DLL **Capital Adequacy and Risk Management** report

financial solutions partner

Contents

1. Introduction

De Lage Landen International B.V (DLL) is a global provider of asset-based financial solutions working across 7 key industries: Agriculture, Food, Healthcare, Clean Technology, Construction, Transportation, Industrial equipment and Office Technology. DLL is present in over 30 countries and operates its business model mainly through Vendor Finance, where DLL enters into partnerships with global manufacturers offering integrated solutions for the entire asset life cycle.

DLL is classified as credit institution under the CRR and is a 100% subsidiary of the Coöperatieve Rabobank U.A. (Rabobank). DLL operates through local legal entities, which may conduct business through local licenses and under supervision of local regulators (e.g. DLL AB in Sweden, AGCO Finance GmbH in Germany 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 pass porting 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 Capital Requirements Regulation (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

DLL forms an integral part of the capital management framework of Rabobank. 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 31 December 2017, 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

at 31 December 2017

in millions of euros	Qualifying capital	IFRS capital
Retained earnings	1,289	1,289
Shares + share premium	1,233	1,233
Non-controlling interests	26	-
Accumulated other comprehensive income	98	98
Regulatory adjustments	(210)	-
Common Equity Tier 1 capital	**2,436**	**-**
Non-controlling interests	6	-
Tier 1-capital	**2,442**	**-**
Non-controlling interests	7	-
Total IFRS equity/qualifying capital	**2,449**	**2,620**

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 2017. At 31 December 2017, qualifying capital decreased by EUR 542 million compared to 31 December 2016 to EUR 2,449 million. The decrease in qualified capital was mainly due to a dividend pay out to Rabobank of EUR 1.2 billion that was partly compensated by an addition of the profit 2016 to the retained earnings.

Table 2

Overview of changes in qualifying capital	
in millions of euros	
Qualifying capital at 31 December 2016	**2,977**
Shares & share premium	0
Retained earnings[1]	461
Dividend	(1,200)
Non-controlling interests	1
Accumulated other comprehensive income[1]	162
Regulatory adjustments	35
Closing common equity Tier 1 capital at 31 December 2017	**2,436**
Additional Tier 1 capital at 31 December 2016	5
Non-controlling interests	1
Closing additional Tier 1 capital at 31 December 2017	**6**
Tier 2 capital at 31 December 2016	8
Non-controlling interests	0
Regulatory adjustments	(1)
Closing tier 2 capital at 31 December 2017	**7**
Qualifying capital at 31 December 2017	**2,449**

1 includes a net IFRS first time adoption impact of net EUR 42 million

2.2 Risk weighted assets and required capital

For the majority of DLL's portfolio, DLL is using the most advanced calculation methods for calculating the Risk Weighted Assets (RWA) for credit risk, which is advanced IRB (A-IRB). For a minor part the Standardized Approach (SA) is applied. 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. To calculate RWA for operational risk the Basic Indicator Approach is used. Finally, for counterparty credit risk the Mark – to – Market method is used.

Table 3 presents an overview of the RWA and the capital requirements at 31 December 2017 for the different risk types. Based upon a capital requirement that equals 8% of RWA, the total capital requirement for DLL was EUR 1.4 billion at 31 December 2017.

Table 3

Template 4: EU OV1 – Overview of RWA

at 31 December 2017

in millions of euros		RWA	Minimum capital requirements
1	**Credit risk (excluding CCR)**	**14,943**	**1,195**
2	Of which the standardized approach	4,650	372
3	Of which the foundation IRB (FIRB) approach		
4	Of which the advanced IRB (AIRB) approach	10,293	823
5	Of which equity IRB under the simple risk-weighted approach or the IMA		
6	**CCR**	**88**	**7**
7	Of which mark to market	88	7
8	Of which original exposure		
9	Of which the standardized approach		
10	Of which internal model method (IMM)		
11	Of which risk exposure amount for contributions to the default fund of a CCP		
12	Of which CVA		
13	**Settlement risk**	**0**	**0**
14	**Securitisation exposures in the banking book (after the cap)**	**0**	**0**
15	Of which IRB approach		
16	Of which IRB supervisory formula approach (SFA)		
17	Of which internal assessment approach (IAA)		
18	Of which standardized approach		
19	**Market risk**	**207**	**17**
20	Of which the standardized approach	207	17
21	Of which IMA		
22	**Large exposures**	**0**	**0**
23	**Operational risk**	**2,316**	**185**
24	Of which basic indicator approach	2,316	185
25	Of which standardized approach		
26	Of which advanced measurement approach		
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**487**	**39**
28	**Floor adjustment**	**0**	**0**
29	**Total**	**18,041**	**1,443**

Table 4 shows the flow statements of the credit risk exposures under the A-IRB approach. Decrease in total capital requirement by EUR 161 million is mainly due to the transfer of Financial Solution to Rabobank as per 1 April 2017.

Table 4

Template 23: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

in millions of euros	RWA amounts	Capital requirements
RWA at 31 December 2016	**12,294**	**984**
Acquisitions and disposals	(2,096)	(168)
Other	95	7
RWA at 31 December 2017	**10,293**	**823**

2.3 Regulatory capital plus

As per 1 January 2017 the Economic Capital framework is replaced with a so-called Regulatory Capital Plus (RC+) framework. Reflecting changing regulatory requirements and similar developments in the industry, the new framework is based on regulatory capital, but it will reserve additional capital for material risks that are not subject to the Pillar 1 framework. At year-end 2017, the total RC+ requirement of DLL was EUR 1,492 billion:

- EUR 1,443 million Pillar 1 capital requirements;
- EUR 49 million capital requirement for interest rate risk.

The available qualifying capital of EUR 2,449 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 31 December 2017 and table 6 provides an overview of the minimal capital requirements ratios per 31 December 2017. The Common Equity Tier 1 ratio (13.50%), the Tier 1 ratio (13.53%) and the Total Capital ratio (13.58%) are all above the minimum capital requirements of respectively 8.55%, 9.05% and 11.05%.

Table 5

Capital ratios	
at 31 December 2017	
in millions of euros	
Risk Weighted Assets	**18,041**
Total Common Equity Tier 1 capital	2,436
Total Tier 1 capital	2,442
Total qualifying capital	**2,449**
Common Equity Tier 1 ratio	13.50%
Tier 1 ratio	13.53%
Total Capital ratio	**13.58%**

Table 6

Minimum capital requirements and capital ratios						
at 31 December 2017						
in millions of euros	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	4.50%	1.75%	1.25%	0.05%	1.00%	8.55%
Tier 1 ratio	6.00%	1.75%	1.25%	0.05%		9.05%
Total Capital ratio	8.00%	1.75%	1.25%	0.05%		11.05%

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 0.05% per 31 December 2017. 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 Supervisory Review and Evaluation Process (SREP) conducted by the European Central Bank (ECB), the ECB imposed for DLL:

- A Pillar 2 own funds requirement of 1.75%.
- A Pillar 2 own funds guidance of 1%.

For 2018 this requirement / guidance is not applicable.

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 advanced IRB. For a minor part the SA is applied. The following four templates show different breakdowns of the credit risk portfolio[2]. The total credit risk portfolio includes intercompany positions with Rabobank (EUR 2,057 million) and off balance credit facilities (EUR 4,113 million).

Breakdown per exposure class

Table 7

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

Net values of exposures *in millions of euros*	Net value of exposures at 31 December 2017	Average net exposures over 2017
Central governments or central banks	112	119
Institutions	2,233	2,259
Corporates	7,099	7,908
Of which: Specialized lending		
Of which: SMEs	2,027	2,083
Retail	18,985	19,535
Secured by real estate property		
SMEs		
Non-SMEs		
Qualifying revolving		
Other retail	18,985	19,535
SMEs	18,518	18,552
Non-SMEs	467	983
Equity		
Total IRB approach	**28,429**	**29,821**
Central governments or central banks	124	104
Regional governments or local authorities		
Public sector entities		
Multilateral development banks		
International organizations		
Institutions	109	123
Corporates	6,204	5,970
Of which: SMEs	435	260
Retail	2,819	2,732
Of which: SMEs	2,819	2,732
Secured by mortgages on immovable property		
Of which: SMEs		
Exposures in default	105	85
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	**9,361**	**9,014**
Total	**37,790**	**38,835**

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 (row 1 of template 4) does not take into account:
- row 6 CCR (gross amount EUR 179 million and RWA amount EUR 88 million) ; and
- row 27 Amounts below the threshold for deduction:
  - DTA (gross amount EUR 170 million and RWA amount EUR 426 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 1,057 million and RWA amount EUR 2,126 million).

Geographical breakdown of exposures

Table 8

Template 8: EU CRB-C – Geographical breakdown of exposures								
at 31 December 2017								
Net value *in millions of euros*	The Netherlands	Other EU	North America	Latin America	Asia	Australia	Africa	Total
Central governments or central banks	1	10	96			5		112
Institutions	1,947	110	58	81	20	17		2,233
Corporates	422	2,064	3,788	172		653		7,099
Retail	878	7,207	9,067	1,052	0	781	0	18,985
Equity								
Total IRB approach	**3,248**	**9,391**	**13,009**	**1,305**	**20**	**1,456**	**0**	**28,429**
Central governments or central banks	78	29	17					124
Regional governments or local authorities								
Public sector entities								
Multilateral development banks								
International organizations								
Institutions		41	47	8	9	4	0	109
Corporates	168	2,735	2,628	117	321	235		6,204
Retail	29	1,822	7	192	477	292		2,819
Secured by mortgages on immovable property								
Exposures in default	1	71	3	4	25	1		105
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	**276**	**4,698**	**2,702**	**321**	**832**	**532**	**0**	**9,361**
Total	**3,524**	**14,089**	**15,711**	**1,626**	**852**	**1,988**	**0**	**37,790**

Industry breakdown of exposures

Table 9

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

at 31 December 2017

Net value *in millions of euros*	Central governments or central banks	Institutions	Corporates	Retail	Total IRB approach	Central governments or central banks	Institutions	Corporates	Retail	Exposures in default	Total standardized approach	Total
Grain and oil seeds			219	3,491	**3,710**			4,536	225	12	**4,773**	**8,483**
Fruit and vegetables			30	335	**365**			2	27	0	**29**	**394**
Flowers			1	109	**110**				13	0	**13**	**123**
Other Food and Agri			47	317	**364**			15	48	0	**63**	**427**
Sugar			12	50	**62**				2	0	**2**	**64**
Farm inputs			895	1,126	**2,021**			115	356	42	**513**	**2,534**
Miscellaneous crop farming			23	542	**565**			12	106	4	**122**	**687**
Animal protein			19	911	**930**			40	487	7	**534**	**1,464**
Dairy			23	523	**546**			3	87	1	**91**	**637**
Other services			730	2,074	**2,804**			43	164	7	**214**	**3,018**
Utilities			86	63	**149**				12	0	**12**	**161**
Construction			301	937	**1,238**			98	140	9	**247**	**1,485**
Beverages			46	42	**88**			14	11	0	**25**	**113**
Manufacturing			628	1,196	**1,824**			64	138	3	**205**	**2,029**
Wholesale			873	676	**1,549**			577	235	2	**814**	**2,363**
Retail except food and beverages			462	482	**944**			153	105	1	**259**	**1,203**
Food retail and foodservice			68	102	**170**			4	7	0	**11**	**181**
Transportation and warehousing			516	917	**1,433**			180	239	3	**422**	**1,855**
Information and communication			97	196	**293**			34	19	0	**53**	**346**
Banks		2,101		27	**2,128**		106		2	0	**108**	**2,236**
Finance and insurance except banks		132	53	276	**461**		3		11	0	**14**	**475**
Lessors of real estate			6	81	**87**			7	1		**8**	**95**
Activities related to real estate			9	115	**124**			4	2	0	**6**	**130**
Professional scientific and technical services			1,074	1,613	**2,687**			103	105	2	**210**	**2,897**
Healthcare and social assistance			828	1,632	**2,460**			200	267	12	**479**	**2,939**
Arts entertainment and recreation			53	510	**563**				6	0	**6**	**569**
Government	112			175	**287**	124			4		**128**	**415**
Households				467	**467**						**0**	**467**
Total	**112**	**2,233**	**7,099**	**18,985**	**28,429**	**124**	**109**	**6,204**	**2,819**	**105**	**9,361**	**37,790**

Maturity breakdown of exposures[3]

Table 10

Template 10: EU CRB-E – Maturity of exposures at 31 December 2017 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		5	97	10		112
Institutions		19	117	40	2,057	2,233
Corporates		1,322	4,654	1,123		7,099
Retail		1,671	14,500	2,827	(13)	18,985
Equity						
Total IRB approach		**3,017**	**19,368**	**4,000**	**2,044**	**28,429**
Central governments or central banks			3		121	124
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organizations						
Institutions		0	5		104	109
Corporates		541	1,025	109	416	2,091
Retail		562	2,011	246		2,819
Secured by mortgages on immovable property						
Exposures in default		50	43	5	7	105
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		**1,153**	**3,087**	**360**	**648**	**5,248**
Total		**4,170**	**22,455**	**4,360**	**2,692**	**33,677**

3 Please note that table 10 only takes into account on balance sheet exposures (and not off balance sheet exposures).

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

3.2 Insurance undertakings

DLL has an insurance undertaking in Ireland. The net equity value of the insurance undertaking is EUR 24 million at 31 December 2017. Given the relative small size of the Irish insurance undertaking, the entity is not excluded from the prudential consolidation. Total RWA is EUR 17 million at 31 December 2017.

Table 11

Template 6: EU INS1 – Non-deducted participations in insurance undertakings at 31 December 2017 *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)	24
Total RWA	17

3.2 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. 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 and Office 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. At 31 December 2017, the total amount of exposures net of allowances and impairments was EUR 37,790 million of which EUR 481 million defaulted.

Table 12

Template 18: EU CR3 – CRM techniques – Overview

at 31 December 2017

Exposures net of allowances and impairments *in millions of euros*	Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans (including operational lease)	2,326	31,351	31,351		
Total debt securities					
Off-balance-sheet exposures	4,113				
Total	**6,439**	**31,351**	**31,351**		
Of which defaulted		481	481		

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

at 31 December 2017

in millions of euros	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	124		124		3	2.23%
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organizations						
Institutions	109		109		40	36.50%
Corporates	2,091	4,113	2,091	394	2,464	99.22%
Retail	2,819		2,819		2,038	72.29%
Secured by mortgages on immovable property						
Exposures in default	105		105		105	100%
Higher-risk categories						
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity						
Other items						
Total	**5,248**	**4,113**	**5,248**	**394**	**4,650**	**82.43%**

For the A-IRB portfolio, own 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

at 31 December 2017

in millions of euros	Pre-credit derivatives RWA	Actual RWA
Central governments and central banks	11	11
Institutions	195	195
Corporates – SMEs	921	921
Corporates – Specialized lending		
Corporates – Other	2,372	2,372
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs		
Retail – Qualifying revolving		
Retail – Other SMEs	4,538	4,538
Retail – Other non-SMEs	111	111
Equity IRB		
Other non credit obligation assets	2,145	2,145
Total[5]	**10,293**	**10,293**

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

3.3 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.

Exposures that are assigned default status for regulatory purposes are considered to be impaired for accounting purposes.

Within DLL it is possible that past due exposures are not considered to be defaulted / impaired. Most important reason for this is that, although an obligor is delinquent, after an assessment it appears that the obligor does not show a deterioration of creditworthiness, but that there are other reasons that the obligor does not pay in time. Disputes between the obligor and the vendor of the leased asset on the performance of the asset are in many cases the root cause for not paying lease terms in time.

DLL's current default definition does not match with the default definition explained in the (final draft) 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. In DLL's global default definition project activities are underway to meet this definition ultimately in 2019. Amongst others, the way of counting 90 consecutive days past due and the probation period concept will be implemented.

Within DLL, every defaulted exposure is assigned a specific credit risk adjustment. Two 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.

Every non defaulted exposure is assigned an IBNR specific credit risk adjustment. General credit risk adjustments are not applied within DLL. In the CRR definition all impairment charges are labelled specific.

Per the first of January 2018 DLL introduces the IFRS 9 methodology of assigning specific credit risk adjustments to exposures (stage I – II – III credit risk adjustments). Non-defaulted exposures are assigned to stage I and II, defaulted exposures stage III.

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

at 31 December 2017

in millions of euros		Gross carrying values of					Net values
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs[6]	(a+b-c)
1	Central governments or central banks		112	0			112
2	Institutions	2	2,232	1			2,233
3	Corporates	150	6,981	32		37	7,099
4	Of which: Specialized lending						
5	Of which: SMEs	26	2,008	7			2,027
6	Retail	374	18,783	172		96	18,985
7	Secured by real estate property						
8	SMEs						
9	Non-SMEs						
10	Qualifying revolving						
11	Other retail	374	18,783	172			18,985
12	SMEs	369	18,319	170			18,518
13	Non-SMEs	5	464	2			467
14	Equity						
15	**Total IRB approach**	**526**	**28,108**	**205**		**133**	**28,429**
16	Central governments or central banks		124	0			124
17	Regional governments or local authorities						
18	Public sector entities						
19	Multilateral development banks						
20	International organizations						
21	Institutions		109	0			109
22	Corporates	60	6,215	18			6,257
23	Of which: SMEs	4	437	3			438
24	Retail	70	2,840	39			2,871
25	Of which: SMEs	70	2,840	39			2,871
26	Secured by mortgages on immovable property						
27	Of which: SMEs						
28	Exposures in default	130		25			105
29	Items associated with particularly high risk						
30	Covered bonds						
31	Claims on institutions and corporates with a short-term credit assessment						
32	Collective investments undertakings						
33	Equity exposures						
34	Other exposures						
35	**Total standardized approach[7]**	**130**	**9,288**	**57**	**0**	**0**	**9,361**
36	**Total**	**656**	**37,396**	**262**	**0**	**133**	**37,790**
37	Of which: Loans	656	33,283	262	0	133	33,677
38	Of which: Debt securities						
39	Of which: Off-balance-sheet		4,113				4,113

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

7 Under row 28, exposures assigned to the exposure class 'exposures in default' are disclosed. In addition, in rows 16 to 27 and 29 to 34 the breakdown of their exposures in default by the exposure class that corresponded to the exposure before default are disclosed. In order to avoid double counting of exposures, the 'Total standardized approach' reported in row 35 does not take into account figures disclosed under row 28.

Geographical breakdown of exposures

Table 16

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

at 31 December 2017

in millions of euros	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)
The Netherlands	13	3,528	17		19	3,524
Other EU	342	13,865	118		30	14,089
North America	167	15,599	55		44	15,711
Latin America	83	1,588	45		28	1,626
Asia	37	835	20		4	852
Australia	14	1,981	7		8	1,988
Africa	0		0		0	0
Total	**656**	**37,396**	**262**		**133**	**37,790**

Industry breakdown of exposures

Table 17

Template 12: EU CR1-B – Credit quality of exposures by industry or counterparty types

at 31 December 2017

in millions of euros	Gross carrying values of				Net values
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	(a+b-c)
Grain and oil seeds	109	8,428	54		8,483
Fruit and vegetables	12	387	5		394
Flowers	4	121	2		123
Other Food and Agri	7	423	3		427
Sugar	1	64	1		64
Farm inputs	85	2,467	18		2,534
Miscellaneous crop farming	12	680	5		687
Animal protein	29	1,446	11		1,464
Dairy	20	626	9		637
Other services	111	2,934	27		3,018
Utilities	1	161	1		161
Construction	39	1,461	15		1,485
Beverages	1	112	0		113
Manufacturing	33	2,012	16		2,029
Wholesale	21	2,351	9		2,363
Retail except food and beverages	14	1,196	7		1,203
Food retail and foodservice	2	180	1		181
Transportation and warehousing	31	1,841	17		1,855
Information and communication	3	346	3		346
Banks	0	2,236	0		2,236
Finance and insurance except banks	5	472	2		475
Lessors of real estate	1	95	1		95
Activities related to real estate	1	130	1		130
Professional scientific and technical services	49	2,870	22		2,897
Healthcare and social assistance	51	2,914	26		2,939
Arts entertainment and recreation	8	564	3		569
Government	1	415	1		415
Households	5	464	2		467
Total	**656**	**37,396**	**262**		**37,790**

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

in millions of euros	Accumulated specific credit risk adjustment
Balance at 31 December 2016	**318**
Increases due to amounts set aside for estimated loan losses during the period	246
Decreases due to amounts reversed for estimated loan losses during the period	(97)
Decreases due to amounts taken against accumulated credit risk adjustments	(134)
Transfers between credit risk adjustments	0
Impact of exchange rate differences	(17)
Business combinations, including acquisitions and disposals of subsidiaries	(54)
Other adjustments	0
Closing balance at 31 December 2017	**262**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	39
Specific credit risk adjustments directly recorded to the statement of profit or loss	0

Table 19 provides the total amount of defaulted exposures per 31 December 2017. 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

in millions of euros	Gross carrying value defaulted exposures
Closing balance at 31 December 2017	**656**

Table 20 provides an overview of the past due exposures including a breakdown per aging bucket. Within DLL it is possible that past due exposures are not considered to be defaulted / impaired while it is also possible that defaulted / impaired exposures are not past due.

Table 20

Template 14: EU CR1-D – Ageing of past-due exposures

At 31 December 2017 Gross carrying values *in millions of euros*	≤ 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)	1,538	421	133	213	149	140	2,594
Total debt securities							
Total exposures	1,538	421	133	213	149	140	2,594

3.4 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

at 31 December 2017

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)	33,939	512	43	656	656	656	150	87	0	175	31	106
Off-balance-sheet exposures	4,113											

4. Remuneration

4.1 General principles for remuneration

DLL seeks to hire the best talent in each local market and aims to provide a remuneration package that is market competitive and in line with responsibilities and performance. Essential is that remuneration should not encourage undesired behavior.

The Group Human Resource vision is committed to a high performing network organization that values partnership, customer focus and respect. It also should stimulate DLL's core values and leadership behavior in an inspiring working environment. The Group aims at maximizing the engagement level of members, which is a key prerequisite for maintaining and further developing the excellent commercial and financial results and position as a leading global vendor finance provider.

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. While the Global Remuneration Policy (GRP) 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 US.

In the Netherlands, 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.

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.

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 of Rabobank, as the main supervisory body within the organization. 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 MC RG (Monitoring Committee 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 Executive 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 were met, so as to emphasize the appropriate performance of the functional role.

Remuneration rules for Identified Staff

Employees that have a significant impact on DLL's risk profile are designated as 'Identified Staff'. Around 40 employees within DLL are classified as such. DLL also executed an Identified Staff sub-consolidation process in line with EBA regulations in 2017, resulting in 9 extra Identified Staff.

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 Executive 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 2017.

Table 22

Remuneration Identified Staff 2017

in thousands of euros	Direct	Deferred and conditional
Fixed Remuneration		
Cash based	17,857	-
Instruments	-	-
Variable remuneration		
Cash based	126	84
Instruments	126	84

No retention bonuses were awarded to Identified Staff in 2017. In 2017, 1 buy out was awarded to Identified Staff of DLL, amounting to EUR 267,864. Furthermore, 1 identified Staff members received a severance payment in 2017, with a total value of EUR 439,878.

In total 1 Identified Staff member earned a total remuneration (including pension contributions) between EUR 1.0 and 1.5 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 2017, and the amounts that are payable from former years (i.e. direct instruments, relating to 2016, that have been held for one year, the deferred cash relating to 2014 that has been deferred for three years and the deferred instruments relating to 2013 that have been deferred for three years and a holding period of one year).

Table 23

Actual payments to Identified Staff

in thousands of euros	from 2017	from former years
Cash based	126	625
Instruments	-	1,454

Malus and claw back

No amounts of malus (withdrawal of conditional amounts) and claw back (withdrawal of unconditional, but not yet paid amounts) are applied to Identified Staff members in 2017.

Table 24 shows the outstanding deferred compensation for Identified Staff. Vested amounts are unconditional, but subject to a holding period of one year. 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 2017

in thousands of euros	Vested	Unvested
Cash based	-	982
Instruments	914	1,137

Exceptions to the Group Remuneration Policy

For one Identified Staff member at DLL with terminated employment agreements, the Supervisory Board agreed upon the remaining of their conditional variable pay, that will be paid out at the end of the deferral period, whilst taking into account the retention period, unless claw back is applied.

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.

On behalf of the Executive Board
W.F. Stephenson, *Chairman*
M.M.A. Dierckx, *CFO*
A.J. Gillhaus, *CRO*
T.L. Meredith, *CCO*

Annex A: Main features capital instruments

Capital instruments main features template	
Issuer	De Lage Landen International BV
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 (5 April 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	
At 31 December 2017	
in millions of euros	
Total risk exposure amount	18,041
Institution specific countercyclical buffer rate	0.05%
Institution specific countercyclical buffer requirement	10

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

in millions of euros	*General credit exposures*		*Trading book exposure*		*Securitization exposure*		*Own funds requirements*				*Own funds requirements weight*	*Countercyclical capital buffer rate*
	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*		
AL		0					0			0	0.00%	0.00%
AM		0					0			0	0.00%	0.00%
AR	29	0					2			2	0.14%	0.00%
AT	9	59					2			2	0.17%	0.00%
AU	135	1,232					53			53	4.46%	0.00%
BA		0					0			0	0.00%	0.00%
BD		0					0			0	0.00%	0.00%
BE	23	327					11			11	0.97%	0.00%
BG		0					0			0	0.00%	0.00%
BH		0					0			0	0.00%	0.00%
BR	7	1,350					40			40	3.43%	0.00%
BS		0					0			0	0.00%	0.00%
CA	38	1,702					40			40	3.39%	0.00%
CH	95	0					6			6	0.53%	0.00%
CL	108	0					7			7	0.60%	0.00%
CN	438	0					30			30	2.53%	0.00%
CO		0					0			0	0.00%	0.00%
CR		0					0			0	0.00%	0.00%
CU		0					0			0	0.00%	0.00%
DE	1,062	1,605					111			111	9.42%	0.00%
DK	49	313					11			11	0.95%	0.00%
EC		0					0			0	0.00%	0.00%
EE		0					0			0	0.00%	0.00%
ES	36	611					22			22	1.86%	0.00%
ET		0					0			0	0.00%	0.00%
FI	6	120					4			4	0.34%	0.00%
FR	245	1,607					51			51	4.29%	0.00%
GA	206	0					0			0	0.00%	0.00%
GB		1,740					50			50	4.23%	0.00%
GR		0					0			0	0.00%	0.00%
GT		0					0			0	0.00%	0.00%
HK	12						1			1	0.07%	1.25%
HR		0					0			0	0.00%	0.00%
HT		0					0			0	0.00%	0.00%
HU	213						15			15	1.28%	0.00%
IE	356	54					25			25	2.13%	0.00%
IL		0					0			0	0.00%	0.00%
IN	95	0					6			6	0.54%	0.00%
IR		0					0			0	0.00%	0.00%
IT	182	1,187					70			70	5.91%	0.00%
JP		0					0			0	0.00%	0.00%
KR	182	0					12			12	1.05%	0.00%
LU		8					0			0	0.02%	0.00%
MK		0					0			0	0.00%	0.00%
MT		0					0			0	0.00%	0.00%
MX	141						9			9	0.77%	0.00%
NE		0					0			0	0.00%	0.00%
NG		0					0			0	0.00%	0.00%
NL	170	2,086					222			222	18.78%	0.00%
NO	59	318					12			12	0.98%	2.00%
NZ	264	38					18			18	1.52%	0.00%
PA		0					0			0	0.00%	0.00%
PK		0					0			0	0.00%	0.00%
PL	503	0					32			32	2.73%	0.00%
PT	5	84					5			5	0.41%	0.00%
RO		0					0			0	0.00%	0.00%
RU	241						15			15	1.25%	0.00%
SE	60	630					19			19	1.61%	2.00%
SG	97	0					7			7	0.56%	0.00%
SK		0					0			0	0.00%	0.50%
SM		0					0			0	0.00%	0.00%
SR		0					0			0	0.00%	0.00%
SY		0					0			0	0.00%	0.00%
TG		0					0			0	0.00%	0.00%
TR	81						6			6	0.49%	0.00%
TW		0					0			0	0.00%	0.00%
UA		0					0			0	0.00%	0.00%
US	262	9,759					267			267	22.57%	0.00%
VE		0					0			0	0.00%	0.00%
ZA		0					0				0.00%	0.00%
Total	**5,409**	**24,830**					**1,181**			**1,181**		

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