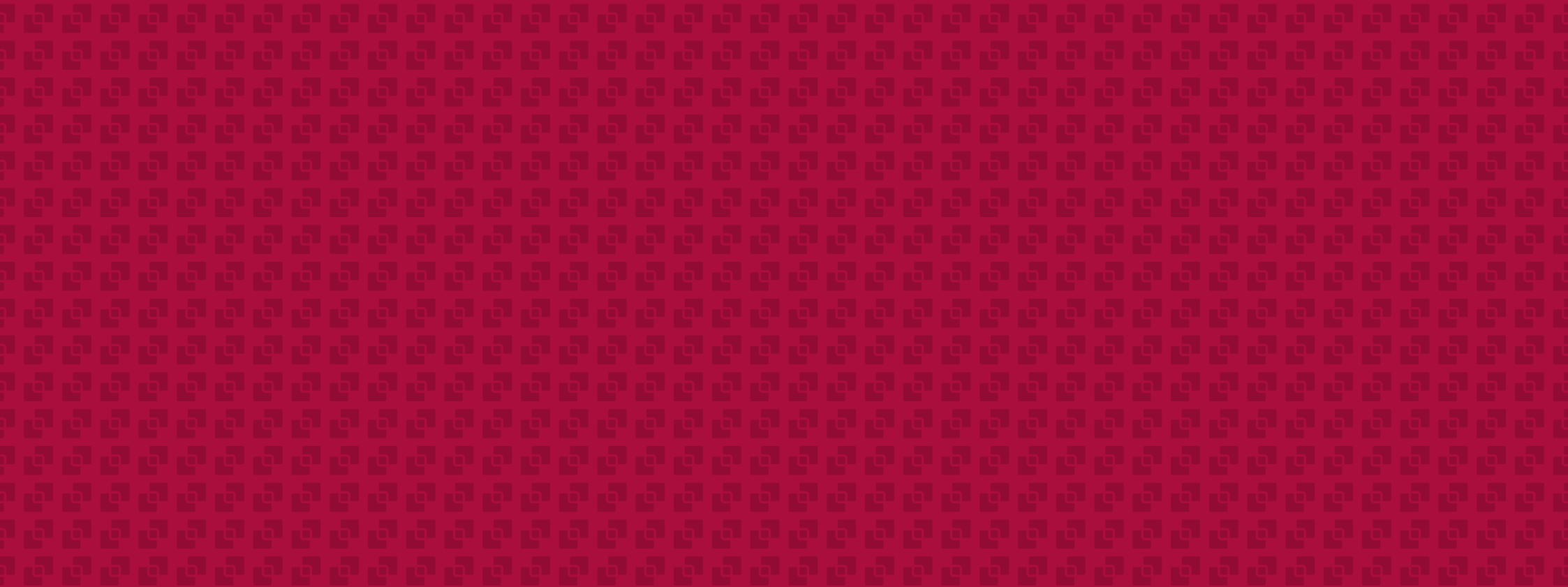


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