
DLL Capital Adequacy and Risk Management report

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1. Introduction

De Lage Landen International B.V. (DLL) is a global provider of asset-based financial solutions working across 9 key industries: Agriculture, Food, Healthcare, Clean Technology, Construction, Transportation, Industrial Equipment, Office Equipment and Technology. DLL is present in over 30 countries and operates via a Vendor Finance model, where DLL enters into partnerships with global manufacturers offering integrated solutions to their customers for the entire asset life cycle.

DLL is a credit institution under the Capital Requirements Regulation (CRR) and is a 100% subsidiary of the Coöperatieve Rabobank U.A. (Rabobank). DLL operates through local legal entities, which may conduct business using local licenses and under supervision of local regulators (e.g. DLL Finans AB in Sweden and Banco De Lage Landen Brasil S.A. in Brasil). For (part of) the business in Germany, Italy, Spain and Portugal, business is executed in branches of De Lage Landen International B.V. where the participating rights of the De Lage Landen International B.V., are leveraged. DLL holds 100% of the shares of its subsidiaries, except for 'joint ventures', where DLL still holds a controlling interest in equity and in the managing boards.

Under the CRR, DLL is a significant subsidiary of an EU parent institution and therefore has to comply to the disclosure requirements in article 13(1) of the CRR on a sub-consolidated basis.

The information in Pillar 3 has not been audited by DLL's independent external auditors. However, the Pillar 3 disclosures are subject to DLL's internal controls and validation mechanisms, to provide assurance over the information disclosed in this report as well as with regards to compliance with laws and regulations.

2. Capital management

The Executive Board of DLL is responsible for DLL group capital management within the framework as set by Rabobank Group. It is the responsibility of the Executive Board to manage the local business and physical capital levels to ensure sufficient capital is held to meet (local) requirements. Capital requirements are managed actively through DLL's risk strategy, risk appetite, and balance sheet management.

In the yearly Internal Capital Adequacy Assessment Process (ICAAP), DLL assesses the capital adequacy in the context of the current and foreseeable business environment where it operates in and the associated risk exposures as part of the Supervisory Review and Evaluation Process (SREP).

2.1 Qualified capital

DLL has a very solid capital position. Table 1 provides an overview of the different qualifying capital components as of December 31, 2018, including a full reconciliation with the IFRS balance sheet. The main differences between qualifying capital and IFRS capital are regulatory adjustments in qualifying capital following CRR, such as intangibles, deferred tax assets and the Internal Ratings Based (IRB) shortfall.

Table 1

Reconciliation of qualifying capital with IFRS capital		
on December 31, 2018		
in millions of euros	Qualifying capital	IFRS capital
Retained earnings	1,822	1,821
Shares + share premium	1,233	1,233
Non-controlling interests	-	-
Accumulated other comprehensive income	82	84
Regulatory adjustments	(171)	-
Common Equity Tier 1 capital	2,966	-
Non-controlling interests	-	-
Tier 1-capital	2,966	-
Non-controlling interests	-	-
Regulatory adjustments	6	-
Total IFRS equity/qualifying capital	2,972	3,138

DLL does not apply transitional provisions for capital instruments. A general overview of the main features of the Common Equity Tier 1 instruments is available in [Annex A](#).

Table 2 provides an overview of changes in qualifying capital during 2018. On December 31, 2018, qualifying capital increased by EUR 523 million compared to December 31, 2017 to EUR 2,972 million. The increase in qualified capital was mainly due to the addition of the profit for the year 2017 to the retained earnings.

Table 2

Overview of changes in qualifying capital	
<i>in millions of euros</i>	
Common equity Tier 1 capital on December 31, 2017	2,436
Shares & share premium	0
Retained earnings	533
Dividend	0
Non-controlling interests	(26)
Accumulated other comprehensive income ¹	(16)
Regulatory adjustments	39
Closing common equity Tier 1 capital on December 31, 2018	2,966
Additional Tier 1 capital on December 31, 2017	6
Non-controlling interests	(6)
Closing additional Tier 1 capital on December 31, 2018	0
Tier 2 capital on December 31, 2017	7
Non-controlling interests	(7)
Regulatory adjustments	6
Closing tier 2 capital on December 31, 2018	6
Qualifying capital on December 31, 2018	2,972

2.2 Risk weighted assets and required capital

The CRR provides a set of rules to calculate the minimum capital requirements for credit, market, and operational risks. Table 3 presents an overview of the Risk Weighted Assets (RWA) and the capital requirements on December 31, 2018 for the different risk types. Based upon a capital requirement that equals 8% of RWA, the total capital requirement for DLL was EUR 1.6 billion on December 31, 2018.

Credit risk

For the majority of DLL's portfolio, DLL is using the most advanced calculation method for calculating the RWA for credit risk, which is Advanced Internal Rating Based (A-IRB) approach. For a minor part the Standardized Approach (SA) is applied. To calculate RWA for Counterparty Credit Risk (CCR) the Mark-to-Market method is used.

Market Risk

The only market risk that is applicable for DLL concerns FX risk. The approach explained in CRR article 351 is applied to calculate RWA for FX risk.

Operational Risk

The Basic Indicator Approach is used to calculate RWA for operational risk.

Table 3

Template 4: EU OV1 – Overview of RWA		
<i>in millions of euros</i>		
	RWA	Minimum capital requirements
Credit risk (excluding CCR)	16,399	1,312
Of which the standardized approach	4,765	381
Of which the foundation IRB (FIRB) approach		
Of which the advanced IRB (AIRB) approach	11,634	931
Of which equity IRB under the simple risk-weighted approach or the IMA		
CCR	102	8
Of which mark to market	102	8
Of which original exposure		
Of which the standardized approach		
Of which internal model method (IMM)		
Of which risk exposure amount for contributions to the default fund of a CCP		
Of which CVA		
Settlement risk	-	-
Securitisation exposures in the banking book (after the cap)	-	-
Of which IRB approach		
Of which IRB supervisory formula approach (SFA)		
Of which internal assessment approach (IAA)		
Of which standardized approach		
Market risk	175	14
Of which the standardized approach	175	14
Of which IMA		
Large exposures	-	-
Operational risk	2,426	194
Of which basic indicator approach	2,426	194
Of which standardized approach		
Of which advanced measurement approach		
Amounts below the thresholds for deduction (subject to 250% risk weight)	304	24
Floor adjustment	-	-
Total	19,406	1,552

Table 4 shows the flow statements of the credit risk exposures under the A-IRB approach. Increase in total capital requirement by EUR 108 million is mainly due to growth of the portfolio. In 2018, DLL did not engage in major acquisitions or disposals.

Table 4

Template 23: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach		
<i>in millions of euros</i>		
	RWA amounts	Capital requirements
RWA on December 31, 2017	10,293	823
Acquisitions and disposals		
Other	1,341	108
RWA on December 31, 2018	11,634	931

2.3 Regulatory capital plus

Regulatory capital (RC) is the minimum amount of capital required by the supervisor. In addition to RC, institutions should set up a framework to calculate an internal estimate on capital required to absorb unexpected losses. Within Rabobank, the Regulatory Capital plus (RC+) framework is implemented for which RC is the basis and capital is added for risk types that are material for the organization, but: 1) not fully or adequately captured by prescribed methodologies in the CRR, or; 2) not considered in the Regulatory Capital framework. On December 31, 2018, the total RC+ requirement of DLL was EUR 1,588 million:

- EUR 1,552 million regulatory capital requirements;
- EUR 36 million capital requirement for interest rate risk.

The available qualifying capital of EUR 2,972 million, that DLL retains to compensate for potential losses, was above the level of the total external and internal capital requirements. This buffer underlines the financial solidity of DLL.

2.4 Capital ratios

Table 5 provides an overview of the capital ratios per December 31, 2018 and table 6 provides an overview of the minimal capital requirements ratios per December 31, 2018. The Common Equity Tier 1 ratio (15.28%), the Tier 1 ratio (15.28%) and the Total Capital ratio (15.31%) are all above the minimum capital requirements of respectively 6.47%, 7.97% respectively 9.97%.

Table 5

Capital ratios	
on December 31, 2018	
<i>in millions of euros</i>	
Risk Weighted Assets	19,406
Total Common Equity Tier 1 capital	2,966
Total Tier 1 capital	2,966
Total qualifying capital	2,972
Common Equity Tier 1 ratio	15.28%
Tier 1 ratio	15.28%
Total Capital ratio	15.31%

Table 6

Minimum capital requirements						
on December 31, 2018						
<i>in millions of euros</i>	Total SREP capital requirements		Combined buffer requirements			
	Pillar 1 (CRR)	Pillar 2 (SREP)	Capital conservation buffer	Countercyclical capital buffer	Pillar 2 guidance	Total capital requirements
Common Equity Tier 1 ratio	4.500%	0.000%	1.875%	0.099%	0.000%	6.474%
Tier 1 ratio	6.000%	0.000%	1.875%	0.099%	0.000%	7.974%
Total Capital ratio	8.000%	0.000%	1.875%	0.099%	0.000%	9.974%

Capital conservation buffer is phased in from 0.625% in 2016 to the full buffer requirement of 2.5% in 2019. In 2018, the capital conservation buffer was 1.875%.

The countercyclical capital buffer requirement of up to max 2.5% may be imposed by the local supervisors. For DLL the average countercyclical capital buffer requirement was 0.099% per December 31, 2018. A geographical breakdown of the exposures relevant for the calculation of the countercyclical capital buffer is available in [Annex B](#).

Based on the outcome of the SREP, an additional Pillar 2 own funds requirement and Pillar 2 own funds guidance can be imposed by the European Central Bank (ECB). For 2018, The ECB did not impose a Pillar 2 own funds requirement / guidance for DLL.

2.5 Leverage ratio

The leverage ratio is defined as Tier 1 capital divided by a non-risk-based measure of the on- and off balance sheet items. According to article 22 of the CRR, DLL does not have to apply the requirements for Leverage on a sub consolidated basis. CRR requirements are fulfilled on Rabobank consolidated group level.

3. Credit risk

3.1 Credit risk portfolio

For the majority of DLL's portfolio, DLL is using the most advanced calculation methods for calculating the RWA for credit risk, which is A-IRB. For a minor part the SA is applied. The following four templates show different breakdowns of the credit risk portfolio². The total credit risk portfolio includes intercompany positions with Rabobank (EUR 2,338 million) and off balance credit facilities (EUR 4,345 million).

Breakdown per exposure class

Table 7

Template 7: EU CRB-B – Total and average net amount of exposures

Net values of exposures <i>in millions of euros</i>	Net value of exposures on December 31, 2018	Average net exposures over 2018
Central governments or central banks	110	113
Institutions	2,498	2,588
Corporates	7,692	7,369
Of which: Specialized lending		
Of which: SMEs	1,793	1,846
Retail	20,718	20,004
Secured by real estate property		
SMEs		
Non-SMEs		
Qualifying revolving		
Other retail	20,718	20,004
SMEs	20,132	19,459
Non-SMEs	586	545
Equity		
Total IRB approach	31,018	30,074
Central governments or central banks	424	242
Regional governments or local authorities		
Public sector entities		
Multilateral development banks		
International organizations		
Institutions	134	107
Corporates	6,639	5,065
Of which: SMEs	506	441
Retail	2,671	2,750
Of which: SMEs	2,671	2,750
Secured by mortgages on immovable property		
Of which: SMEs		
Exposures in default	123	119
Items associated with particularly high risk		
Covered bonds		
Claims on institutions and corporates with a short-term credit assessment		
Collective investments undertakings		
Equity exposures		
Other exposures		
Total standardized approach	9,991	8,283
Total	41,009	38,357

² In the remainder of this document, the risk types mentioned in Table 3 'Template 4: EU OV1 - Overview of RWA' are leading. This implies, unless stated otherwise, that the credit risk portfolio does not take into account:

- CCR (gross amount EUR 210 million and RWA amount EUR 102 million); and
- Amounts below the threshold for deduction:
 - DTA (gross amount EUR 97 million and RWA amount EUR 243 million)
 - Significant Investments in Financial Sector Entities (gross amount EUR 24 million and RWA amount EUR 61 million)

Furthermore, other non credit-obligation (ONCO) assets are, unless stated otherwise, excluded from credit risk portfolio because these exposures are not assigned to exposure classes (gross amount EUR 826 million and RWA amount EUR 2,617 million).

Geographical breakdown of exposures

Table 8

Template 8: EU CRB-C – Geographical breakdown of exposures

on December 31, 2018

Net value <i>in millions of euros</i>	The Netherlands	Other EU	North America	Latin America	Asia	Australia	Other	Total
Central governments or central banks	1	30	73			6		110
Institutions	2,258	107	53	36	32	12		2,498
Corporates	433	2,301	4,079	181		698		7,692
Retail	1,297	8,200	9,416	977	0	828	0	20,718
Equity								
Total IRB approach	3,989	10,638	13,621	1,194	32	1,544	0	31,018
Central governments or central banks	87	145	154	22	14	2		424
Regional governments or local authorities								
Public sector entities								
Multilateral development banks								
International organizations								
Institutions		70	42	9	12	1	0	134
Corporates	97	3,031	2,756	229	257	269		6,639
Retail	36	1,626	8	231	452	318		2,671
Secured by mortgages on immovable property								
Exposures in default	2	59	4	16	41	1		123
Items associated with particularly high risk								
Covered bonds								
Claims on institutions and corporates with a short-term credit assessment								
Collective investments undertakings								
Equity exposures								
Other exposures								
Total standardized approach	222	4,931	2,964	507	776	591	0	9,991
Total	4,211	15,569	16,585	1,701	808	2,135	0	41,009

Industry breakdown of exposures

Table 9

Template 9: EU CRB-D – Concentration of exposures by industry or counterparty types

on December 31, 2018

Net value in millions of euros	Food (animal)	Food (vegetable)	Industry	Other F&A	Services	Central Government Central	Banks	Households	Trade	Total
Central governments or central banks						110				110
Institutions					2,447		51			2,498
Corporates	76	290	1,037	1,176	3,575				1,538	7,692
Retail	1,733	4,292	2,464	1,866	7,985	187	24	586	1,581	20,718
Equity										
Total IRB approach	1,809	4,582	3,501	3,042	14,007	297	75	586	3,119	31,018
Central governments or central banks						424				424
Regional governments or local authorities										
Public sector entities										
Multilateral development banks										
International organizations										
Institutions					1		133			134
Corporates	44	4,819	155	201	453				967	6,639
Retail	589	281	247	447	722	2	1	0	382	2,671
Secured by mortgages on immovable property										
Exposures in default	8	20	16	9	41				29	123
Items associated with particularly high risk										
Covered bonds										
Claims on institutions and corporates with a short-term credit assessment										
Collective investments undertakings										
Equity exposures										
Other exposures										
Total standardized approach	641	5,120	418	657	1,217	426	134	0	1,378	9,991
Total	2,450	9,702	3,919	3,699	15,224	723	209	586	4,497	41,009

Maturity breakdown of exposures³

Table 10

Template 10: EU CRB-E – Maturity of exposures

on December 31, 2018

Net value in millions of euros	On demand ⁴	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Central governments or central banks		4	97	9		110
Institutions		12	112	36	2,338	2,498
Corporates		1,507	5,034	1,151		7,692
Retail		1,755	15,870	3,098	(5)	20,718
Equity						
Total IRB approach		3,278	21,113	4,294	2,333	31,018
Central governments or central banks		0	2		422	424
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organizations						
Institutions		1	2		131	134
Corporates		761	975	103	455	2,294
Retail		543	1,945	183		2,671
Secured by mortgages on immovable property						
Exposures in default		31	82	1	9	123
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures						
Other exposures						
Total standardized approach		1,336	3,006	287	1,017	5,646
Total		4,614	24,119	4,581	3,350	36,664

³ Please note that table 10 only takes into account on balance sheet exposures (off balance sheet exposures are excluded).

⁴ On demand exposures are reported in the ≤ 1 year bucket.

3.2 Insurance activities

DLL has an insurance undertaking in Ireland. The net equity value of the insurance undertaking is EUR 29 million on December 31, 2018. Given the relative small size of the Irish insurance undertaking, the entity is not excluded from the prudential consolidation. Total RWA is EUR 19 million on December 31, 2018.

Table 11

Template 6: EU INS1 – Non-deducted participations in insurance undertakings

on December 31, 2018

in millions of euros	Value
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	29
Total RWA	19

3.3 Quantitative information credit risk mitigation techniques

For credit risk mitigation DLL, being an asset-based finance company, mainly relies on the asset that is financed, being at the same time the prime source of collateral (credit risk mitigation). Netting is not applied.

DLL has a specialized asset management department that is responsible for asset valuation and residual value estimation. These values are taken into account during underwriting new business. Value lines are available for every relevant asset, reflecting the value of the asset during the lifetime of the asset.

Assets that are financed by DLL (and that are the prime source of collateral for DLL) fall into the following industries: Agriculture, Food, Healthcare, Clean Technology, Construction, Transportation, Industrial Equipment, Office Equipment and Technology.

DLL has a highly diversified portfolio, in terms of number of obligors, number of contracts, countries where exposures are booked and assets that are financed. Credit risk concentration from a credit risk mitigation perspective is not applicable.

Table 12 provides an overview of all credit risk exposures. On December 31, 2018, the total amount of exposures net of allowances and impairments was EUR 41,009 million of which EUR 492 million defaulted.

Table 12

Template 18: EU CR3 – CRM techniques – Overview					
on December 31, 2018					
Exposures net of allowances and impairments <i>in millions of euros</i>	Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans (including operational lease)	2,937	33,727	33,727		
Total debt securities					
Off-balance-sheet exposures	4,345				
Total	7,282	33,727	33,727		
Of which defaulted		492	492		

Table 13 provides an overview of the credit risk exposures and credit risk mitigation effects in the SA portfolio. For SA RWA calculations credit risk mitigation techniques are completely ignored, which is a very prudent approach.

Table 13

Template 19: EU CR4 – Standardized approach – Credit risk exposure and CRM effects						
on December 31, 2018						
<i>in millions of euros</i>	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central governments or central banks	424		424		43	10.25%
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organizations						
Institutions	134		134		47	35.12%
Corporates	2,294	4,345	2,294	337	2,613	99.31%
Retail	2,671		2,671		1,939	72.59%
Secured by mortgages on immovable property						
Exposures in default	123		123		123	100%
Higher-risk categories						
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity						
Other items						
Total	5,646	4,345	5,646	337	4,765	79.65%

For the A-IRB portfolio, internally developed LGD models are available. During the LGD model development recoveries of all credit risk mitigation techniques are taken into account. No credit derivatives are used as CRM technique.

Table 14**Template 22: EU CR7 – IRB approach – Effect on the RWA of credit derivatives used as CRM techniques**

on December 31, 2018

<i>in millions of euros</i>	Pre-credit derivatives RWA	Actual RWA
Central governments or central banks	10	10
Institutions	255	255
Corporates – SMEs	847	847
Corporates – Specialized lending		
Corporates – Other	2,706	2,706
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs		
Retail – Qualifying revolving		
Retail – Other SMEs	5,072	5,072
Retail – Other non-SMEs	127	127
Equity IRB		
Other non credit obligation assets	2,617	2,617
Total⁵	11,634	11,634

5 Please note that ONCO assets are excluded from table 12 but the RWA associated with the ONCO assets are included in table 14.

3.4 Troubled debt

Within DLL's retail business model, monitoring past due (i.e. delinquent) exposures is very important. Delinquency is an indicator of a debtor's payment moral and the most important symptom if obligors are experiencing financial difficulties. Every exposure for which certain payments (interest, installment) have passed their due date are considered to be past due / delinquent.

The past due definitions are the same for accounting and regulatory purposes.

Within DLL default status is assigned on the obligor level and is defined as a situation in which at least one or more of the following default events is applicable for the obligor within the Rabobank Group organization and this event is due to a deterioration of the creditworthiness of the LE:

- 90 Days past due: the LE is past due more than 90 days on any material credit obligation.
- Unlikely to repay debt: it is determined / expected that the obligor is unlikely to repay its debt obligations in full, without recourse to actions as realizing security. However, a write off on any obligation is not made or expected yet.
- Economic loss: the repayment obligations of the obligor are restructured (e.g. postponed) since the ability of the obligor to meet the current repayment obligations under current conditions are in question. However, a write off on any obligation is not made or expected yet. The restructuring of the repayment obligation (e.g. the postponement of a payment) results in a decrease in yield since the net present value of the future cash flow decreases.

- Credit loss: a write off is made or is expected on any obligation of the obligor.
- Bankruptcy or similar protection: the obligor has filed for bankruptcy or similar protection from creditors, or a bankruptcy or similar order has been granted in respect of the obligor.

DLL is currently implementing the new default definition explained in the (final) European Banking Authority (EBA) Regulatory Technical Standard (RTS) on Materiality Threshold of Credit Obligation Past Due and the (final) EBA Guidelines on the Application of the Definition of Default. A number of countries have already been migrated to the new default definition. It is expected that the new default definition will be implemented for A-IRB portfolios by the end of 2019. The remaining SA portfolio will follow in 2020.

As of January 1, 2018, DLL introduced the IFRS 9 methodology of assigning credit risk adjustments to exposures (stage I – II – III credit risk adjustments). Non - defaulted exposures are assigned stage I and II credit risk adjustments, defaulted exposures are assigned stage III credit risk adjustments. Stage I and II credit risk adjustments are based on a macro-economic forecasting model. For stage III credit risk adjustments two different approaches are applied:

1. Individual: this approach is applicable for large exposure obligors. Every obligor is assessed manually and proper credit risk adjustments are set.
2. Collective: this approach is applicable for relatively small exposure obligors. Every defaulted exposure is automatically assigned a credit risk adjustment based upon the Expected Loss concept.

General credit risk adjustments are not applied within DLL. Under the CRR definition all impairment charges are labelled specific.

The following three templates show different breakdowns of credit quality of the credit risk portfolio.

Breakdown per exposure class

Table 15

Template 11: EU CR1-A – Credit quality of exposures by exposure class and instrument

on December 31, 2018

in millions of euros	Gross carrying values of				Accumulated write-offs ⁶	Net values (a + b - c - d)
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment		
	(a)	(b)	(c)	(d)		
Central governments or central banks		110	0			110
Institutions		2,498	0			2,498
Corporates	113	7,602	23		34	7,692
Of which: Specialized lending						
Of which: SMEs	33	1,767	7			1,793
Retail	386	20,527	195		108	20,718
Secured by real estate property						
SMEs						
Non-SMEs						
Qualifying revolving						
Other retail	386	20,527	195			20,718
SMEs	378	19,946	192			20,132
Non-SMEs	8	581	3			586
Equity						
Total IRB approach	499	30,737	218		142	31,018
Central governments or central banks		424	0			424
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organizations						
Institutions		134	0			134
Corporates	73	6,646	14			6,705
Of which: SMEs	6	507	1			512
Retail	80	2,684	36			2,728
Of which: SMEs	80	2,684	36			2,728
Secured by mortgages on immovable property						
Of which: SMEs						
Exposures in default	153		30			123
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures						
Other exposures						
Total standardized approach⁷	153	9,888	50			9,991
Total	652	40,625	268		142	41,009
Of which: Loans	652	36,280	268		142	36,664
Of which: Debt securities						
Of which: Off-balance-sheet		4,345				4,345

6 Write offs are only allocated to exposure classes. More detailed breakdowns for the 'of which' line items are not provided.

7 Exposures assigned to the exposure class 'exposures in default' are separately disclosed. However, the exposures are also disclosed in the exposure class that corresponded to the exposure class before default. To avoid double counting, exposures reported as 'exposures in default' are not taken into account in the (sub)totals.

Geographical breakdown of exposures

Table 16

Template 13: EU CR1-C – Credit quality of exposures by geography

on December 31, 2018

<i>in millions of euros</i>	Gross carrying values of				Net values	
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	(a + b - c - d)
	(a)	(b)	(c)	(d)		
The Netherlands	40	4,185	14		3	4,211
Other EU	292	15,398	121		36	15,569
North America	188	16,460	63		58	16,585
Latin America	66	1,674	39		32	1,701
Asia	55	774	21		7	808
Australia	11	2,134	10		6	2,135
Other countries		0	0		0	0
Total	652	40,625	268		142	41,009

Industry breakdown of exposures

Table 17

Template 13: EU CR1-C – Credit quality of exposures by industry or counterparty types

on December 31, 2018

<i>in millions of euros</i>	Gross carrying values of				Net values	
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	(a + b - c - d)
	(a)	(b)	(c)	(d)		
Banks	0	209	0			209
Central Government/Central Banks	1	723	1			723
Food (animal)	49	2,424	23			2,450
Food (vegetable)	129	9,624	51			9,702
Households	7	582	3			586
Industry	91	3,866	38			3,919
Other F&A	88	3,636	25			3,699
Services	224	15,107	107			15,224
Trade	63	4,454	20			4,497
Total	652	40,625	268			41,009

Table 18 provides a flow statement of the credit risk adjustments. As stated earlier, general credit risk adjustments are not applied within DLL. In the CRR definition all impairments charges are labelled as specific credit risk adjustments.

Table 18

Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments	
<i>in millions of euros</i>	Accumulated specific credit risk adjustment
Balance on December 31, 2017	262
Increases due to amounts set aside for estimated loan losses during the period	200
Decreases due to amounts reversed for estimated loan losses during the period	(50)
Decreases due to amounts taken against accumulated credit risk adjustments	(141)
Transfers between credit risk adjustments	0
Impact of exchange rate differences	(3)
Business combinations, including acquisitions and disposals of subsidiaries	0
Other adjustments	0
Closing balance on December 31, 2018	268
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	36
Specific credit risk adjustments directly recorded to the statement of profit or loss	0

Table 19 provides the total amount of defaulted exposures per December 31, 2018. EUR 526 million (80%) relates to A-IRB credit risk and EUR 130 million (20%) relates to SA credit risk.

Table 19

Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities	
<i>in millions of euros</i>	Gross carrying value defaulted exposures
Closing balance on December 31, 2018	652

Table 20 provides an overview of the past due exposures including a breakdown per aging bucket.

Table 20

Template 14: EU CR1-D – Ageing of past-due exposures							
<i>on December 31, 2018</i>							
Gross carrying values							
<i>in millions of euros</i>	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Total loans (including operational lease)	1,564	439	145	270	154	122	2,694
Total debt securities							
Total exposures	1,564	439	145	270	154	122	2,694

3.5 Forbearance

DLL's forbearance definition is: the repayment obligations of the obligor are restructured since the ability of the obligor to meet the current repayment obligations under current conditions are in question. After restructuring, an (additional) write off on any obligation is not expected. The restructuring of the repayment obligation (e.g. partial write off or the postponement of a payment) results in a decrease in yield since the net present value of the future cash flow decreases.

In the earlier mentioned default definition project the ambition is to implement this definition unambiguous within DLL on a global level. This requires serious investments in processes and supporting IT systems.

Table 21

Template 15: EU CR1-E–Non-performing and forborne exposures

on December 31, 2018

in millions of euros	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk			Collaterals and financial guarantees received	
	Of which performing but past due >30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures	On non-performing exposures		Of which forborne exposures		
			Of which defaulted	Of which impaired	Of which forborne	Of which forborne		Of which forborne				
Total debt securities												
Total loans (including operational lease)	36,932	534	63	652	652	652	84	78	0	190	21	81
Off-balance-sheet exposures	4,345											

4. Remuneration

4.1 General principles for remuneration

Within DLL, we seek to hire the best talent in each local market and therefore aim to provide a remuneration package that is market competitive and in line with responsibilities and performance. Furthermore, the remuneration policy is aimed at encouraging behavior in line with our core values, global alignment, cooperation, and personal development.

4.2 Group Remuneration Policy

4.2.1 Scope

Within the framework of DLL parent's vision on Remuneration and Rabobank Group Remuneration Policy, DLL has an own remuneration policy. Within DLL, the remuneration policy's basic principles are laid out in the Global Remuneration Policy, which is designed to promote fair and consistent employee compensation, based on an effective job classification system. While the Global Remuneration Policy applies to all DLL entities, worldwide, minor differences may apply per country. This relates to the application of local legislation, national collective labor agreements or local labor market practices. Furthermore, the salary and incentive levels are country specific, aligned with local labor markets. There is a separate remuneration package policy in place for the Executive Board and other Executives in both the Netherlands and the U.S.

In all countries, DLL implemented a remuneration package that consists of fixed and variable remuneration components and various fringe benefits, including a pension scheme.

The variable remuneration is capped for all roles in all countries and guaranteed variable remuneration is not permitted. The annual performance appraisal and remuneration cycle supports acting in the interest of the long-term continuity and financial strength.

DLL has taken further steps in managing and monitoring of the terms of employment worldwide. A worldwide Compensation & Benefits monitoring plan has been established based on which the application of the remuneration policy is monitored systematically.

4.2.2 Governance

The remuneration policy describes the monitoring processes with regard to remuneration and the responsibility and competencies of the Supervisory Board. The Supervisory Board has the ultimate supervisory function with regard to the design and implementation of the Group Remuneration Policy and is responsible for its approval after adoption by the Executive Board. For any material exception of the Group Remuneration Policy, the approval of the Supervisory Board is mandatory.

To secure the proper implementation of the Group Remuneration Policy, including the involvement of the monitoring functions, the DLL Monitoring Committees has been established which reports to the DLL Executive Board, Internal Audit and to the Monitoring Committee of Rabobank Group.

4.2.3 Content

The Group Remuneration Policy contains specific provisions for (1) all employees, (2) staff in monitoring functions and (3) Identified Staff.

Remuneration rules for all employees

The remuneration of all employees are subject to a number of rules and prohibitions. Thus, for example, guaranteed bonuses are prohibited and there will be no reward for failure.

In special cases, the Managing Board of Rabobank can withdraw an awarded sum with retroactive effect. This is called 'claw back'. Rabobank is authorized, to reclaim all or a portion of variable remuneration from both employees and former employees in any of the cases as laid down in the Rabobank Remuneration Policy.

In addition to the measures mentioned above, the following general prohibitions below also apply:

- It is not possible to award guaranteed variable remuneration to employees.
- Personal hedging strategies are not permitted, under any circumstances whatsoever.
- A severance payment must reflect the quality of an employee's performance. We do not reward employees for failure or misconduct.
- In the event the termination of the employment relationship is the initiative of the employee, no severance pay will be awarded, unless this termination is the result of serious imputable acts or culpable omissions committed by the employer.

Remuneration rules for monitoring functions

The remuneration of employees that are identified as Identified Staff and that are in a control role, referred to as monitoring functions (HR, Control, Risk Management, Compliance, Legal and Internal Audit), is bound by strict conditions. This ensures their independence with regard to their monitoring role. For monitoring functions the following requirements are applicable:

- The amount of the fixed pay of employees in a monitoring function will be sufficient to guarantee that DLL can attract qualified and experienced employees;
- In the allocation between fixed and variable pay, fixed pay is preferred and variable pay, if any, is always less than 50% of fixed pay;
- Objectives for awarding variable pay are predominantly function related. Financial criteria are not based on the financial results of the entity being monitored by the employee in the monitoring function;
- Variable pay is only paid to employees in monitoring functions when at least 50% of the specific job-related targets are met, so as to emphasize the appropriate performance of the functional role.

Remuneration rules for Identified Staff

Employees that may have a material influence on DLL's risk profile are designated as 'Identified Staff'. 41 employees within DLL are classified as such.

Most of these employees are not eligible for variable remuneration. In case they are eligible, their incentive is governed by the principles laid down in the Rabobank Remuneration Policy. The most important of these risk-mitigating measures are discussed below:

1. As is the case for all other employees, Identified Staff must meet a proper balance of performance objectives. Variable remuneration is typically awarded based on a balanced mix of qualitative and quantitative objectives and the adherence to our core values is taken into account as well. Identified Staff are specifically subject to performance measurements at the group, business unit and individual levels.
2. A minimum of 40 percent of the variable remuneration for eligible Identified Staff is awarded conditionally and is paid on a deferred basis after a period of at least three years. Half of the variable remuneration is awarded in the form of Deferred Remuneration Notes (DRNs), which is linked directly to the price of Rabobank Certificates, registered at NYSE Euronext. A retention period of one year applies to DRNs awarded unconditionally. This means that payments are made on DRNs one year after they have vested. Based on the applicable legislation and regulations, the Managing Board of Rabobank, as far as relevant after approval by the Supervisory Board of Rabobank, can withdraw or reclaim this variable remuneration.

DLL offers no fixed or variable pay in the form of options or shareholding rights to employees.

Table 22 discloses the remuneration awarded to Identified Staff relating to 2018.

Table 22

Remuneration Identified Staff 2018		
	in thousands of euros	
	Direct	Deferred and conditional
Fixed Remuneration		
Cash based	17,278	-
Instruments	-	-
Variable remuneration		
Cash based	7	5
Instruments	7	5

In 2018, no retention bonuses, no buy outs and no severance payments were awarded to Identified Staff of DLL.

In total 1 Identified Staff member earned a total remuneration (including pension contributions) above EUR 1.0 million.

Table 23 discloses the actual payments to Identified Staff. Distinction is made between the direct payments of the cash based direct variable pay relating to performance year 2018, and the amounts that are payable from former years (i.e. direct instruments, relating to 2017, that have been held for one year, and all deferred amounts that vested in 2018).

Table 23

Actual payments to Identified Staff		
<i>in thousands of euros</i>	from 2018	from former years
Cash based	7	537
Instruments	-	709

Malus and claw back

No malus (withdrawal of conditional amounts) nor claw back (withdrawal of unconditional and/or already paid out amounts) were applied to Identified Staff members in 2018

Table 24 shows the outstanding deferred compensation for Identified Staff. Vested amounts are unconditional, but the instrument part are subject to a holding period of one year. Deferred cash is paid out directly after vesting, so no outstanding vested cash exists. The unvested amounts are conditional and may be subject to malus in the future.

Table 24

Total amount of outstanding deferred compensation for Identified Staff 2018		
<i>in thousands of euros</i>	Vested	Unvested
Cash based	-	343
Instruments	580	344

Exceptions to the Group Remuneration Policy

In 2018, no exceptions to the Group Remuneration Policy were applied to Identified Staff member of DLL.

5. Declaration Executive Board

The Executive Board of DLL declares that the risk management arrangements of DLL are adequate and assures that the risk management systems put in place are adequate to DLL's profile and strategy.

W.F. Stephenson, *Chairman*
M.M.A. Dierckx, *CFO*
A.J. Gillhaus, *CRO*
T.L. Meredith, *CCO*
M. Janse, *COO*

Annex A: Main features capital instruments

Capital instruments main features template

Issuer	De Lage Landen International B.V.
Unique identifier	Shares number A1 – A215 and B1 – B2
Governing law(s) of the instrument	Governed by laws of the Netherlands
Regulatory treatment	
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/(sub) consolidated/ solo & (sub) consolidated	Sub consolidated
Instrument type (types to be specified by each jurisdiction)	CET1 instruments as published on EBA list
Amount recognized in regulatory capital (as of most recent reporting date)	EUR 1,233 million
Nominal amount of instrument	EUR 98 million
Issue price	EUR 98 million (excluding share premium)
Redemption price	n/a
Accounting classification	Shareholders Equity
Original date of issuance	05/04/1974 (April 5, 1974)
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	n/a
Optional call date, contingent call dates and redemption amount	n/a
Subsequent call dates, if applicable	n/a
Coupon/ dividends	
Fixed or floating dividend/coupon	n/a
Coupon rate and any related index	n/a
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step up or other incentive to redeem	No
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	n/a
If convertible, conversion trigger(s)	
If convertible, fully or partially	
If convertible, conversion rate	
If convertible, mandatory or optional conversion	
If convertible, specify instrument type convertible into	
If convertible, specify issuer of instrument it converts into	
Write-down features	n/a
If write-down, write-down triggers(s)	
If write-down, full or partial	
If write-down, permanent or temporary	
If temporary write-down, description of write-up mechanism	
Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	None
Non-compliant transitioned features	n/a
If yes, specify non-compliant features	

Annex B: Countercyclical buffer by country and institution-specific countercyclical buffer rate

Amount of institution-specific countercyclical capital buffer

on December 31, 2018

in millions of euros

Total risk exposure amount	19,406
Institution specific countercyclical buffer rate	0.099%
Institution specific countercyclical buffer requirement	19

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

in millions of euros	General credit exposures		Trading book exposure		Securitization exposure		Own funds requirements				Own funds requirements weight (a)	Counter-cyclical capital buffer rate (b)	Counter-cyclical capital buffer requirement (a)*(b)
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures Total	Total			
AR	52	-					3			3	0.24%	0.00%	0.00%
AT	10	73					3			3	0.20%	0.00%	0.00%
AU	146	1,324					57			57	4.42%	0.00%	0.00%
BD		-					-			-	0.00%	0.00%	0.00%
BE	17	346					11			11	0.88%	0.00%	0.00%
BG		-					-			-	0.00%	0.00%	0.00%
BH		-					-			-	0.00%	0.00%	0.00%
BR	7	1,322					43			43	3.31%	0.00%	0.00%
BS		-					-			-	0.00%	0.00%	0.00%
CA	97	1,616					41			41	3.22%	0.00%	0.00%
CH	108	-					7			7	0.56%	0.00%	0.00%
CL	126	-					8			8	0.65%	0.00%	0.00%
CN	306	-					21			21	1.60%	0.00%	0.00%
CO	-	-					-			-	0.00%	0.00%	0.00%
CR		-					-			-	0.00%	0.00%	0.00%
CZ		-					-			-	0.00%	1.00%	0.00%
DE	881	2,100					109			109	8.42%	0.00%	0.00%
DK	61	341					14			14	1.05%	0.00%	0.00%
EC		-					-			-	0.00%	0.00%	0.00%
EE		-					-			-	0.00%	0.00%	0.00%
ES	49	724					28			28	2.18%	0.00%	0.00%
FI	14	127					4			4	0.34%	0.00%	0.00%
FR	301	1,670					59			59	4.60%	0.00%	0.00%
GB	280	1,758					57			57	4.45%	1.00%	0.04%
GT		-					-			-	0.00%	0.00%	0.00%
HK	10	-					1			1	0.06%	1.88%	0.00%
HT		-					-			-	0.00%	0.00%	0.00%
HU	168	-					12			12	0.93%	0.00%	0.00%
IE	363	57					25			25	1.97%	0.00%	0.00%
IL		-					-			-	0.00%	0.00%	0.00%
IN	150	-					10			10	0.76%	0.00%	0.00%
IT	147	1,307					73			73	5.68%	0.00%	0.00%

Relevant credit exposures shall include all those exposure classes, other than those referred to in points (a) to (f) of Article 112 of Regulation (EU) No 575/2013, that are subject to:

- (g) exposures to corporates;
- (h) retail exposures;
- (i) exposures secured by mortgages on immovable property;
- (j) exposures in default; EN L 176/74 Official Journal of the European Union 27.6.2013
- (k) exposures associated with particularly high risk;
- (l) exposures in the form of covered bonds;
- (m) items representing securitisation positions;
- (n) exposures to institutions and corporates with a short-term credit assessment;
- (o) exposures in the form of units or shares in collective investment undertakings ('CIUs');
- (p) equity exposures;
- (q) other items.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

in millions of euros	General credit exposures		Trading book exposure		Securitization exposure		Own funds requirements				Own funds requirements weight	Counter-cyclical capital buffer rate	Counter-cyclical capital buffer requirement
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures Total	Total	(a)	(b)	(a)*(b)
JP	-	-					-			-	0.00%	0.00%	0.00%
KR	189	-					13			13	1.01%	0.00%	0.00%
LU		8					-			-	0.02%	0.00%	0.00%
MT		-					-			-	0.00%	0.00%	0.00%
MX	262	1					18			18	1.43%	0.00%	0.00%
MY		-					-			-	0.00%	0.00%	0.00%
NE		-					-			-	0.00%	0.00%	0.00%
NG		-					-			-	0.00%	0.00%	0.00%
NL	84	5,814					258			258	20.00%	0.00%	0.00%
NO	68	384					14			14	1.05%	2.00%	0.02%
NZ	284	47					20			20	1.56%	0.00%	0.00%
PA		-					-			-	0.00%	0.00%	0.00%
PK		-					-			-	0.00%	0.00%	0.00%
PL	482	-					32			32	2.47%	0.00%	0.00%
PT	7	105					6			6	0.48%	0.00%	0.00%
RO										-	0.00%	0.00%	0.00%
RU	251						16			16	1.20%	0.00%	0.00%
SE	63	684					21			21	1.62%	2.00%	0.03%
SG	94						7			7	0.51%	0.00%	0.00%
SK		-					-			-	0.00%	1.25%	0.00%
SM		-					-			-	0.00%	0.00%	0.00%
TG		-					-			-	0.00%	0.00%	0.00%
TR	69						5			5	0.40%	0.00%	0.00%
TW		-					-			-	0.00%	0.00%	0.00%
US	279	10,257					292			292	22.69%	0.00%	0.00%
ZA		-					-			-	0.00%	0.00%	0.00%
Total	5,425	30,065					1,288			1,288	100.00%		0.099%

