Annual Report 2018

financial solutions partner

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Proudly looking back ... boldly looking ahead

2018 was a year of growth and progress for DLL and our performance was strong in virtually every facet of our company. Our achievement not only spanned across financial and commercial targets, but also touched on customer satisfaction, employee engagement and social contributions. In an increasingly competitive market, we continued to differentiate DLL and grow our market share. It was most satisfying to see these collective efforts drive an increase in our value contribution to all key stakeholders, including our customers, employees, and parent, Rabobank.

Our award-winning global vendor finance business had another strong year and continued to provide a solid foundation for the company to build and prepare for the future. This means accelerating our digital transformation and also developing new business models, such as pay-per-use products to support a world increasingly focused on equipment usage over traditional ownership. These are exciting times for our industry, and I am especially proud of the pioneering role that DLL continues to exemplify in areas such as life-cycle asset management, which focuses on reuse of assets and supports the circular economy.

On the commercial front, we continued to be a key contributor and integral part of the growth and success for our vendor partners. This translated into new business volume of EUR 25.0 billion (EUR 24.6 billion excluding Financial Solutions), an increase nearly 6 percent when excluding currency movements. Our portfolio grew by an impressive 9 percent to over EUR 33.5 billion, with growth spread across all major industry sectors and geographic regions that we operate in. We also delivered a healthy financial performance and profit contribution to our parent, Rabobank, and jointly embarked on an exciting new initiative to expand our engagement together in certain key markets.

Our customers are central in everything that we do at DLL. We continue to focus on delivering a first-class experience to our primary customers – the manufacturers, dealers, and distributors who partner with DLL. In 2018, we saw our Global Net Promoter Score (NPS®)[1] jump to +44, marking the fourth consecutive year that we improved this very important metric of customer loyalty and satisfaction. The vast majority of our surveyed partners continued to tell us they were satisfied or very satisfied with the products, service, and support they receive from DLL. They also cited our partnership focus, our industry expertise and our people as the top three reasons they do business with DLL.

1 Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company,Inc., Fred Reichheld and Satmetrix Systems, Inc.

We also received praise from our industry peers. In 2018, DLL won the prestigious 'European Vendor Finance Provider of the Year' award from Leasing Life, one of the top industry journals in Europe. In the United States, we were named the #1 vendor finance company for the 10th straight year by Monitor, a leading industry publication considered the independent voice of the North American equipment finance and leasing market.

The significant investments made in our digital transformation were also recognized, and we were proud to be recognized by the Enterprise Mobility Exchange for Most Effective Mobile App. The award was given to DLL Express Finance, our user-friendly app that simplifies the entire financing process from pricing calculation and quotation to deal closing with electronic documentation and signature.

Looking ahead ... the human element still matters

On May 29, 2019, DLL will mark its 50th anniversary as a company – an incredible milestone that few companies achieve. Our global reach, industry specialization, asset knowledge, digital solutions, and people all play a role in delivering a customer experience that has been unrivaled in the marketplace. Yet, the global business environment looks vastly different than it did back in 1969, and the pace of change is accelerating. Advances in technology have had massive impacts on how and where customers do business and interact with companies.

The transformative role that innovative technologies can play for our customers is truly exciting. I have seen some wonderful examples of how technology can improve the ease and speed of doing business, but unfortunately there are a growing number of examples where technology has been used to solely drive down costs at the expense of the customer experience. With each passing day, the contemporary narrative is shifting toward more adverse experiences with automated attendants, integrated voice response, chat-bots and 'self-service' models, when customers are in dire need of speaking to a human being and having a reliable contact to assist them.

Like any company competing in today's fast-evolving marketplace, DLL must evaluate how new technologies can enhance our business model, while still delivering a first-class experience to our customers. If we don't embrace and experiment with technology, we risk being surpassed by the changing needs and preferences of our customers, and ultimately by our competition. That said, we can under-estimate the strong and influential role of people in our business, which has the principle of partnership at its core. The key is finding the right balance between technology and people.

At DLL, our employees (whom we refer to as members) continue to play a critical role in delivering our value proposition to our customers and setting DLL apart from the competition. To that point, at a time when our competitors are seeking to consolidate office locations, we are pursuing pilot deployments of Customer Engagement Hubs in select markets across our global footprint. These new office locations allow us to deliver a more personal and localized level of service to our partners in the regions where they operate.

Further, we continue to deliver new technology to our customers, but it is always paired up with a robust support model, backed by our members. We are also making significant investments in training across our offices worldwide, ensuring that our members are empowered and have the skills needed for success in the future workplace. This past year, DLL also introduced a new Remote and Flexible Working Policy designed to allow our members to optimize their personal and professional balance and well-being.

Our most recent Global Member Engagement Survey, sent to nearly 5,000 members worldwide, indicated that these efforts and investments are successful. The survey told us that 84 percent of our members recommend DLL as a top place to work. It also indicated that overall satisfaction and engagement is what drives our members to start each day committed to delivering a first-class experience to our customers. I am confident that our customers see and feel this difference and realize happy, engaged members deliver a higher level of service.

Another 50 years of success

Throughout 2018, we took bold steps to disrupt ourselves, stepping outside what worked in the past and seeking new approaches. As I often say to our members, the 'what' of vendor finance has not changed ... enabling our partner's success by helping them deliver equipment and solutions to their customers, but 'how' this is done will continue to evolve and we must stay in front of that curve. I am proud to say that DLL has not rested on its laurels of past success. Like most great companies, we understand that the ideal time to make changes is when performance is strong and conditions are favorable.

Our results in 2018 show that DLL is healthy and profitable. This position of strength allows us to evolve on our own terms. I am pleased that we have such a strong foundation on which to build for the future, not only delivering continued growth and profit generation, but also making a real impact with our customers by providing them with essential tools and value. Our unrelenting focus on disruptive innovation and customer experience, combined with our people and products, will continue to differentiate DLL and ensure success for another 50 years and beyond.

Bill Stephenson

CEO and Chairman of the Executive Board

Who we are

DLL is a global vendor finance company operating in more than 30 countries. In the Netherlands, we have a banking license, which is passported to several other EU countries and is under regulatory supervision by the Dutch Central Bank and European Central Bank. Founded in 1969 and headquartered in Eindhoven, the Netherlands, DLL provides specialized asset-based financial solutions in nine distinct equipment markets:

- Agriculture
- Food
- Healthcare
- Clean technology
- Construction
- Transportation
- Industrial equipment
- Office equipment
- Technology (IT)

In each of these markets, we work closely with manufacturers as well as their distribution partners, whether authorized distributors, independent dealers, or resellers (collectively referred to as our 'vendor partners'), providing financial solutions that help them achieve their goals and ambitions. We consider our vendor partners to be our primary customers.

Assets refer to the products supplied by our vendor partners to their customers (the end-users), whether digitally connected copiers and document management systems, diagnostic imaging equipment such as ultra-sound and MRI scanners, or tractors and cranes. We view the end-users of the equipment as our secondary customers.

DLL delivers specialized knowledge and expertise to each of these nine markets through our Global Business Units (or GBUs) that set the commercial strategy with our vendor partners and handle all aspects of relationship and program management on a global scale. In addition to GBUs that focus on each major industry sector, we also consider our long-standing joint venture with AGCO Corporation ('AGCO Finance') as a GBU. This designation is based on the overall size and scope of the relationship, which dates back to 1990, has a portfolio exceeding EUR 7.7 billion at the close of 2018, and is active in more than 20 countries.

DLL also manages its commercial (inventory) finance activities as a GBU, given its strategic importance and the integral role it plays in the distribution channels of our various vendor partners. In total, this means that we have the following defined GBUs within DLL:

- Construction, Transportation and Industrial (CT&I)
- Food and Agriculture (F&A)
- Healthcare and Clean Technology (HC-CT)
- Technology Solutions (TS)
- Office Equipment (OE)
- AGCO Finance (AGCO)
- Commercial Finance (CF)

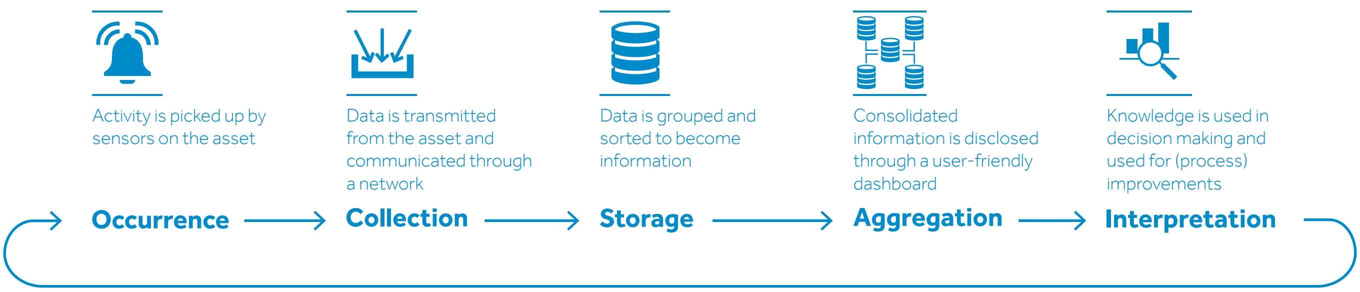
Our team combines customer focus with deep industry knowledge to deliver sustainable solutions for the complete asset life cycle, including the previously noted commercial (inventory) finance, as well as retail finance and used equipment finance. We believe that DLL is one of the few companies capable of providing true 'end-to-end' support for a vendor partner, helping them closely manage their installed base of assets, retain customers, and identify upgrade and trade-in opportunities.

Finally, our global network is monitored and managed via the following geographies:
– USA
– Canada
– Brazil
– Latin America
– Europe
– Asia
– Pacific

Mission
We enable businesses to use the assets they need to contribute meaningfully to the world, both economically and socially. By doing this, we create success for our partners, their customers, and ourselves.

Our vision
At DLL, we believe in a genuine partnership with our customers, the kind built on personal trust, not just numbers. By combining our customer focus with deep industry knowledge, we look beyond quick fixes to deliver sustainable solutions. We are more than a provider of capital. We are a true strategic and collaborative partner.

To us, leasing is more than just lending money. We are committed to providing comprehensive solutions that help our vendor partners successfully navigate their challenging markets. To do this, it is important for us to monitor and understand current and future global trends. Currently, there are three trends we believe will likely alter the way our vendor partners do business and change the expectations they have of their financial solutions provider. In response to these trends, we are continuously adapting our business to meet the evolving needs of our customers.



The five stages of an IoT solution. Each stage describes what is necessary to eventually use IoT for, automated or manual fact based decision making.

Usage and service-based business models
Customers' needs are evolving away from the traditional concept of equipment ownership toward a more fluid model where they have 'just-in-time' access to equipment when it is needed. Consequently, we have seen a rise of usage- and service-based business models that are unlocking new opportunities for our partners. DLL strives to support our partners in building new customer propositions by offering financial solutions that enable end-users to pay for equipment as they use it, while the manufacturer remains responsible for ongoing services and maintenance. This transition is called 'servitization'. Customers take full advantage of the benefits associated with using equipment, without the obligations and costs of ownership.

Internet of Things
Seamless interconnectivity between equipment and devices is the great promise of the Internet of Things (IoT). IoT facilitates the real-time collection of thousands of data points on when and how equipment is used. For manufacturers and dealers, the infinite data generated by IoT about how customers are using their assets creates possibilities for greater efficiencies and enhanced customer services. DLL believes that IoT can benefit all stakeholders. IoT helps manufacturers and distributors better understand when equipment should be serviced and the right time to offer technology upgrades or new products that will benefit their end-user customers.

Whether it is pinpointing the right time to service a tractor or suggesting an upgrade that will meet the customer's needs more cost-effectively, DLL will research IoT and work with manufacturers and dealers to better understand the potential advantages it can bring.

Circular economy
The earth's resources are finite, and a growing world population will put continued pressure on these resources. Many companies today are finding new ways to do business that delivers profits and innovation while also using these resources more carefully. The circular economy is one model that can move industries away from the old linear 'take, make, and waste' model towards a more regenerative and sustainable one. By designing products to be recycled, reused, or remanufactured at the end of their first life cycle, manufacturers can help reduce pressure on the planet's resources. The concept of a circular economy prefers usage over ownership. In usage-based models, manufacturers can maintain control of their equipment throughout its technical life and ensure that the equipment or materials are reused rather than sitting idle or being relegated to a landfill.

New service-based financial solutions such as pay–per-use programs can help unlock these circular and usage-based models, and DLL is committed to further enable this transition. Through our Life Cycle Asset Management (LCAM) program, we provide end-to-end financial solutions for the complete asset life cycle, ensuring sustainable reuse of equipment and creating second- and third-life revenue streams. For example, from inventory finance to used equipment finance, all these solutions can be tailored to customers' sales objectives, processes, and distribution channels.

Looking forward, DLL sees the convergence of servitization, the Internet of Things, and the circular economy as the basis for strong and sustainable economic growth. By understanding and introducing new financial solutions models that support these trends, we can continuously adapt our business to meet the evolving needs of our customers.

Our Executive Board

The DLL Executive Board continues to have joint responsibility for delivering sound and balanced long-term and short-term strategies to meet the needs of all DLL stakeholders, including customers, shareholders, employees, regulators, and the communities in which the company operates.

William F. Stephenson

Chief Executive Officer (CEO) and Chairman of the Executive Board

Bill Stephenson was appointed Chief Executive Officer and Chairman of the Executive Board of DLL in June 2014. He is responsible for implementing the company's strategic plans, which enable DLL to deliver integrated financial solutions to manufacturers and distribution partners in more than 30 countries around the world. Under Stephenson's leadership, DLL has sharpened its focus on its core vendor finance business in nine key industry sectors: Agriculture, Food, Healthcare, Clean technology, Construction, Transportation, Industrial equipment, Office equipment, and Technology.

Since joining DLL in 1987, Stephenson has held several leadership positions and played an integral role in the emergence of DLL as a global market leader within the vendor finance and equipment leasing industry. Prior to his appointment as CEO, Stephenson served as Chief Commercial Officer and a member of the Executive Board, responsible for the commercial strategy across all business lines.

In 2016, Stephenson served as Chairman of the Board of Directors of the Equipment Leasing and Finance Association (ELFA). Throughout his career, he has been an active participant in several ELFA committees and is a former member of the Equipment Leasing & Finance Foundation's Board of Trustees. Stephenson was a recipient of the 'Lifetime Achievement Award' from Leasing Life magazine in 2015 and was included in the Leasing Life 'Power 50' list (2016), which details the most influential people in the European leasing and asset finance market.

With over 30 years of vendor finance experience, Stephenson is a recognized industry expert. He is a strong advocate for corporate social responsibility and a frequent speaker at industry assemblies throughout the world.

Stephenson obtained a Bachelor of Science degree in Business from Florida State University and is a graduate of Harvard Business School's Advanced Management Program.

In 2016, he was inducted into the Florida State University College of Business Hall of Fame.

In 2017, Stephenson was presented with the Associated Equipment Distributors (AED) Chairman's Award for DLL's long-standing commitment to the construction industry and for the company's unwavering focus on supporting the association.

In addition to his role as Chairman of the Executive Board, Stephenson has the following portfolio of responsibilities:
- Communications
- Human Resources
- Corporate Governance
- Internal Audit
- Innovation

Stephenson also currently serves as Chairman of the AGCO Finance Global Board.

Tom Meredith
Chief Commercial Officer (CCO)

Tom Meredith was appointed Chief Commercial Officer and a member of the Executive Board of DLL in January 2017. He is responsible for the company's commercial strategy and global business activities in our nine key equipment markets.

Meredith joined DLL in 2010 as President of the Food and Agriculture Global Business Unit. Under his leadership, the business unit achieved year-over-year portfolio and profitability growth, expanded its footprint in Europe, and entered the Asian market.

With more than 35 years of experience in equipment finance, Meredith has held leadership positions with several of the industry's top lenders. In 2002, he was named Executive Vice President and General Manager of Citi Capital's Construction Equipment Finance business. When the company was acquired by GE Capital in 2008, Meredith continued to manage the Construction Equipment business and was instrumental in developing and executing a commercial strategy that aligned the strengths and philosophies of the two companies. He previously held senior management positions with Deutsche Financial Services and Chase Manhattan Leasing.

Meredith graduated from the University of Michigan with a Bachelor of Science degree in Business Administration.

Meredith has the following portfolio of responsibilities within DLL:
- Management of DLL's Global Business Units (GBUs)
- Strategic Marketing
- Sustainability
- Insurance
- Asset Management & Remarketing

He currently serves as Chairman of the Managing Board of Mahindra Finance USA LLC and is a member of the Equipment Leasing and Finance Association's Captive and Vendor Finance Business Council Steering Committee.

Marc Dierckx

Chief Financial Officer (CFO)

As DLL's Chief Financial Officer and member of the Executive Board appointed in January 2017, Dierckx is responsible for the company's financial, treasury, and performance management functions.

He joined DLL in 2004 and has held several leadership positions across the organization. As President of the Office Technology Global Business Unit, he successfully led the vendor finance business through the challenging economic climate in 2008–2009. He most recently served as Deputy CFO and was responsible for spearheading the company's sale of Athlon Car Lease International B.V. and its subsidiaries to Mercedes-Benz Financial Services Nederland B.V., part of Daimler (Mercedes-Benz) group in 2016.

Dierckx plays an instrumental role in talent development within DLL as a founder and mentor of True Business (DLL's in-house MBA program in cooperation with the TiasNimbas Institute in Tilburg) and as founder of the Finance as a Business Partner program.

Dierckx earned his MBA at the EHSAL Management School in Brussels, Belgium, in 1992 and furthered his education at Vlerick Management School in Ghent, Belgium, in 1999.

Dierckx has the following portfolio of responsibilities within DLL:

- Finance
- Data management
- Procurement
- Treasury – Capital markets
- Tax

Currently Dierckx is also Chairman of the Supervisory Board of Cargobull Finance Holding B.V. (the Netherlands, since January 1, 2018) and a Member of the AGCO Finance Global Board.

Ab Gillhaus

Chief Risk Officer (CRO)

Ab Gillhaus was appointed Chief Risk Officer and member of the Executive Board of DLL as of January 2017. His appointment marked Gillhaus' return to DLL, having previously served as president of the company's European vendor finance business and a member of the Executive Board from 2000 through 2003. He most recently served as Chief Credit Officer at DLL's parent company, Rabobank. In this capacity, Gillhaus was responsible for chairing Rabobank's Central Credit Committees and managing the credit policies, monitoring, and group-level reporting during a time of unprecedented market challenges.

An international finance industry veteran, Gillhaus has amassed more than 30 years of experience in both the risk and commercial domains at Rabobank and DLL. He has been a member of several supervisory boards throughout his career, often serving as chairman.

Currently Gillhaus is a Member of the Advisory Board of Tilburg University's School of Economics and Management (the Netherlands).

Gillhaus graduated cum laude with a master's degree in Business Economics from Tilburg University. He is now based in the Netherlands but has spent many years working and living abroad in Australia, Brazil, and the UK.

Gillhaus has the following portfolio of responsibilities within DLL:

- Risk
- Compliance
- Legal

Mike Janse

Chief Operating Officer (COO)

Mike Janse was appointed Chief Operating Officer and member of the Executive Board of DLL in May 2018. In this capacity he is responsible for the company's country organizations.

Janse joined DLL in 2004 and has successfully held several leadership roles within Finance and Operations, as well as international assignments in Europe (Iberia) and Latin America (Argentina, Brazil). Most recently, he served as Senior Vice President for the Latin American Region, overseeing all business activities and operations in Argentina, Brazil, Chile, and Mexico. During his tenure, the region grew substantially, exhibiting strong commercial and financial results and exceptional scores in both customer satisfaction and employee engagement.

Prior to joining DLL, Janse spent over seven years working at KPMG, a global audit, tax and advisory firm, with assignments in both Brazil and the Netherlands. During that period, he was also a part-time university lecturer at the Vrije Universiteit (VU) in Amsterdam, Faculty of Economics and Econometrics.

Janse holds a master's degree in Business Studies, and a post-graduate degree in Charter Public Accounting from Erasmus University, the Netherlands.

He is also a member of the AGCO Finance Global Board.
As of May 2018, Janse has the following portfolio of responsibilities within DLL:

- Regional/Country Management of DLL's global network
- IT

From left to right
Marc Dierckx
Ab Gillhaus
Bill Stephenson
Tom Meredith
Mike Janse

Net profit
(in EUR millions)

380

Lease and **loan portfolio***

+8%

* excluding currency impact

New business **Volume***

+6%

* excluding currency impact

DLL's
Global presence

>30
countries

Net Promoter Score
(NPS recommendations)

+44

Facts & figures **2018**

Key figures

In millions of euros	2018	2017
Financial position and solvency at December 31		
Total assets/liabilities	37,645	34,543
Total equity	3,931	3,642
Total non-controlling interest	473	470
Common Equity Tier 1 Capital (CET1)	2,966	2,436
Risk-weighted assets	19,406	18,041
CET1 ratio	15.28%	13.50%
Profit and loss account		
Total net income continued operations	1,333	1,383
Total operating expenses continued operations	(724)	(761)
Credit losses continued operations	(114)	(105)
Profit before tax continued operations	495	517
Net result continued operations	380	588
Net result discontinued operations	0	18
Total net result	380	606
Portfolio		
Portfolio continued operations	33,498	30,200
Portfolio discontinued operations	0	644
Total portfolio	33,498	30,844
Employee data		
Number of employees (FTEs) average	4,875	4,577
Number of employees (FTEs) end of year	5,027	4,636

2018 CO_2 reduction

(per FTE) compared to 2017

CO_2

-7.2%

Employees

5,027

♂ 56.5%

♀ 43.5%

Nationalities

>40

Volunteering in 2018

40%

Unique member participation rate (= 1,951 unique members)

10,097 hours

Time investment

Clean Tech projects financed by DLL provide environmental benefit equal to planting 8.4 million tree saplings grown for 10 years

The global industrial energy efficiency services market is projected to experience incremental growth of USD 2.88 billion between 2019-2023 *(Technavio)*

CO_2

Clean Tech projects financed by DLL offset carbon emissions from burning over 750,000 barrels of oil

What we do

Vendor finance has been DLL's core business for almost five decades and the foundation on which the company was built. Vendor finance is a highly specialized business model that delivers significant value to our vendor partners in manufacturing, their distribution agents, whether dealer, distributor or reseller, and of course, their customers, the ultimate end-users of the equipment.

DLL delivers a strong and unique service to our vendor partners, which enables them to offer highly specialized and smart financing solutions to their customers. This facilitates the sales of the equipment and other ancillary products and services and helps them grow their market share and margins while developing new business models.

Our products become an integral part of the overall sales process and operation with our vendor partners. Such integration requires a true partnership focus that in many instances results in DLL not only being entrusted not only with our vendor partners' business and their customers, but also with their name and brand. In that respect, DLL offers a variety of private label programs and co-branded programs that allow our vendor partners to offer their customers a seamless one-stop shopping experience for equipment, maintenance, parts service, and finance, all leveraging the value of their brand.

Vendor finance

Vendor finance provides asset-based financing programs to manufacturers, distributors, dealers, and resellers at their respective points of sale. Our vendor partners are constantly working to develop the most competitive and impactful propositions for their customers. To help them achieve their goals, we offer end-to-end financial solutions covering the full technical life cycle of their equipment. Our solutions are applicable to both new and pre-owned assets. These can be customized to better conform with and support vendor partners' sales objectives, processes, and distribution channels.

When it comes to developing equipment finance options for their end-user customers, manufacturers have several options. Some large manufacturers decide to establish their own finance capability in-house, so that they can integrate their financial products with their sales delivery. Although there can be benefits to this type of approach (traditionally known as a 'captive finance' program), it is not without its challenges. Firstly, it requires the manufacturer to make significant investments to build the required infrastructure. Secondly, because it is not typically a core competency of the manufacturer, they must also hire additional resources and subject matter experts. In many cases, they must also leverage their own balance sheet to finance their portfolio of leased equipment assets.

As a result, many manufacturers choose an alternative route of selecting a partner who can provide 'captive-like' financial solutions on a third-party basis. This type of business is typically referred to as vendor finance and is at the heart of DLL's successful business model. The form of cooperation between the vendor partner and DLL can range from formal joint ventures, where a separate legal entity is established to provide finance programs with both the manufacturer and DLL holding an ownership stake, to 'private label' equipment finance programs offered by DLL using the name of the manufacturer towards end-users.

Another variation is 'quasi private-label' or 'co-branded' programs that leverage the name and brand of the manufacturer, but also make clear that the finance program is being offered and administered through a third-party company such as DLL.

By partnering with DLL, our vendor partners, whether manufacturers, dealers, distributors, or resellers, can focus on their core business of producing and/or selling and servicing their products and leave the administration of the financing programs to an expert. They can put all their effort into optimizing their equipment sales and driving customer adoption of related services and further enhancing the relationship that the vendor partner will have with their customer.

Examples of such services are maintenance, parts and supplies, insurance, and warranty. We can help our vendor partners by bundling these services in the related financing packages. We can also provide financing for software licenses and other technology solutions. Through this, the end-user customer gets access to a wider variety of value-added services and options, as well as gaining a clearer understanding of the total cost of use for the equipment. Through our multi-year lease and finance agreements, our vendor partners can engage with their customers for longer periods, thereby increasing customer retention.

There is more to vendor finance solutions than simply providing capital and financial terms to customers seeking equipment from our vendor partners. We go beyond the commoditized administrative services of credit underwriting, billing, and collection to create long-term, sustainable, mutually beneficial engagement with all the manufacturers, dealers, distributors, and resellers that we support. We seek to become an integral part of the vendor partner's overall business strategy and financial plans. It is not about simply supporting the first sale, but about managing a multi-year relationship and developing a strategy that will help the vendor partner achieve their goals over the long-term, in an efficient and sustainable way.

As a result, some of our most successful relationships have rich histories, many lasting more than 30 years. These long-term success stories are the best testament to the true value of vendor finance.

Value of vendor finance

There are many benefits available to our vendor partners and their end-user customers:

For the vendor partner

- **Lead generation**: attract and close sales with new prospects and retain existing customers with targeted promotions, repeat business, and special financing offers.
- **Sell more**: low-cost monthly or quarterly payment quotations can minimize focus on upfront sales value and encourage customers to also acquire additional options and services.
- **Preserve margins**: by focusing on affordable monthly or quarterly payments for end-users, rather than the upfront sales value of the equipment, minimize negotiations and price-cutting.
- **Balance sheet management/capital conservation**: by using inventory finance and floor-planning solutions from DLL, manufacturers can place more units into dealer inventory (without carrying the credit risk themselves). Furthermore, dealers can secure products without having to tie up their own critical cash and bank lines.
- **Increase overall lifetime value**: most maintenance and service plans are sold on an annual basis and require both effort and cost to renew each year. By bundling these plans in a multi-year leasing offer, they can be locked in for the full duration of a lease or finance contract (on average three to five years or longer).
- **Customer retention**: multi-year lease agreements lock-in customers for longer periods. At or near the end of the initial lease term, and with help from DLL, the vendor partner can offer its customers attractive lease upgrade options, raising the potential to sell the next generation of technology to their customer.
- **Installed base management**: better understand how the equipment is being used and performs and identify the optimal moments for preventive maintenance and when to proactively offer the customer new technology that will raise productivity and/or limit costs.
- **Secondary market control**: off-lease equipment can be targeted for remanufacturing or refurbishment, so that it can be sold again, extending the life of the product and building new revenue streams.

For end-user customers

- **Capital conservation**: by using leasing/financing solutions, customers can preserve their working capital for more profitable deployment in other parts of their business.
- **Little impact to bank/credit lines**: by leasing through a third-party program, the customer can normally avoid tying up valuable, and sometimes limited, bank lines.
- **Easy to budget**: leasing and financing programs are typically offered on a fixed-rate basis, delivering predictable periodic payments that a customer can easily budget for and increasing overall visibility toward usage costs.
- **Reduce the risk of obsolescence**: by leasing equipment rather than buying outright, the customer can always guard against the equipment becoming outdated and exercise options to upgrade to the newest technologies.
- **Equipment disposal**: retiring old equipment can be a costly and difficult process for customers, particularly when environmental rules and other regulations come into play. With many leasing programs, the customer normally has the option to return the equipment at the end of the contract period, leaving proper disposal or recycling in the hands of the vendor partner and/or financing company.
- **Little impact on ratios**: since some of our products enable off-balance-sheet financing, financial ratios of our end-users are not impacted.

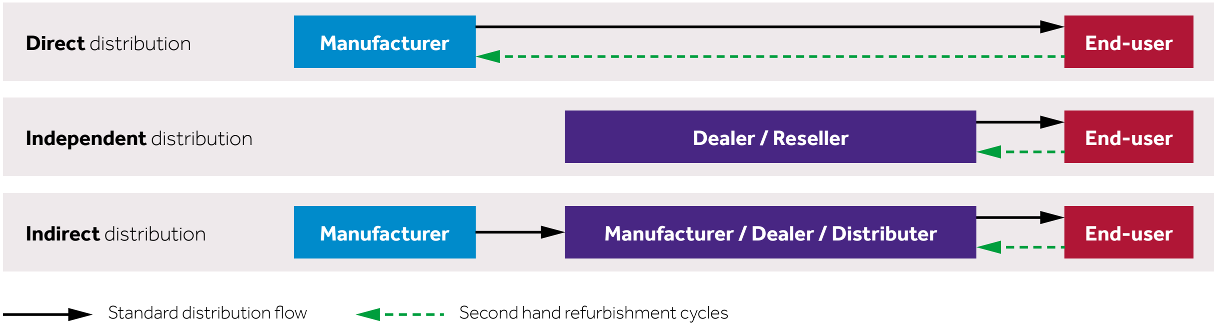
Distribution channels

We offer multiple products and services to give our vendor partners the necessary solutions for each segment of their distribution channels and facilitate their sales to their end-user customers. Vendor finance serves the following distribution channels:

- **Direct distribution**: the manufacturer sells directly through its own sales force to an end-user.
- **Indirect distribution**: the manufacturer accesses a network of authorized dealers and distributors to sell its products to the end-users.
- **Independent distribution**: dealers act as stand-alone entities offering (in many cases) multiple brands of products and services, requiring financial solutions to support sales to the end-user customers.

Whatever approach our vendor partners choose, DLL is capable of supporting a variety of different distribution models aimed at making our vendor partners more competitive and effective in their markets.

Vendor finance distribution channels



We are one of the few companies able to provide true 'end-to-end' support for a vendor partner across their entire value chain, starting with our commercial (inventory) finance products that help manufacturers get more units of equipment out of the production factory and into the sales inventory, lots, and showrooms of their distribution partners.

Once an asset is available for sale, DLL provides a full array of retail finance solutions that help the vendor partner get the equipment into the hands of their end-user customers as quickly and efficiently as possible. The product support that DLL provides to its vendor partners does not end there. We continue to provide the vendor partner with reports and tools that enhance their visibility and understanding of their entire installed base of leased assets. We also give them consultative support at the right time for upgrades and trade-ins and so on. Upon end of lease, customers will have various options, which include extending, acquiring, or returning the asset. When a product does come off-lease and is returned, DLL will work with the vendor to develop refurbishing and remarketing programs, used equipment sales programs, or other disposition methods.

Using this approach, we have developed a powerful business model whereby DLL not only supports the strategic objectives of its vendor partners, but also has the potential to generate income on a single asset at three distinct points in its life cycle: inventory finance, retail finance and used equipment sale or finance. This is a significant contributor to our financial performance and success.

Primary solutions

To service the full distribution channel(s) of our vendor partners, DLL provides solutions that create value and support their growth ambitions. Our solutions include:

- **Commercial finance**: comprises a suite of asset-based financing solutions that support both manufacturers and their distribution partners. Our commercial finance products enable dealers and resellers to maintain healthy inventory levels without tying up critical cash and bank lines. This, in turn, helps manufacturers place more units into dealer inventory with the bonus of not having to carry the credit risk on their balance sheets.
- **Retail finance**: spans a variety of products including loans, financial leases, fair market value leases, and pay-per-use agreements. All of these products are designed for use at the point of sale, enhancing our partners' ability to place equipment with their end-user customers. In turn, these products allow end-user customers to easily acquire and use the equipment they need to operate their businesses. The prevalence of one financial product type over another can vary across the industries and geographies within which DLL operates, depending on the established local practices and preferences of the end-user customers. Retail finance represents the majority of DLL's portfolio.
- **Used equipment finance**: DLL offers the same financial products for used, refurbished, and remanufactured assets as we do for new equipment. By providing financing for equipment that is returned when lease contracts expire, we can support manufacturers and dealers wishing to remarket their used equipment to end-users. This ensures the sustainable reuse of equipment and creates second- and third-life revenue streams.

These financing models enable us to construct unique, highly relevant, and added-value propositions for our vendor partners and their end-user customers. They also address the increasing market demands for convenience, flexibility, and one-stop-shopping. As such, we expect a positive long-term outlook in the vendor finance market and have confidence in its ability to generate sustainable growth and long-term profitability.

Global construction equipment sales revenue is expected to be nearly USD 90 billion in 2020

DLL members supporting the construction industry have combined industry-specialized experience

We supported numerous construction projects around the globe including the construction equipment that erected the roof on the new Mercedes-Benz stadium in Atlanta, GA

Build lasting solutions
in construction

Our value **proposition**

DLL's vendor finance value proposition consists of five key elements: partnership; industry specialization; asset and risk management expertise; global capabilities and footprint; and people and culture. These enable DLL to provide the solutions that our vendor partners need to support and boost their business. We will continue to build our business and strategy on this strong foundation.

Our partnership focus

We only enter into partnerships when we know that we can offer sustainable win-win solutions for both our vendor partner and DLL. Overall, success for us is linked to our ability to build long-term relationships with our vendor partners based on shared goals. We support our vendor partners through the complete economic cycle, as well as other issues and events that influence their specific equipment markets.

We seek to become an integral part of our vendor partner's overall business strategy and financial plans. It is not about simply supporting the first sale, but managing a long-term relationship and developing a strategy that will help the vendor partner grow their market share and profitability in an efficient and sustainable way.

As part of our value proposition, we provide a variety of services and programs to support our vendor partners, from prospecting and targeting the right customers to time and territory management for their sales teams, so they can improve their sales effectiveness. We even help them develop tactics for retaining and developing their top performers. These consultative services help make DLL indispensable to the vendor partner's long-term success and act as a key differentiating factor that protects our relationships from competitive overtures.

Our unwavering focus on the success of our partners was further validated by the overwhelmingly positive feedback we received in our annual Global Partner Loyalty Survey. This past year, our Global Net Promoter Score (NPS®) grew to +44, which was a marked improvement from the +38 recorded in 2017. Moreover, the vast majority of our surveyed partners indicated that they were 'satisfied' or 'very satisfied' with DLL's products and services.

Our industry specialization

We are very proud of the in-depth knowledge we have acquired in each of our equipment markets. This knowledge has been built on decades of accumulated experience, and we truly have a keen awareness of the markets in which our vendor partners operate. Only when you truly understand your partners and their markets, is it possible to optimize sales and create differentiated solutions. We are a dedicated vendor finance company with a clear focus on a select number of industries: Agriculture, Food, Healthcare, Clean technology, Construction, Transportation, Industrial equipment, Office equipment, and Technology. So whether our vendor partners are manufacturing and selling milking robots for a dairy farm or MRI scanners for deployment at a diagnostic imaging center, we speak a language they understand.

Over the years, we have sought to develop a high degree of expertise in these markets, acquiring an understanding of the distribution process, the sales process, and the equipment itself. In many cases, we have recruited sales people from the 'hardware side' who had successful careers selling the equipment or managing a team of sales people for a vendor partner. This gives them instant credibility with DLL's clients and allows them to 'talk shop,' framing our financial offerings in the right business context in a way that the vendor partner can easily understand.

When successfully implemented, this integrated selling approach creates significant value for both the vendor partner and DLL. It truly is win-win. The vendor partner has a team of well-trained, highly effective sales people who generate more revenue and profits by offering leasing and other financial products.

Our asset and risk management expertise

With our focus on the business of asset-based financial solutions, we have the knowledge and experience to create new value for our vendor partners and can turn potential risks into healthy sustainable rewards. We use our asset management expertise and understanding of the assets to make advanced risk decisions, generating a higher level of added value for our vendor partners and their customers.

Our efforts to understand the equipment we finance, to understand the application of the equipment in a normal business or production environment, and finally to understand the secondary markets for that equipment have played a significant role in differentiating DLL from many of our competitors. It also allows us to create a higher level of added value and successfully generate returns out of credit risks, future end of lease income, commercial (inventory) finance offerings, asset insurance products, and more.

Our credit underwriting capabilities provide a great example of this. Unlike many other leasing companies, we do not rely solely on a basic review of the end-user customer's balance sheet and income statement. Rather, we have expanded our capabilities to include behavioral underwriting, which involves looking more deeply into elements such as asset utilization and essential use to truly understand whether a piece of equipment is mission critical to keeping an end-user customer and their business afloat.

We believe this layered and nuanced approach has allowed us to sometimes delve more deeply into the market and support our vendor partners (and their customers) when other sources would not provide capital. By understanding these risks and having the capability to manage them effectively, we can deliver true added value to our vendor partners, helping them sell more and achieve the goals of both their business and DLL.

Our global capabilities and footprint

DLL has been recognized by our vendors as a global vendor finance company with capabilities of delivering a consistent service and experience in over 30 countries across the globe. By combining our global footprint with experienced local teams, we provide a consistent service across the globe.

We support our core vendor partners in both their mature markets as well as their emerging growth markets. Our ability to deliver global solutions has helped us successfully establish new partnerships with leading manufacturers, expand our business into new markets, and shield our existing partnerships from competitive overtures. Going forward, we continue to evaluate the mid-term needs of our vendor partners as a significant factor when considering expansion into new markets.

Our Global Account Management approach provides our vendor partners with a single point of contact that helps manage their portfolio and global business activity. We follow this up with regular business reviews and strategic planning sessions to ensure that we are steering the business in a responsible and sustainable way. Our vendor partners have consistently told us that they regard this as a strength. It makes them feel they are dealing with 'one company,' even though they may be working with DLL in multiple countries.

Although we strive for standardization where possible, we also subscribe to the view of 'think global, act local,' not only ensuring that the standard principles of the program are delivered to each country, but also providing ample scope for adjustments to accommodate local market practices and culture.

We have a healthy spread of business activity across several regions, countries, and industrial sectors that provide an additional layer of resilience to our business model. This has played a significant role in how DLL has performed over the past decade.

Our people

Our members continue to be our most important assets and one of the unique elements that sets DLL apart from our competition. We have a high-quality and engaged member base, which consistently delivers our value proposition to our vendor partners and their end-user customers. This is a message that we consistently hear in our surveys and focus groups that we conduct with our vendor partners and their end-user customers.

Our relationship model depends on our people making this connection. DLL members should great passion and commitment to the goal of servicing our vendor partners and their end-user customers. A strong entrepreneurial spirit that allows us to creation solutions to help our vendor partners win in changing markets compliments this approach. Therefore, we continue to make investments toward the personal and professional development of our members, so that DLL continues to be view as an employer of choice in the many countries in which we operate.

We also continue to facilitate member engagement by recognizing our members in a variety of ways, including global reward programs. Our 'Winners Circle' program recognizes our top commercial performers globally, while our 'Customer Champions' program recognizes DLL members who deliver superior service to both our internal and external customers.

CELEBRATING 50 YEARS OF PARTNERSHIP
50
1969-2019
EMBRACING THE FUTURE

The **workforce** of the future

As DLL prepares to celebrate its 50th year of operation in 2019, we continue to develop our Human Resource strategy, which is focused on building an agile working and change-capable organization of the future, where the engagement and well-being of our members is paramount.

Our plan has the following primary pillars:
- Drive Diversity & Inclusion
- Enhance well-being
- Design the workforce of the future

Drive Diversity & Inclusion

DLL knows that the best solutions for our customers are found by using as many different perspectives and capabilities as possible. This is why both financial and human capital investments have been supported by senior leadership in building a diverse and inclusive organization of the future. DLL has plans defined to enhance gender diversity in our organization, with a focus on enhancing the number of women in leadership.

Continue reading on the next page →

The **workforce** of the future

DLL currently has approximately 4,500 members within the organization (excluding contractors). Of these members, 43.5 percent are female, while 56.5 percent are male. The current gender distribution shows that women tend to be more prevalent in lower-level roles. Those roles are mainly supporting staff roles and tend not to be roles with net profit accountability. We also see that we have relatively few female representations in our middle-management roles. The trend gets stronger when looking at senior management roles.

Therefore, one of our goals is to increase female representation in so-called leadership feeder roles from 31 percent to 50 percent and increase female representation in leadership from 11 percent to 30 percent. Further, in an effort to create an inclusive environment respecting all cultural backgrounds and beliefs, we have established a global network of over 30 Diversity & Inclusion Ambassadors. These individuals, along with support from local management, are tasked with carrying this agenda forward in the countries where we do business.

Finally, we continue to work with diversity organizations in our recruitment efforts, with the goal of a diverse candidate slate for all vacancies and an aim to promote more diverse candidates. More details on this initiative can be found in the Governance chapter.

Enhance well-being

DLL believes strongly that the well-being of our members not only contributes to loyalty and engagement, but also results in higher productivity and an enhanced experience for our customers. This past year, we introduced a new Remote and Flexible Working Policy designed to allow our members to optimize their personal and professional balance and well-being. This policy will help our members become more agile, nimble, and flexible while also delivering exceptional results and moving towards our goal of being the workplace of the future.

We also have a member-inspired and activated program called 'True Energy,' which provides a variety of seminars and activities designed to educate and inform our members. In most cases, the content is developed and delivered by members, who connect with their peers to share knowledge and socialize. A major pillar of the True Energy program is focused on Vitality and Well-Being, with sessions on mindfulness, yoga, and exercise. The program originated in The Netherlands in 2015 and has now expanded to a global initiative with local chapters and activities around our entire network.

To meet the development needs of members and leaders, we have also built a pool of highly skilled internal coaches who can provide coaching and mentoring. The program is conducted on a voluntary basis, and candidates much attend a Coaching Master Program that is accredited by an external body and governed by the International Federation of Coaches (ICF). The program focuses on both personal and professional endeavors and results in better direction, balance, and motivation.

Design the workforce of the future

In 2018, we launched 'DNA Week,' a grassroots effort to stay competitive in the market and enhance learning and innovation within our organization. The program included workshops on a variety of topics that were identified as relevant by our members, including Diversity, Well-Being, Coaching, Design Thinking, and Volunteerism. We had a total of 3,478 enrollments globally, and we plan to do it again in 2019, expanding the curriculum and including online offerings for our remote workforce.

We also designed a new development and culture program built around the concepts of 'Member of the Future' and 'Future Leader.' The pilot of our 'Future Leader' program was launched in late 2018 and allowed members of our senior leadership team to participate in a series of modules and workshops that were facilitated by an outside university and designed to foster an innovative culture and exponential thinking. We consider these skills vital for our leaders to more accurately assess the future environment and encourage their teams to identify new opportunities and build innovative solutions. The program received strong marks and will be expanded in 2019 to include young high-potential members alongside our existing leadership community.

How we measure success

We believe our efforts in these areas are making tangible and positive impact with our members, as evidenced by our Employee Net Promoter Score (or eNPS®) metric. This past year, we conducted our third global member Pulse Survey, which allows us to measure eNPS and most importantly, act on the level of engagement, loyalty, and feedback shared by our members.

Our 2018 global eNPS was 46, which represented an improvement from our last measurement in April 2018 (45). This means that even more members are active promoters of DLL than last year. In fact, 57 percent of our member base are active promoters, while just 11 percent are detractors. Our Engagement Score also stayed strong and stabilized from April at 84 percent. This means that a vast majority of our members recommend DLL as a good place to work, are proud to work for DLL, and feel motivated to go beyond their formal job responsibilities.

One good way to ensure that we have enough food is to reduce the waste. That's why we support the leading companies who invest in food packaging equipment

We understand the importance certain assets have for your operation. That's why we offer flexible financial solutions for wineries and orchards

By 2050, the world population will reach some 9.8 billion (over 2 billion more than now)

Bring more to the table
in food production

Financial performance & **strategic outlook**

Financial performance

During 2018, we financed EUR 25.0 billion (2017: EUR 24.6 billion) of new assets, including EUR 10.4 billion (2017: EUR 9.9 billion) of short-term commercial finance. Adjusted for currency and discontinued operations from 2017 (Financial Solutions), our financed volumes increased by 5.5 percent (2017: 13.6 percent). The growth was mainly realized in the Food & Agriculture sector, while from a geographical perspective Europe showed a strong growth.

Our net profit for 2018 amounted to EUR 380 million (2017: EUR 606 million). The Return on Assets (ROA) amounted to 1.0 percent (2017: 1.8 percent). When comparing the year-on-year results, four items are to be considered.

First, the 2017 reform of the U.S. federal tax law required an adjustment in the deferred tax liability DLL has in the U.S. This adjustment has resulted in a gain of EUR 204 million that is recognized in the income taxes line in our statement of profit or loss in the previous year.

In the financial statements of 2017, DLL classified its operations in China as held for sale and through that classification recognized an impairment of EUR 40 million. However, during the course of 2018, it was concluded a sale was no longer probable. Therefore, DLL has decided to discontinue accepting new business in China and let the portfolio run off. By the end of 2018, there was still EUR 300 million (2017: EUR 435 million) of portfolio in China, which will run off in the coming years. The net profit for 2018 was positively impacted by the reversal of the impairment, partly offset by some negative income effects. The net impact is a gain of EUR 25 million, reflected on various income and cost lines.

Next to that, the 2017 results include three months of results of Financial Solutions (EUR 18 million), which was transferred to Rabobank on April 1, 2017. These results are presented as results from discontinued operations.

Finally, DLL uses derivatives to hedge its interest rate risk position. These derivatives are measured at fair value and may result in fluctuations in the income statement due to interest rate movements. To mitigate these fluctuations, DLL applies hedge accounting. In 2018, the impact of derivatives and hedge accounting was a loss of EUR 3 million (2017: gain of EUR 49 million).

When ignoring the above effects, our profit before taxes has decreased by 7 percent compared to last year. This decrease is caused by several factors, all adjusted for currency movements and further elaborated in the following paragraphs:

- Our net income is negatively impacted by decreasing yields on new business, as well as residual value and inventory adjustments recognized;
- Costs have increased, due to organizational investments made, as well as higher costs required for compliance activities; and
- Slight increase of credit impairments.

The most important source of income is our lease and loan portfolio, which increased by 9 percent (2017: 1 percent) to EUR 33.5 billion, after adjusting for the presentation of China and Hungary in 2017. Since DLL has a significant part of its portfolio in countries that have a different currency than euro, movements in the FX rates can have a significant impact on our portfolio. Our autonomous portfolio growth, without currency movements, was 8 percent (2017: 8 percent). This growth was realized across all business lines and main geographies.

DLL's net income is directly linked to this portfolio. Net interest income and income from operating leases (excluding Financial Solutions) decreased by 1 percent. Adjusted however for movements in FX rates, our income increased by 4 percent. Other income includes the income (loss) from derivatives, as well as various other income streams from our lease portfolio like adjustments on our residual values that negatively impacted our results.

Our operating costs decreased by 5 percent, caused by movements in FX rates and the impairment reversed for our operations in China. Adjusted for this incidental reversal and movements in FX rates, operating cost growth was in line with our portfolio growth, but also includes significant investments in compliance.

Credit impairments were still relatively low at only EUR 114 million (2017: EUR 105 million). DLL continues to benefit from the favorable economic environment, as well as from our strong diversification across all continents. Impairments have been specifically low in Europe, while from a GBU perspective, our F&A segment has the lowest risk costs.

Our funding policy is such that we have limited appetite related to foreign currency, liquidity, or interest rate risks, all defined in our Risk Appetite Statement. Interest rate and foreign currency derivatives are used to mitigate these risks. Most of our portfolio is funded via funding obtained from our shareholder Rabobank. In locations where it is more efficient to obtain funding locally, we engage in funding partnerships with high-profile local banks. Following the execution of our Mid-Term Plan, we are working on diversifying our funding sources. In 2018 we executed two U.S. securitizations, with a total size of close to USD 2 billion. Furthermore, we are stimulating circular business for SME companies through funding obtained from the European Investment Bank. Through this facility from the EIB, our customers can benefit from a decreased interest rate.

During the course of 2018, our equity increased by EUR 289 million. Of our net profit of EUR 380 million (2017: EUR 606 million), EUR 60 (2017: EUR 54 million) is attributable to the partners in our joint ventures. The remaining EUR 320 million was added to our retained earnings. We have not paid any dividend during 2018 to our shareholder (2017: EUR 1.2 billion). Our common Equity Tier I ratio as of year-end came in at 15.3 percent (2017: 13.5 percent), which is above our internal target of 13 percent.

As of year-end, we employed 5,027 FTE (2017: 4,636 FTE), including both internal members and contracts. We continued to grow our member base across all countries.

Strategic outlook

During 2018, we further executed upon our Mid-Term Plan (MTP), titled 'Focus and Accelerate.' In this plan we have defined our future direction as well as growth areas for the coming years. By providing our vendor partners and their end-user customers with new and innovative digital tools, like apps and digital portals, as well as a superior customer experience delivered by an empowered and engaged workforce, we will continue to differentiate ourselves in a growing and highly competitive marketplace.

In 2017, we started two projects to optimize our footprint. The first one relates to DLL ceasing operations in China. This has been implemented in the past year by no longer accepting new applications and running off the existing portfolio. In Central Eastern Europe, we pursued a cooperation model with Erste Group Bank AG, however during the year both parties decided to discontinue working on this strategic alliance.

Another important initiative relates to the diversification of our funding sources from our parent Rabobank. In 2018, we placed two securitizations in the U.S. market, attracting close the USD 2 billion of funding. DLL is becoming an established issuer in the U.S. and will continue to expand this in the coming years to other geographies.

Mid-term plan

Product development

To meet the evolving needs of our vendor partners as well as the changing requirements of end-user customers, we will focus on growing customer value. To achieve this, we aim to increase the penetration of our existing products and services to our current vendor partners. We will also seek to develop new added-value propositions.

Highlight 2018

We continued to further refine our product offerings by offering pay-per-use products, including an innovative 'no minimum payment' concept deployed with a major manufacturer of coffee vending machines. We also continued to see promising developments in the Managed Equipment Service (MES) sector, where we supported some large MES transaction in the UK healthcare sector.

Digital transformation

In the current digital environment, speed and ease of doing business are key differentiators. Therefore, we have developed plans to accelerate DLL's digital capabilities. We will continue to digitize our delivery to both vendor partners and their end-user customers through mobile applications, self-service portals, partner integration, and an improved Customer Experience platform. Next, we will continue to digitize our internal processes through workflow, digital documents, and e-signatures.

Highlight 2018

We continued to broaden the deployment of our mobile applications and other technology solutions to a wider number of countries, markets, and partners. These applications enable us to improve our time to market and increase the auto approval rate. In 2018, DLL received an award from the Enterprise Mobility Exchange for Most Effective Mobile App. The award was given to DLL Express Finance, our user-friendly app that simplifies the entire financing process from pricing calculation and quotation to deal closing with electronic documentation and signature.

Delivery optimization

By enhancing our processes and structures, we can further improve our service to our customers. This involves streamlining our international support functions and taking transformational steps in our back-office service delivery. Furthermore, additional focus will be placed on improving sales force effectiveness and evaluating the potential to create more flexibility in our value chain delivery.

Highlight 2018

During 2018, we again made significant investments in our organization. We have opened several Customer Engagement Hubs in select markets across the United States. These locations allow us to deliver a more personal and localized level of service to our partners in the regions where they operate and ensure coverage across all major time zones. Our customers appreciate our efforts on this, as evidenced by our Partner Net Promoter Score (NPS), which increased to +44.

Organizational growth

Members are our most important asset and, among others, a unique element that sets DLL apart from competition. As such, DLL will devote ongoing attention towards developing our members and nurturing DLL's culture. To achieve this, we will focus on leveraging the investments already made in training and engagement programs and focus on further embedding these programs in the organization. In addition, we will focus on fine-tuning the member composition to increase diversity and ensure we attract and retain the key capabilities to support our long-term goals. Finally, we will focus on leadership engagement and inspiration to ensure that all members continue to understand the overall direction of DLL and feel inspired and motivated to bring their best to DLL every day.

Highlight 2018

In 2018, we launched 'DNA Week,' a program designed to enhance learning and innovation within our organization. The program included workshops on a variety of topics that were relevant to our members including Diversity, Coaching, Design Thinking and Volunteerism. The program was considered a great success with 3,478 total enrollments and we plan to do it again in 2019, including online offerings for our remote workforce. We also implemented our new Remote and Flexible Working policy, designed to allow our members to optimize their personal and professional balance. The return on these investments is most visible in our member Pulse Survey, which resulted in an Employee Net Promoter Score (eNPS) score of +46.

Regulatory compliance

DLL needs to meet all the changing regulatory requirements. New regulations on capital and liquidity as well as updated compliance requirements continue to require significant investments from DLL. We therefore further focus on implementing our compliance roadmap and our Data Management and Business Intelligence plan. Further, we are reviewing our legal structure and aim to optimize this where necessary to improve DLL's future strategic flexibility.

Highlight 2018

During 2018, we worked on major compliance initiatives like the General Data Protection Regulation (GDPR) and strengthening the anti-money laundering and sanctions framework. Furthermore, we completed the assessment of the most optimal European banking license structure. This assessment has resulted in a detailed implementation plan for adjusting our legal structure that should be completed in 2020.

Strategic flexibility

The sixth pillar of our MTP is aimed at further developing DLL as an organization to be better positioned for future growth. Traditionally DLL has relied mainly on Rabobank for providing funding. In the interest of both DLL and Rabobank Group, DLL is diversifying funding sources to more appropriate levels. Furthermore, we will optimize our legal and license structure. We will also explore different options to optimize capital structures and reduce risk-weighted assets that require capital.

Highlight 2018

During 2018, we successfully completed two securitization transactions in the U.S., attracting almost USD 2 billion of external funding. Both transactions were very well received in the ABS market and perfectly fit in our plan to diversify funding sources. With three transactions over past 18 months, DLL has become an established issuer in the US and we will continue to expand this in the coming years to other geographies. In Europe, we have obtained funding from the European Investment Bank, which enables us to provide financing at a decreased rate to SME companies.

Sustainability

Climate change and resource scarcity are challenges the world is facing. This will not change until we make significant strides towards solutions. DLL proactively promotes renewable energy usage and a smarter use of the planet's resources, which is at the heart of DLL and our circular business models.

While also assuring high ethical and environmental standards in how we do business, DLL provides financing for projects that promote energy efficiency, the use of alternative energy, and the preservation of our natural resources. We offer usage- and service-based solutions for the full life cycle of assets, closing raw material cycles to create a circular economy. This is how we deliver profitable growth and are careful with the world around us.

We want to support the efficient use of natural resources, reduce our impact on the environment, and close raw materials cycles in order to create a circular economy while creating business value at the same time. We also promote development opportunities for people, respecting their rights and encouraging people to pro-actively create innovative solutions. We therefore focus our three-pillar sustainability approach on the following:

a) Offering sustainable business solutions;
b) Having a meaningful societal impact; and
c) Assuring customers they can count on us having responsible business operations.

Put simply, we try to offer sustainable financial solutions in the most responsible way while maximizing our positive impact on society.

Sustainable business solutions

We explore new opportunities and track the latest industry trends and sustainable innovations. One of the current examples is our research on waste management trends or the research on batteries and electric/rechargeable technologies that are suitable for electric transportation and energy storage. DLL regularly publishes research papers on topics related to circular business models, which we share through external media and webinars. Another great achievement was the publication of 'Rethinking Sustainability in Light of the EU's New Circular Economy Policy' in Harvard Business Review, which focused on DLL customer solutions to overcome challenges when implementing a circular economy strategy.

Together we can go that extra mile on the global sustainability journey and achieve the transition to a circular economy.

Sustainability knowledge and customer service
To achieve the above, DLL actively encourages and supports our members to always consider sustainability as an integral part of our customer service. Our management and member base in all DLL countries are provided relevant expertise and communication tools to improve their sustainability advisory services and product offering to our customers. We have integrated sustainability as a recurring topic in our introduction program for new members. Additionally, we developed an in-depth sustainability workshop for our global member base which was launched during DLL's 'DNA Week'. The goal of this workshop was to help our members better understand the route to a low-carbon circular business future. We also provided them with webinars and other information sessions on new circular insights developed in our whitepaper series.

DLL proactively supports our corporate clients with in-depth knowledge and advice. We periodically analyze the sustainability performance of our larger clients and offer our customized financial solutions to achieve long-term sustainable business success and a positive environmental impact. Our partners have access to state-of-the art knowledge, expertise and networks in the area of sustainable product and service offerings to further increase their sustainability ambitions.

At group level, DLL and Rabobank more closely align strategies for sustainable business development. In addition to partnering in sustainability committees, Rabobank also launched a sustainable products & solutions catalog account managers, which included DLL products, to create better understanding of all sustainable commercial solutions. This leads to better customer service and more sustainable business development.

Full Life Cycle Asset Management: helping drive the transition to a circular economy
The traditional linear economy model is based on a take-make-dispose model, where raw materials are extracted from the earth and assets are made, sold and eventually discarded by the user to potentially end up in landfill or incineration. In tomorrow's economy, we will incur a problem of raw materials scarcity, as we are depleting a finite supply of resources. The circular economy model instead aims to keep raw materials in closed loops. This model relies on usage rather than ownership of assets. It enables manufacturers to have more control of their assets throughout the technical cycle and it

makes services concerning the product potentially become an increasingly important profit center for manufacturers.

DLL possesses an in-depth understanding of how innovation and usage affect the economic life cycle of an asset and actively supports vendor partners in the refurbishment, remanufacturing, reengineering, recycling and remarketing of equipment. In addition, we promote a smarter usage of the planet's resources and the reduction of pollution and waste streams.

Life Cycle Asset Management at DLL is the economical management of assets throughout their entire technical life. This is accomplished by providing tailored financial services (like operational lease, swapping of assets, extended usage, redeployment, second-life finance, et cetera), thus proactively using the repair and maintenance, refurbishment and remanufacturing skills of our manufacturing partners.

Examples of financial solutions that fit the circular economy are our operational lease solutions, extended usage, redeployment, second-life finance, spare-part financing, and used equipment finance for second-/third-life assets. Examples of non-financial solutions are our Refurbishment & Remanufacturing services and access to scrapping network for end-of-life assets.

In 2018, DLL and the European Investment Bank (EIB) signed an agreement establishing more support for Dutch and Belgian SME and mid-cap companies from DLL's Life Cycle Asset Management Program. The credit facility includes EUR 100 million and enables Dutch and Belgian companies committed to sustainable and circular business to benefit from a lower interest rate.

Clean technology: Financing energy efficiency and alternative energy use
DLL proactively drives the transition to renewable energy and carbon-neutral or even energy-generating asset types. DLL's green asset financing encompasses a diverse range of products and services that improve efficiency and operational performance while minimizing energy consumption, waste, or environmental pollution. Our Clean technology scope includes energy efficiency, renewable energy products, and other areas such as combined heat and power, recycling, and energy storage.

Meaningful social impact

DLL maximizes its positive impact on the local communities in which we operate by offering financial services, expertise and manpower, and financial and in-kind contributions.

Charitable donations and volunteering
DLL's members are encouraged to spend two days of voluntary work a year during working hours, investing their time and expertise to good causes in society, like packing and distributing food at local food banks, sorting children's clothes and school materials through Cradles to Crayons, or helping out during Special Olympics events. But members also participate in more expertise-related volunteering, like in teaching about financial literacy, being pro-bono advisors in several areas like communications or business planning, or by being community coaches to management of non-profit organizations. With our corporate volunteering program, DLL focuses on current local social issues in the industries we work in and in all the locations in which we operate. These issues include environmental protection and food supply, economic vitality and entrepreneurship, ensuring quality in healthcare and care for people, and youth empowerment and financial literacy, in line with our industry focus. An inspiring community

volunteering program featuring active member engagement also improves our ability to attract, retain and develop our talent while making a meaningful contribution to society.

DLL also is taking a broad responsibility to society through corporate volunteering programs. The following volunteering results were achieved at the close of 2018: 40 percent of our member base made a difference in the lives of people in disadvantaged situations by volunteering for good causes in our surroundings.

Furthermore, DLL has been a key supporter of the 'Make a Wish' organization for the last 16 years, supporting the foundation with more than USD 4.5 million so far, with over 500 children and their families sponsored by DLL in making their wishes come true.

We also supported other non-profit initiatives in our surroundings with EUR 0.5 million invested over the course of the year. In 2018, an updated version of DLL's sponsoring and charitable donations policy was approved and launched. It is supported by tools that allow all sponsoring and charitable donations to be properly registered and monitored.

Micro-leasing

In emerging countries, DLL helps to develop and improve access to local financial infrastructures for small and medium entrepreneurs by offering our micro-leasing advisory services. Concretely, DLL partnered with the Rabobank Foundation to provide expertise and training to local microfinance institutions (MFIs) about asset-based financing and leasing. The objective is to support these MFIs to develop an alternative microfinance product that increases financial inclusion of small and micro entrepreneurs and supports their business success.

In 2018, micro-leasing advisory services were offered in Kenya, Rwanda, and Zambia, helping to strengthen micro-leasing product offerings to local small and medium enterprises and producer cooperatives. Together with Rabobank, we are refining our strategy to explicitly generate value in agricultural value chains, improving production and quality of produced and processed goods. A second focus is the helping these local lenders improve the efficiency and quality their credit assessments.

In addition to these advisory services, we created a DLL Micro-leasing Fund in cooperation with Rabobank Client Fund and Rabobank Foundation, which can serve as an internal fundraising tool to create additional funding for micro-leasing.

Responsible business operations

DLL is a responsible financial partner, proactively managing ESG (Environmental, Social and Governance) risks in our business and striving to improve our impact on the environment through resource optimization, behavioral change, and technological innovation. The DLL ESG Risk policy provides a global framework and principles to identify, manage, and monitor ESG risk related to business relations of DLL, respecting the local norms and values of the countries in which DLL operates.

Environmental, social and governance risk
We uphold high internal and external standards of ethical behavior in the way we do business. We actively support the transition towards sustainable sectors in which we are active, while achieving commercial success by including sustainability criteria in our sectoral programs, asset and customer assessments, and dialogue. We increase transparency on our financial products and services.

In 2018, the ESG risk assessment on all global vendors and strategic suppliers was again conducted, based on the related risk rating, in partnership with Corporate Compliance.

The ESG risk framework covers the following topics:
- Controversial weapons: DLL refrains from facilitating the armaments industry, except where the company in question is only involved in the supply of non-controversial weapons or armaments-related products to noncontroversial regimes.
- Human and labor rights: DLL respects human rights and does not wish to be involved in matters that infringe upon human dignity. These rights comprise universal human rights as defined in both international treaties and labor rights, the latter of which relate to human rights regarding work, the workplace, and labor relationships.
- Environmental and animal welfare: DLL recognizes that the economic activities of business relations can have environmental impacts that may threaten people and the environment at the local, regional, and global levels. The environmental issues can be grouped in pollution, climate change, biodiversity and ecosystem impacts, and animal welfare.

Business Principles Committee
DLL has a Business Principles Committee ('BPC') in place, that is advising the EB on DLLs ethical course, and promoting ethical behavior in the organization. The Committee meets frequently to review business requests and transactions to ensure that the interest of DLL's internal and external stakeholders is optimally balanced with DLL's own business interest and ethical standards.

Carbon footprint
DLL is committed to reduce its environmental footprint and measure DLL's impact on the environment and climate change. DLL strives to reduce carbon emissions per FTE per year by 2020 by 10 percent from 2013. This should be realized through a combination of resource optimization, energy-efficiency, behavioral change, technological innovation and procurement policies, and DLL's new way of working.

On a quarterly basis, DLL measures its CO_2 footprint globally. Looking at the global CO_2 reduction target (10 percent CO_2 reduction per FTE by 2020 compared with 2013), DLL is on track to realize this target. Based on the official Rabobank Annual Report calculation, we saw an increase in absolute numbers to 14,118,195 kg CO_2 emissions, in 2018. In relative terms, it is a decrease of 2.84 thousand tons per FTE compared to 2017, which is a 7.2 percent decrease/FTE.

Equipment financed by DLL is used in providing dental care to over 40 million patients around the world

Equipment financed by DLL performs over 15 million advanced diagnostic imaging scans every year which can lead to improved patient outcomes

Equipment financed by DLL performs over 750k oncology treatments globally every year

Financing a better future **in healthcare**

Risk management and compliance

Risk management organization

Organizational structure

The objective of the entire risk organization is to enable controlled long-term profitable growth within the defined risk appetite through clear strategies, integrated management of all risks, and to ensure that risk is viewed as the responsibility of every member. Taking risks is an inherent part of DLL's business model.

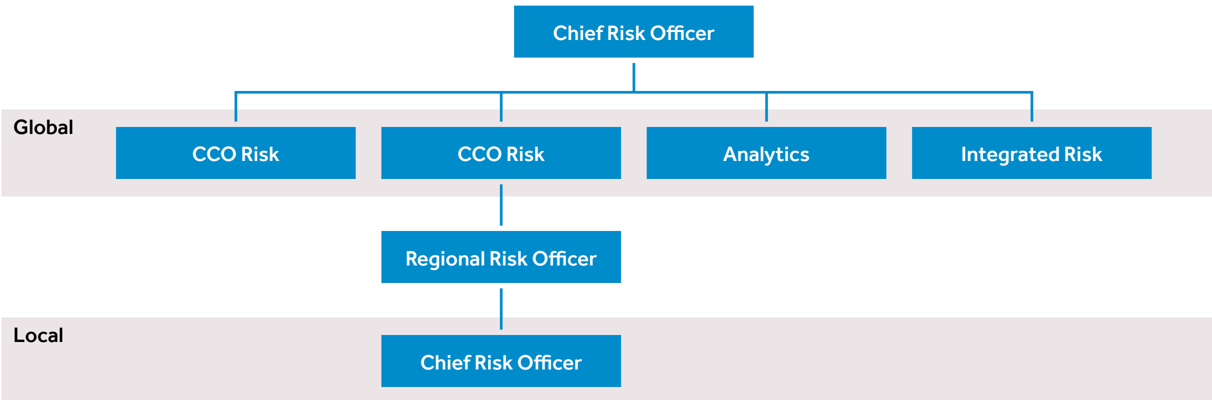
Risk management is performed on a number of levels within DLL:

At the highest level, the Executive Board determines the risk strategy, risk appetite, and risk policies under the supervision of the Supervisory Board. At group level and local country level, risk officers are active in managing the risks that DLL is taking on a day-to-day basis, applying the three lines of defense, which will be further elaborated in the next paragraph.

The **CCO Risk** team is responsible for developing specialized industry knowledge within DLL's strategic industry sectors. CCO focuses on supporting Global Business Units (GBUs) in developing, reviewing, approving, and monitoring vendor risk exposure for all global vendor partners, but also:

- Providing risk support to the New Business Development process for new global vendors;
- Working with the GBUs to set appropriate risk appetite for all global vendor programs;
- Disseminating specialized industry knowledge to country teams for use at the local level;
- Developing and monitoring loss pools related to global vendor programs;

Figure 1: Risk Management Organization



- Monitoring end-user portfolio performance for all global programs; and
- Providing risk support for portfolio acquisitions that exceed country limits.

COO Risk supports countries in building profitable portfolios within DLL's risk appetite and enhances quality and efficiency of the small ticket application flow. This department is responsible for the implementation and enforcement of the risk management framework within the countries, to provide challenge and oversight on the business identification, assessment, and management of (material) risks, and defining risk boundaries within which the countries must operate to deliver its objectives. Activities of COO Risk include:

- Credit and local vendor approvals that exceed the authority of the country's local credit committee;
- Reviewing country limit applications and loan strategy reports;
- Preparing incident learning reports;
- Performing operational incident quality checks;
- Handling country integrated risk management dashboard process, the provisioning LGD review process, and the full Risk Authorization Letter (RAL) process; and
- Formal oversight at the installed LCC and Local Risk Committee (LRC) in the countries.

COO Risk also includes Scorecard Management Consultants, who are responsible for supporting efforts in the countries to enhance quality and efficiency in the automated decisioning environment.

Analytics is responsible for all analytics, modelling and model validation activities with respect to Basel compliance (from a solvency perspective); the Capital framework; risk management (stress testing, risk cost forecast, Expected Loss calculations, provisioning); auto decisioning (scorecard development); and risk-reward optimization (Analytical Price Tool, Return On Invested Capital (ROIC)). This team makes sure that DLL's Basel and Capital framework is up to date with regulations, that processes and decision models are functioning optimally, and that analytical services are provided to the business to support effective decision-making, while taking risk-reward and efficiency into account. Next to these risk-related responsibilities, Analytics also ensures proper model governance and validation of other models in use within DLL and is involved in exploring more broad applications of Analytics to support business processes.

Integrated Risk has a broad range of responsibilities within DLL Group Risk Management. Integrated Risk is the knowledge and service center for:

- Establishing and maintaining an Integrated Risk Framework, which includes
  - Developing of the risk appetite and monitoring DLL's performance against the risk appetite together with the other risk departments;
  - Maintaining and improving the Risk Policy Framework;
  - Monitoring the adherence to the Risk Policies; and
  - Supporting local and group teams on Enterprise Risk Management-related issues (for instance Business Continuity Management).
- Coordinating and providing input on risk reports for executive management and the Supervisory Board;
- Communicating risk, overseeing risk training development, and coordinating risk-wide projects within DLL;
- Coordinating the Executive Risk Committees;
- High-level monitoring of portfolio performance (delinquency and risk costs);
- Coordinating regulatory and audit requests, which have a risk impact;
- Building a culture of innovation within risk, which includes initiation and coordination of risk-related innovation activities; and
- Interacting with the Rabobank Risk departments.

Risk committee structure

DLL has established different risk committees to monitor and to enforce DLL's Group Risk Management Framework and risk appetite. These risk committees are chaired by Chief Risk Officers or other representatives of Group Risk Management. The responsibilities of the risk committees are defined in their respective Terms of Reference, which include members and modalities such as frequency, quorum and decision-making processes. Terms of Reference are reviewed annually.

At DLL, three types of risk committees cover all material risks from different perspectives:

1. Risk Domain committees: risk materializing within business domains
2. Content committees: thematic risk monitoring and policy review
3. Transactional committees: approval of large, mainly credit, transactions and credit restructuring

The figure below shows the DLL Risk Committees:

Members of the risk committees are appointed based on their position in the organization, knowledge, experience, and management responsibilities and are approved by the committee from which they are mandated.

Three lines of defense

Every DLL member is involved in addressing and managing risks daily. DLL has adopted the three lines of defense model to provide clarity on the responsibilities for risk and control activities. This clarity of responsibilities results in coordinated, efficient and effective risk and control activities throughout the organization. The three lines of defense approach lays the foundation for the overall risk governance in DLL. An overview of the three lines of defense is shown and explained in figure 3.

Figure 2: Risk Committees

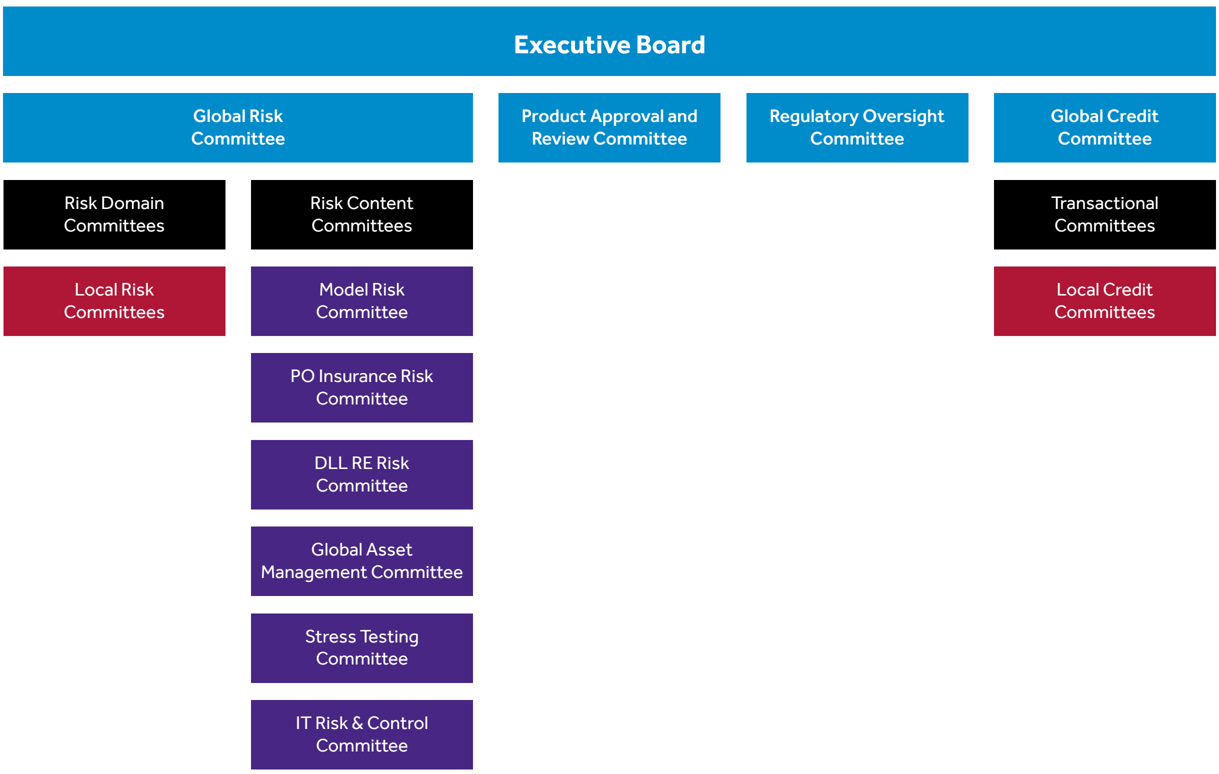


Figure 3: Three Lines of Defense

The Executive Board is accountable and responsible overall for setting the organization's strategy, objectives, risk appetite, and aspired culture. It establishes a governance structure and processes to best manage the risks involved in accomplishing DLL's objectives.

First line

The business (countries and GBUs) and its supporting departments (e.g., marketing, operations, IT) are the first line of defense and are key in managing risks. They are risk owners and identify, assess, manage, monitor, and report the risks that they incur in the activities for which they are accountable. These risks can relate to products, clients, transactions, processes, and systems. The first line ensures the risk profile adheres to the established risk appetite, complies with risk policies, standards and guidelines, and promotes a strong risk culture. The first line maintains effective internal controls and ensures these remain adequate and effective over time. Furthermore, the first line has the responsibility to:

– Identify and assess risks with a forward-looking view;
– Escalate risk appetite limit breaches and report incidents in accordance with policies;
– Establish an integrated risk control framework; and
– Monitor and report on its key risks and control measures.

Second line

The second line of defense is responsible for developing and maintaining the risk control framework, which consists of policies, standards, procedures, models, tools, and systems. The second line sets the framework within which the first line operates through indicators, limits and facilitates development of Risk Appetite Statements, and ensures that the framework is understood and used correctly by the first line of defense. Furthermore, the second line advises the first line and exercises oversight by challenging the first line in their risk management activities and risk-return considerations. The second line monitors risks and performs independent control testing. The second line of defense is organizationally independent from the first line of defense but works in close collaboration with the first line of defense, supporting them in their risk management responsibilities with tools and guidance.

Third line

The third line of defense consists of the Internal Audit department of DLL. Internal Audit provides independent assurance, advice, and insights to the Executive Board, the Supervisory Board, and other senior management of DLL on the quality and effectiveness of DLL's internal control, risk management, and governance systems and processes, thereby helping the boards and management protect the organization and its reputation.

By adhering to the principles of the three lines of defense, DLL assures independence among:

– Units that own and manage risk;
– Those that provide an informed challenge; and
– The quality assurance that both are functioning according to standards.

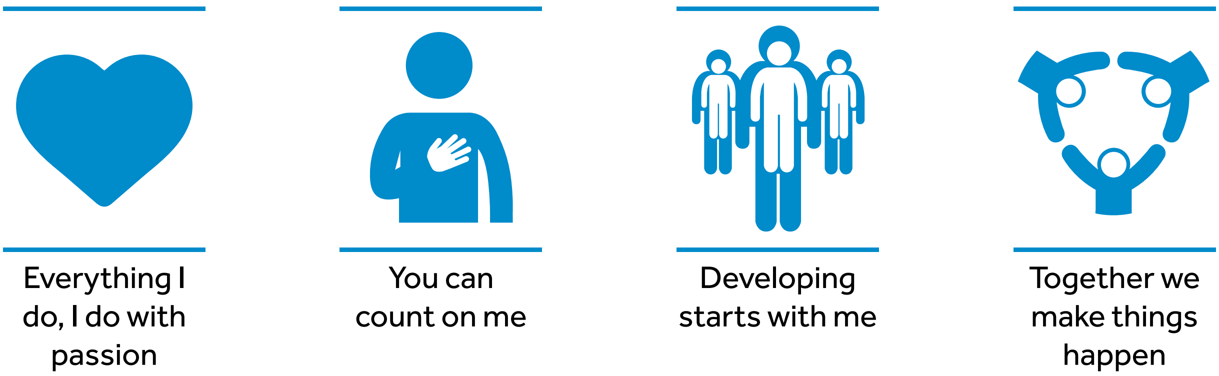
Risk culture

Risk is everybody's business. A sound risk culture is the basis for good risk management. DLL expects all members to contribute to a sound risk culture focusing on long-term relationships with, and in the best interest of, DLL's customers by applying the following DLL Values:

The risk culture is institutionalized in DLL's Code of Conduct and other policies including: information security, fraud awareness, and other risk-related policies. These subjects are re-enforced regularly through mandatory trainings for all members.

Members are explicitly expected to deal responsibly with risks and dilemmas, to carefully consider the interests of stakeholders, to always be honest and reliable, and to take responsibility for their actions. Each individual member contributes to the risk profile of DLL and the way in which risks are managed. Desirable behavior is encouraged, and undesirable behavior is corrected. An important baseline is to create an environment in which risks are openly discussed and where openness exists regarding dilemmas that arise in work. Tunnel vision and group bias need to be avoided in the perception of risk. It is vital to learn from mistakes and to avoid repetition by removing the causes and by sharing experiences. Risk management activities actively keep risks within the established risk appetite and support assessment of potential consequences of choices, careful consideration of risk and/return trade-offs, and appropriate measures based on up-to-date risk analyses.

Figure 4: DLL Values



To maintain this prudent risk profile, robust risk management is required both in terms of the quantity and quality of the second line of defense and in the priority given to risk management by the first line of defense. Members play a vital role in DLL's ability to achieve its ambitions. All members must be aware of the risks for which they are responsible and manage them accordingly. Also, a strong risk culture, starting with the tone-at-the-top, is an essential and overarching theme. This culture is relevant to all aspects of risk and is a major determinant of the ability to achieve business goals while staying within the established risk appetite. DLL is committed to the continual development of its risk culture.

Risk strategy

General principles

DLL's risk strategy supports management in the realization of the business strategy by defining boundaries within which the business should operate. It is important to acknowledge that taking risks is an inherent part of operating as a financial institution. Without risks, no (profitable) business activities are possible. Therefore, not only accepting but striving for a certain degree of risk is self-evident. In this respect, risk is not a stand-alone criterion, but within certain absolute limits, it is primarily risk versus reward that counts. The business strategy gives important direction regarding the amount and nature of accepted and intended risks for the various parts of the company.

In order to sustain the principles of its business strategy, DLL avoids risks that can potentially affect the fulfillment of its goals. This implies that risks endangering DLL's continuity should be mitigated since DLL wants to continue to service its customers and members. As elaborated upon below, ensuring long-term continuity includes certain minimum reward requirements.

The performance of DLL, not only in terms of income, but also with respect to risk management, fully depends on its group entities. Therefore, the group entities share the responsibility for the results on a group level.

Three pillars

DLL distinguishes the following three pillars in its risk strategy:

1) Protect profit and profit growth

Maintaining a continued profit level is an important source of capital. In order to continue to service its customers and the vendors in the long run, profitability must be predictable, consistent and sufficient to maintain a strong capital base and reputation. Such a level of profitability implies that all payments on capital and debt instruments can be made from income.

2) Maintain a solid balance sheet

Solid balance sheet ratios for DLL are essential for continuity in customer service and growth objectives. This means a stable funding base and diversity in portfolio, geographical spread, and products.

Capital adequacy ratios

A strong solvency ratio is a driver for trust with customers, rating agencies, and external commentators. It also acts as a buffer in the event of unexpected losses. DLL's aim is maintaining a solid Core Equity Tier 1 (CET1) ratio well above the minimum regulatory requirements. Accordingly, DLL will be able to finance its growth from a solvency perspective through increased retained earnings.

Funding

A strategic plan has been agreed upon between DLL and Rabobank. Rabobank will remain DLL's primary funder, but DLL's aim will be to continue to diversify the funding base by expanding cost-effective options such as securitization platforms. Efforts will continue to attract additional European Investment Bank (EIB) funding where possible and securitizations will be executed in line with the current funding strategy. Other opportunities such as sale and leaseback transactions will be evaluated where they can provide cost-effective funding diversification. DLL will also look to attract customer deposits over the coming years under its bank license. Local bank funding will be sought under security of Rabobank guarantees where required in certain hard-to-fund countries (such as India). All transactions are regularly discussed with Rabobank Group to ensure a fully aligned funding approach within the wider Rabobank Group.

Liquidity

Rabobank manages the consolidated Rabobank Group liquidity requirements, as DLL has obtained a solo supervision waiver for the DLL level. However, DLL is responsible for managing regulatory liquidity ratios (such as LCR) in certain territories where the DLL subsidiary is solely supervised. This situation is likely to remain unaltered through 2019.

3) Protect identity and reputation

DLL wants to protect the fundamental trust that its stakeholders have in DLL and the Rabobank Group. To that end, it seeks to avoid losses that create unease with its stakeholders. Also, DLL does not want to receive negative press regarding its core values.

These three pillars are closely interrelated and fully dependent on maintaining sound governance and a strong risk culture throughout the organization. DLL can only deliver long-term, optimal customer value if it has a solid balance sheet. This results in more favorable funding costs and supports the Group's profitability and reputation. In turn, maintaining a solid balance sheet requires healthy profitability and a sound reputation. Finally, reputation plays an important role in achieving satisfactory profit levels.

Risk management framework

Introduction

DLL's risk management framework is designed to mitigate the risks DLL is facing in day-to-day business. DLL manages risks on an on-going basis building on a continuous integrated risk management cycle and embracing the three lines of defense model.

Figure 5: Risk Management Framework

Country management is responsible overall for designing and implementing effective internal control in their organization. The country management sets the 'tone at the top' that affects integrity, ethics, and other factors of a positive control environment. Consequently, country management is also responsible for designing and implementing effective risk and control processes.

DLL performs a structured and integrated risk analysis to manage its risk. A structured and integrated risk assessment across all entities is an important way to ensure DLL is complying with regulatory requirements. The risk management cycle is linked to the organizational profile, the strategic objectives and the Risk Appetite Statement, and consists of the following steps: Risk Identification – Risk Assessment – Risk Mitigation – Risk Monitoring.

Figure 6: Risk Management Cycle

The risk management framework covers the main risk types DLL, as a leasing company, is faced with:
– Credit risk (including counterparty and country risk);
– Asset risk;
– Capital risk;
– Balance sheet risk (including liquidity, interest rate, and foreign exchange risk); and
– Non-financial risk (including information technology, information security, business continuity, outsourcing, legal, human resources, and tax risk).

This risk type of classification provides clear definitions and promotes a common understanding of risk management throughout DLL. In the next paragraphs, for each risk type a short summary of DLL's risk strategy and mitigating activities to reduce the risk will be given.

Credit risk

Definition

Credit risk is the risk that DLL will incur a loss because its customers or counterparties fail to fulfill their obligations towards DLL. Credit risk exposures arise when DLL provides financing to a customer or a counterparty by advancing money or an asset under a finance lease or a loan. For credit risk management purposes DLL also recognizes an exposure to credit risk for its operating lease portfolio. Credit risk on operating leases arises when DLL enters into an operating lease contract with a customer.

Strategy

DLL aims to maintain a credit portfolio with a manageable risk profile in order to limit the impact of bad debt costs on the profitability and reputation of the company. To realize DLL's strategy, a suitable critical mass is required to ensure a desired number of customers and exposure.

DLL is in the process of switching from an orientation of underwriting single transactions towards underwriting on a local country portfolio level (and within that by program). This approach is named 'Through the Cycle Underwriting.' To support this approach, standardized tooling has been developed and guidelines have been shared to take into account DLL's partners' portfolio risk cost performance in the underwriting decision.

Mitigation

DLL manages credit risk through a process of ongoing identification, measurement, and monitoring of risk exposures, subject to risk limits and other controls established by DLL's Risk Appetite Statement and its credit risk policy.

Credit risk management focuses on making balanced decisions on credit applications based on careful assessments to ensure that credit losses from the resulting portfolio are within agreed limits. DLL seeks to control credit risk by building a diversified portfolio from a market segment and geographical perspective and by closely monitoring payment performance. Furthermore, additional vendor support has been put in place in the form of loss pools and recourse to mitigate credit and asset risk. Overall, DLL pursues a credit risk policy aimed at maintaining a moderate credit risk profile.

To prevent unacceptable credit concentration risk and losses that endanger the financial health of DLL, risk appetite limits are set for credit and concentration risk. DLL does not want to be significantly exposed to a concentration of credit in a country, industry, single end-user, or vendor where a default could have a material adverse effect on DLL's results.

DLL has two levels of credit committees that manage credit risk, namely, a Global Credit Committee (GCC) operating at a global level and Local Credit Committees (LCC) operating at country level. The credit committees play a key role in ensuring consistency of standards of credit analyses and risk ratings. They also perform a control function ensuring compliance with DLL's credit risk policy.

Asset risk

Definition

Asset risk is the current and prospective risk that the asset value depreciates differently in the market than anticipated, creating a difference between the booked value and the market value of the assets.

Strategy
It is DLL's goal to be an asset-based solutions provider while maintaining a diverse and balanced portfolio. As part of the business model, DLL assumes a residual value position for certain leased assets. DLL wants to minimize residual value impairments on the portfolio of leased assets and seeks to build a diverse portfolio across asset classes and markets.

DLL has authorized a strategy to take end-of-term investment positions, Residual Value (RV), in certain assets being financed to meet customer needs and provide additional sources of income. The guiding principle behind RV risk-taking is that a portfolio with Booked Residual Values (BRV) should not lead to losses due to impaired RVs.

Mitigation
The general guidance at DLL is to have a varied and diversified portfolio in order to mitigate the risks inherent in an asset-based financing environment and provide a sufficient level of income for assuming this risk. DLL has set limits including concentration limits by asset type and limits on declines in residual value realizations over prior periods, which is reflected in the risk appetite statement.
All new asset types require the approval of the respective GBU Asset Management.

RV risk taking is governed by the Global Asset and Remarketing Policy and is overseen by Product Overlay Asset Management & Remarketing. Global BRV concentration is monitored quarterly to assure that no concentration in any single Master Asset Type exceeds approved limits. A global residual impairment test is executed annually to assess if any residual impairments exist in the portfolio or in returned inventory. Quarterly assessments are carried out on inventory levels to assess whether RV impairments are necessary. Regular periodic physical inspections of inventory held for sale at the remarking premises are performed.

Capital risk

Definition
Capital risk is the risk that DLL is not capable of implementing its strategy and business plan over the coming years due to a lack of sufficient capital to cover the risks inherent in its strategy and business plan.

Strategy
Capital requirements are managed actively through DLL's risk strategy, risk appetite, and balance sheet management to ensure sufficient capital is held to meet regulatory requirements. DLL has a capital and dividend policy that is aligned with minimum requirements of supervisors, local requirements, Rabobank's capital targets, and DLL's own internal objectives.

Mitigation
DLL has developed internal capital models to meet the minimum regulatory capital requirements.
A model validation team is in place to assess the models. DLL intends to use the most advanced methods and models allowed by, and compliant with, regulation. A prudent approach is applied to all capital requirement models, taking into account model uncertainty. All models require approval, based on their complexity and potential impact, by the appropriate risk committee.

Stress tests are conducted regularly based on both internally and externally (i.e., regulatory) defined scenarios to determine whether DLL has sufficient financial resources to resist adverse economic scenarios. The impact of these stress tests, measured from an earnings and risk-weighted-assets (RWA) impact, provides insight into the risk profile during times of stress and allow assessment of set (risk appetite) limits under such conditions.
In the yearly DLL Internal Capital Adequacy Assessment Process (ICAAP), a detailed assessment of the capital resources deemed adequate for DLL's Executive Board (EB) to implement DLL's strategy and business plan over the coming five years is made. From the ICAAP Report over 2018, it can be

concluded that based on the scenarios selected, core risks to DLL's business model (asset risk and credit risk) will impact the overall performance, but will not result in losses, as DLL's business is well diversified in terms of both geographies as well as industries.

Since capital is scarce, DLL assesses how well capital is used to generate returns, therefore DLL has set limits for Return on Invested Capital (ROIC). The ROIC ratio measures the level of net profit against the targeted capital, adjusted for RWA. This requires a minimum level of annual profit that determines the level of risk appetite. For large deals, a Pricing Tool is used to ensure a minimum ROIC ratio. The ROIC ratio is also used for Group and Business Unit steering and performance measurement.

To protect DLL's capital as well as DLL's current and future profitability, DLL performs an annual portfolio optimization. The portfolio optimization takes a holistic view on all of the factors impacting DLL's business: commercial opportunities, environmental conditions, risks, funding and capital needs, and projected profitability. This performance management tool delivers a detailed overview of the development of countries, business lines, and segments with respect to their profitability and required capital.

Balance sheet risk

Definition

Balance sheet risk management focuses on liquidity, interest rate and foreign exchange (FX) risks:

– Liquidity risk is the risk that DLL will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that DLL might be unable to meet its payment obligations when they fall due under either normal or stress circumstances.
– Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

- Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. DLL is principally exposed to two types of FX risk:
  1. FX translation risk, or balance sheet exchange rate risk, that reveals by translating the value of a foreign net investment (expressed in a foreign/reporting currency) to DLL's reporting currency, EUR.
  2. FX transaction risk, or cash flow risk, deals with exchange rate moves on actual transactions, either in paying or receiving foreign currencies.

Strategy

DLL's risk appetite towards balance sheet risk follows from its overall risk strategy. Protect profit and profit growth while maintaining a solid balance sheet are two key themes of this strategy. DLL's general balance sheet risk management strategy is to apply a matched funding policy to reduce risk exposures within its risk appetite. Match funding is done both in terms of liquidity and interest rate risk and is based on the currency and maturity profile. DLL aims to achieve stable earnings from interest margins and not from being exposed to uncertain and sometimes volatile interest rates. DLL will always have some interest rate risk, as the subsidiaries are writing fixed-rate business and applying a mix of pre-hedging (for 'rate-card' business), hedging as transacted (for larger deals), and hedging generally weekly in arrears for other flow business.

DLL's foreign exchange framework is designed to maintain DLL's ability to minimize its exposure to foreign exchange risk and aims to protect the absolute level of equity, which is aligned with DLL's objective of delivering stable returns. DLL will always have some foreign exchange risk, as DLL has subsidiaries in over 30 countries, and all non-Eurozone subsidiaries will give rise to FX profit and loss results.

Contrary to banks, DLL's fundamental role is not to take short-term sources of funding (like savings) and turn them into long-term loans (also called maturity transformation). Compared to banks, this makes DLL less vulnerable to liquidity risk, and this makes DLL's Net Interest Income less sensitive to changes in interest rates.

Mitigation

Rabobank operates a centralized funding model, and DLL is substantially funded by Rabobank. DLL's liquidity position is consolidated within the Rabobank returns, and ratios are managed by Rabobank Treasury on a Rabobank Group level. DLL's risk appetite is limited, as it is Rabobank's policy to centralize liquidity risks as much as possible. DLL has a policy of mitigation of interest risk exposures through transacting money market and derivative instruments with Rabobank. DLL trades all of its foreign exchange hedging with Rabobank (when possible), allowing Rabobank to decide on the consolidated group FX risk appetite.

DLL has designed a funding and liquidity risk framework to maintain DLL's ability to fund assets and meet any contractual financial obligations as and when they fall due without unacceptable losses under any circumstances. DLL aims for an optimally diversified funding portfolio (in tenors and funding sources) that supports its customers' activities and a balanced liquidity mismatch within its risk appetite. Concentration in funding sources increases liquidity risk, therefore DLL continues to diversify its funding base. DLL applies a policy of match-funding for liquidity and interest rate risk based on currency and maturity profiles of assets and liabilities. Interest rate exposures on certain finance lease portfolios are mitigated based on their expected maturity terms (or repricing if shorter) and for the remaining portfolio financial assets on contractual maturity terms (or repricing if shorter).

DLL aims to hedge most equity-related FX risks on an absolute level. Foreign exchange exposure on the intercompany accounts is closed on a monthly basis, while DLL hedges its material projected following year's FX earnings and management/cost, cross-charges on an annual basis, due to the predictability of DLL's results, which are primarily earned on an accruals basis. This approach helps to both centralize all FX exposures and ensure the EUR equivalent contribution of foreign currency earnings is guaranteed (all other things being equal).

Non-financial risks

Definition

Non-financial risks are the risk of losses resulting from inadequate or failed internal processes, people, systems, or external events that could impact the customer delivery as well as the reputation of DLL. Non-financial risks include:

- Information technology risk;
- Information security risk;
- Outsourcing risk;
- Business continuity risk;
- Model risk;
- Conduct risk; and
- Legal and compliance risk.

Strategy

DLL does not consciously take on these types of risks but only tolerates these risks as an inherent part of executing business activities. Since non-financial risks are an inherent part of day-to-day business activities, they can never be fully mitigated. Therefore, it is essential to be aware of potential non-financial risks to enable cost/benefit decisions, ensure business continuity, and achieve strategic goals. DLL will not tolerate aggregate risk losses exceeding a certain limit, nor is it acceptable to incur estimated losses exceeding this threshold under likely scenarios from its annual scenario program. Therefore DLL has set risk appetite limits for each of the above-mentioned non-financial risk types.

Mitigation

Risk and Control Activities (RCA) are used by management throughout DLL to help ensure that policies, standards, procedures, and systems (and the controls they contain) operate as designed and transactions are processed timely, completely, and correctly (in an ascertainable way). RCA are in line with the values, vision, and strategy of DLL and Rabobank as a Group, and are executed in line with the Risk Management Charter, including the risk roles and responsibilities of the first, second, and third lines of defense. By managing the non-financial risks collectively, it is ensured that DLL effectively operates an efficient Risk Control Framework (RCF), which facilitates a proper Plan, Do, Check, Act process. It ensures that risks caused by failed processes, people, systems, and/or external events are managed within the approved risk appetite levels.

Managing non-financial risk incidents refers to managing events and gaining insight to the underlying causes. It covers crisis management and lessons learned. An overview of relevant risk (loss) data, obtained from the analysis of events occurred, is used for taking immediate action on the risk. Risk data is also used for monitoring and reporting of those events and will be used for the risk identification and assessment and to prepare incident learning reports. When residual risks materialize, there may be financial and/or reputational impact that has to be absorbed by the organization. DLL applies four methods to manage the impact:

- Pricing of risks into our products/ services;
- Insuring our risks to transfer the financial impact;
- Reserving capital to maintain the solvency of the organization; and
- Communicating to reduce the reputational impact of what has happened.

Monitoring is focused on preventing process failures and fraud, including cybercrime and interruption of business services. Activities, systems, and processes that might lead to non-financial risks are monitored within the existing risk management framework.

Risk monitoring

Risk appetite is defined in our Risk Appetite Statement (RAS), which is developed annually in a bottom-up and top-down manner. The RAS defines the levels and types of risk that DLL is willing to accept at a consolidated level and at a country level. Key risk indicators (KRI) and measurements are defined, monitored, and reported regularly and any limit breaches require approval and mitigating actions to be taken. The overview on the next pages shows DLL's risk appetite for 2018 on the defined KRIs in relation to the actual risk profile, represented by a relative score. Also, the expected outlook for the KRI is included. A split has been made between Financial and Non-Financial KRIs.

Legend

The colors represent the following:

■	Actual DLL risk profile within risk appetite
■	Actual DLL risk profile above Early Warning Limit
■	Actual DLL risk profile above Risk Appetite Limit

FINANCIAL KEY RISK INDICATORS

Integrated Risk

Capital Indicator	*Relative score*	*Outlook*
CET1 ratio on group level	■	▶
Earnings Indicators		
Return on invested capital	■	▶

Protection of Identity and Reputation Indicator

	Relative score	*Outlook*
Protection of fundamental trust with the stakeholders, no negative media coverage	■	▶

Financial Risk – Credit Risk

	Relative score	*Outlook*
Credit Risk Indicators		
Loan impairment charges based on budget	■	▼
Loan impairment charges based on adverse stress	■	▶
Maximum percent of portfolio 30+ days past due	■	▼
Concentration Risk Indicators – Single Obligor		
Number of single obligors exceeding the Corporate Exposure Limit (€ 200 mln)	■	▶
Number of single obligors exceeding the Corporate LAD Limit (€ 80 mln)	■	▶
Top 10 corporate exposures as a percentage of total portfolio	■	▶
Breaches to country limits	■	▶
Concentration Risk Indicators – Vendors/Dealers		
Number of vendors/dealers exceeding the direct + net contingent risk limit (€ 400 mln)	■	▶
Number of vendors/dealers exceeding the gross business risk limit (€ 400 mln)	■	▶

Financial Risk – Balance Sheet Risk

	Relative score	*Outlook*
Liquidity Risk Indicator		
Consolidated DLL liquidity position as a percentage of portfolio + equity (less intangibles) + minority interests + positive working capital	■	▶
Intercompany & Balance Sheet Size Indicators		
External asset size	■	▶
Total credit risk limit I/C	■	▶
Translation Risk Indicators		
Maximum individual unhedged currency exposure from foreign net investments (excluding Brazil)	■	▶
Maximum total unhedged currency exposure from foreign net investments (excluding Brazil), measured in absolute terms	■	▶
Maximum individual unhedged currency exposure from foreign net investments (Brazil only)	■	▶
Interest Rate Risk Indicators		
Earnings at Risk (EatR)	■	▶
Modified Duration	■	▶

Financial Risk – Asset Risk Indicators

	Relative score	*Outlook*
Booked Residual Value (BRV) by Master Asset Type (MAT), as a percentage of total BRV, globally	■	▶
Decrease in Delta Residual Value result in comparison with prior 12 months	■	▶

NON-FINANCIAL KEY RISK INDICATORS

Operational Risk

	Relative score	*Outlook*
ORM Loss Indicators		
Net loss amount per quarter	■	▶
Process Execution Failures: Number of loss events > € 10k per quarter	■	▶
Number of risk assessment scenarios with a typical and/or worst case (probable) impact of high (3, 4, or 5) with a 10-year time horizon and no motivation about the scenario within 3 months of receiving the final scenario results	■	▶
Single event loss reported in quarter	■	▶
IT Risk & Information Security Indicators		
Number of business disruption events caused by infrastructure/system failure > € 500k and/or reputational damage with an estimated impact of 'medium high/high' (per year)	■	▶
Number of confidentiality events exceeding business and regulatory defined threshold for significant data breaches, loss of records that was subject to unauthorized access of disclosure (per year)	■	▶
Number of integrity incidents, identity takeovers in business-critical processes and/or services caused by internal members or cyber attacks (per year)	■	▶
Outsourcing Risk Indicator		
Number of new material cloud initiatives not complying with minimum (internal and regulatory) requirements at the moment of introduction or signing of the contract in the last quarter	■	▶
Business Continuity Management Indicator		
Number of events exceeding threshold for recovery time and data recovery for business-critical processes and/or services in the last quarter	■	▶
Model Risk Indicator		
Model accuracy deficiencies and/or inadequate deficiency identification and resolution	■	▶
Deficiencies & Follow-Up Indicators		
Deficiency Follow-Up:		
– Overdue significance 1 audit finding	■	▶
– Overdue significance 2 audit findings	■	▶
ICFR controls ineffective and deficiency limits (per quarter)		
– Number of A-deficiencies	■	▶
– Number of B-deficiencies	■	▶
– Number of C-deficiencies	■	▶
– Number of deficiencies not resolved within 1 year	■	▶
Human Resources & Conduct Indicators		
Percentage of high-performing voluntary leavers	■	▶
Volume of labor-related incidents YTD	■	▶

Compliance Risk

	Relative score	*Outlook*
Compliance & Legal Indicators	■	
Number of supervisory enforcement actions received from regulators regarding compliance themes (per year)	■	▶
Percentage of adherence to legislation regarding reporting requirements (per quarter)	■	▶
Percentage of adherence to code of conduct requirements (per quarter)	■	▼
Member Integrity: Number of incidents of non-adherence to the code of conduct (per quarter)	■	▼
External fraud: Number of cases resulting in a gross loss > € 250k (per quarter)	■	▶
Volume of losses from claims and settlements related to suitability, product flaws, and miss-selling registered per year	■	▶
Compliance Indicator (U.S. Only)	■	
Percentage of CDD reviews for high-risk clients completed within the review cycle timeline	■	▶

Assessment of significant risks

Risk management activities are supporting the realization of the strategy and objectives of DLL. The DLL Top Risks are a key part of the integrated risk management framework of DLL. Internal and external developments are closely monitored to identify risks that may impact the realization of DLL's strategic objectives. As such, DLL prepares an annual integrated risk assessment of the residual risks faced by the organization that are not yet managed properly by the existing policies and controls. This assessment takes the strategic objectives, current global footprint, market situation and organizational structure and culture into account and is based on the input from DLL senior management and local management team, historical loss data, scenario analysis, and external risk reports.

The following approach is used to assess the DLL Top Risks:

Figure 7: DLL Top Risks Approach

The Top Risks are identified and followed up on an individual country level as well as on group level. Furthermore, annually a scenario testing program is part of the risk identification at DLL level. This program focuses on forward-looking aspects and provides insight to increased risk areas. The identified DLL Top Risks are also used as input for defining stress testing scenarios.

Based on the approach described the following Top Risks have been identified for 2018:

Risk Category	Risk Type	Risk Name	Risk Definition
External	Operational Risk	Regulatory Requirements	The risk that DLL is unable to accurately fulfill (existing and new) regulatory requirements in a timely fashion regarding operational processes and system/reporting requirements, resulting in outcomes such as an increase in capital charges, regulatory fines, reputational impact, or (ultimately) revocation of licenses.
External	Business Risk	Political	The risk that due to geopolitical developments (Trump administration, Brexit, political instability, terrorism, interstate conflicts), DLL will be unable to achieve strategic objectives.
Strategy	Business Risk	Funding Dependency	The risk that DLL is too dependent on one source of funding, which results in lower strategic flexibility and limitation of portfolio growth.
External	Business Risk	Competition	The risk that DLL will not be able to adapt to the competitive environment (competitive disadvantage in funding costs, aggressive banking landscape, entry of FinTech companies, product and service-level offerings, innovation and new technologies). This could result in DLL not achieving its business objectives.
Operational	Operational Risk	Cyber Risk & Data Security	The risk that information security within DLL is not at the required maturity level due to increased external threat levels (shift in focus of criminals), DLL systems being significantly more connected with the outside world (customers, partners, and suppliers), and increasing regulatory requirements. This could result in unauthorized access to DLL systems, data leakage/theft, service disruptions, business continuity issues, data privacy breaches and reputational impact.

Brexit

DLL's total assets in the UK represent approximately 7 percent of the consolidated balance sheet of DLL Group. To assess the potential impacts of various Brexit scenarios, DLL has created a Brexit committee that has reviewed potential implications for the balance sheet and income statement. We believe to be prepared as well as possible given the uncertainty of how and when the UK will leave the EU, which still may not be the final outcome at all, though. Due to the short tenor of our deals, strong vendor relationships, small ticket size, diversification as well as matched funding, the risk of a hard Brexit is still well within our risk appetite.

Compliance

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation DLL may suffer as a result of its failure to comply with applicable laws, rules, or regulations, related self-regulatory codes, and codes of conduct applicable to the activities of DLL. As the compliance environment is continuously changing, DLL has made significant investments in the compliance organization and programs.

The definition of compliance risk for DLL's compliance function is linked to DLL's main compliance themes, which currently are:

- Conduct of business and members:
  - Market abuse
  - Conflicts of interest
  - Customer care
  - Data protection
  - Global code of conduct
- Financial economic crime:
  - Customer due diligence
  - Anti-money laundering
  - Sanctions
  - Anti-corruption
  - Fraud
- Compliance governance:
  - Disclosure & transparency
  - Compliance framework

Reputation risk is the risk of damage to the way DLL is perceived by public opinion or other interested parties, such as members, customers, vendors, suppliers, the community, investors, regulators, and NGOs. The first line of defense within DLL manages DLL's reputation risk and includes DLL's compliance function if and when necessary.

Compliance function

As part of the second line of defense, DLL has an independent compliance function in place, which safeguards that all company policies are compliant to applicable laws and regulations. The mission of DLL's compliance function is to contribute to the trust that stakeholders and society in general have in DLL by promoting the integrity of all aspects of DLL and its members, especially through embedding good conduct, acting as a second line of defense, and partnering with the business.

The Compliance Function is based on five basic principles:

1. Compliance starts at the top.
2. Management is the 'owner' of compliance.
3. Compliance requires each employee to pay attention and behave in a compliant manner.
4. An effective Compliance Function exists at all levels.
5. The global Code of Conduct and compliance policies must be adhered to.

The Compliance Function has a global mandate, and none of DLL's activities or entities nor the activities of branches, subsidiaries, JVs or outsourced activities are excluded from Compliance's scope of review or inquiry.

Independence

The compliance function consists of the Group Chief Compliance Officer, Corporate Compliance staff, Regional Chief Compliance Officers, Country Compliance Officers and staff reporting to them. The Group Chief Compliance Officer reports to DLL's Chief Risk Officer, who is a member of the Executive Board and has an escalation reporting line to DLL's Chief Executive Officer and to the Chairman of the Supervisory Board. The Group Chief Compliance Officer attends all Supervisory Board meetings.

In order to safeguard the independent position of the compliance function, the Regional Chief Compliance Officers have a dual reporting line to the Regional Managers and the Group Chief Compliance Officer. The Country Compliance Officers have a dual reporting line to the Country Managers and the Regional Chief Compliance Officers.

The collective members of the Executive Board of DLL in their capacity of statutory directors of DLL, are responsible for the appointment, suspension and dismissal of the DLL Chief Compliance Officer. In view of the independence of the function and the functional line to Rabobank Compliance, such decision to appoint, suspend or dismiss the DLL Chief Compliance Officer shall be subject to prior approval of the DLL Supervisory Board and of the Chief Compliance Officer of Rabobank.

Compliance reporting

Based on DLL's mid-term plan, annual plan, and a compliance risk analysis, an annual compliance plan is prepared. This plan is approved by the DLL Executive Board and presented to the Audit & Compliance Committee. On a quarterly basis, Group Compliance updates the Executive and Supervisory Board on the progress made on execution of the annual plan as well as other relevant matters.

In the case of matters of high importance, such as major compliance-related incidents, the Group Chief Compliance Officer will ensure that the Executive Board (and through the CEO the chairman of the Supervisory Board) is informed immediately. If appropriate, the applicable involved regulator also will be informed immediately.

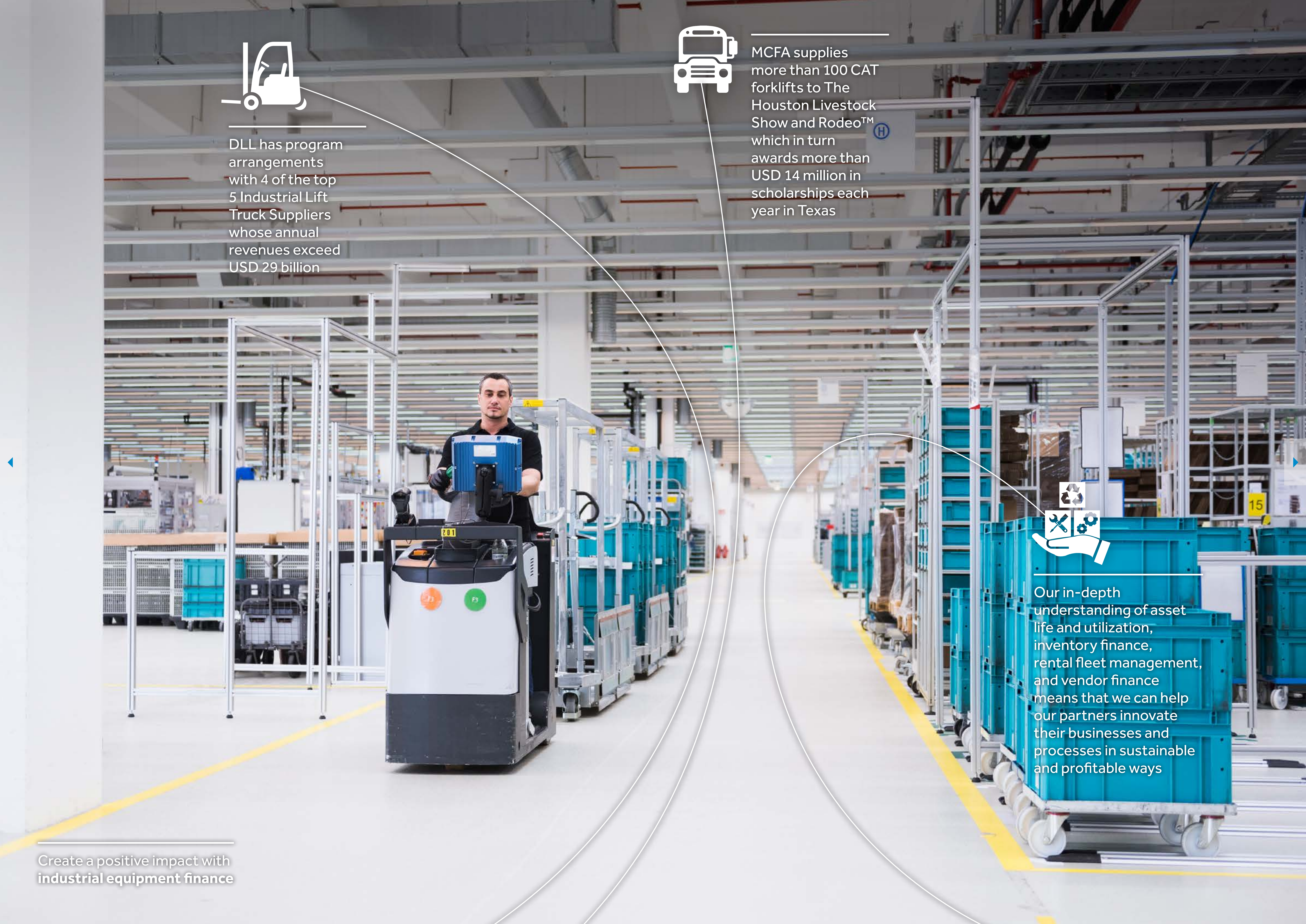
Global Code of Conduct

DLL is firmly committed to conducting business with integrity and in compliance with the letter and the spirit of the law and other generally accepted rules and standards of business conduct of the countries and communities in which we operate. These rules and standards are reflected in DLL's Global Code of Conduct and related group policies. DLL's employees are continuously trained on the Global Code of Conduct.

DLL strives for an open and encouraging culture, where employees can report alleged violations of the Global Code of Conduct or suspicions regarding incidents affecting the integrity of DLL. Furthermore, DLL has implemented a whistle-blowing mechanism. This provides employees the possibility to use an alternative channel (next to their standard hierarchical reporting line) for reporting suspected irregularities.

Policies

Global compliance policies have been drafted and implemented within DLL. DLL's management is responsible for implementation of the policies and monitoring of adherence to the policies. Main policies are implemented in the field of Financial and Economic Crime in order to provide global principles to ensure that DLL engages in relationships with reputable business partners and customers and mitigates potential corruption, anti-money laundering, and fraud risk and to ensure compliance with sanctions regulations. Related to Conduct, policies have been implemented to ensure that DLL and its members avoid conflicts of interest; treat customers, customer information, and other (personal) data confidential and with due care; set guidelines for disclosure and transparency and prevention of insider trading activities by DLL members; and offer DLL members (external) channels to report suspected irregularities.



DLL has program arrangements with 4 of the top 5 Industrial Lift Truck Suppliers whose annual revenues exceed USD 29 billion

MCFA supplies more than 100 CAT forklifts to The Houston Livestock Show and Rodeo™ which in turn awards more than USD 14 million in scholarships each year in Texas

Our in-depth understanding of asset life and utilization, inventory finance, rental fleet management, and vendor finance means that we can help our partners innovate their businesses and processes in sustainable and profitable ways

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.

Remuneration policy
Within the framework of our parent's vision on remuneration and Rabobank Group Remuneration Policy, we have our own global DLL remuneration policy. This policy is designed to promote fair and consistent employee compensation, based on an effective job classification system. 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. In all countries we have implemented a remuneration package that consists of fixed and variable remuneration components and various fringe benefits. In many countries we have implemented a pension scheme.

A worldwide Compensation & Benefits monitoring plan has been established on the basis of which the application of the remuneration policy is monitored systematically. There is a separate remuneration package policy in place for the Executive Board and other Executives in both the Netherlands and the U.S.

Rabobank Group Remuneration Policy
The principles and guidelines of Rabobank's vision on remuneration are detailed in the Rabobank Group Remuneration Policy. The requirements under external legislation and regulations are also enshrined in this policy, including the Dutch Financial Undertakings Remuneration Policy Act (Wbfo), the Regulations on Restrained Remuneration Policies, the Capital Requirements Directive IV (CRD IV),

and the Dutch Banking Code. The Rabobank Group Remuneration Policy applies to the Rabobank Group as a whole, including DLL. Consequently, we follow this Policy consistently. The Policy supports solid and effective risk management processes and discourages employees from taking undesirable risks. It also encourages employees to aim for lasting results in line with the long-term interests of both Rabobank Group and its clients.

Variable remuneration

In 2018, EUR 52 million of the total remuneration was variable for all DLL entities. The risk-controlling measures below apply to employees with variable remuneration.
The variable remuneration is capped for all roles in all countries, and we do not grant guaranteed variable remuneration. The annual performance appraisal and remuneration cycle supports acting in the interest of our long-term continuity and financial strength.

Wherever variable remuneration applies, a maximum is imposed. In the Netherlands, variable remuneration is maximized to 20 percent of an employee's fixed income. Outside of the Netherlands, the remuneration package with regard to the level of the fixed income, the variable pay, and benefits are based on the local market of the respective country. DLL's performance objectives are focused on achieving results, bringing our core values into practice, and the personal development of employees. DLL's objectives do not contain any targets that encourage behavior that is not in the best interest of our vendor partners and/ or their end-user customers.

Ex-ante test

On an annual basis, the Managing Board of DLL and in its turn the Managing Board of Rabobank verify whether payment of the proposed variable remuneration is justified, based on Rabobank Group's qualifying capital and solvency ratio. This 'ex-ante' test therefore centers on the question of whether DLL or Rabobank is able to make the payments without any resulting financial problems. Subsequently, the test is submitted for approval to the Supervisory Boards of both DLL and the Rabobank Group.

Claw back

In exceptional circumstances, the Managing Board of Rabobank can withdraw an awarded sum with retroactive effect. This is referred to as 'claw back.' Rabobank Group 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 Group Remuneration Policy. In 2018, we did not claw back any variable remuneration.

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

Identified Staff

Employees who can have a significant impact on DLL's risk profile are designated as 'Identified Staff.' In 2018, 41 roles within DLL were considered to be Identified Staff. Most of these members are not eligible for variable remuneration. In cases where they are eligible, their incentive is governed by the principles laid down in the Rabobank Group Remuneration Policy. The most important of these risk-mitigating measures are discussed below.
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 Group, business unit, and individual levels.

Deferred variable remuneration and use of financial instrument
A minimum of 40 percent of the variable remuneration for eligible Identified Staff is awarded conditionally and is paid on a deferred basis. Each year, one-third of the deferred variable remuneration becomes unconditional. 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. 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, insofar as relevant after approval by the Supervisory Board of Rabobank, can withdraw or reclaim this variable remuneration.

Supervisory Board

Fee structure
On 29 March 2018, two new Supervisory Board members have been appointed, which resulted into a Supervisory Board of three members during the year. From these three members, only one external Supervisory Board member receives a direct compensation from DLL based on her board responsibilities. The other two Supervisory Board members are employed by Rabobank where the fee of the Supervisory Board activities is included in the remuneration that they receive from Rabobank in their capacity as Rabobank employee. The total amount of remuneration for the external Supervisory Board member in 2018 was EUR 62.5 thousand (2017: EUR 7.5 thousand). The 2017 figure was just for 3 months and relates to the board member that resigned per March 2017.

Executive Board

Remuneration package
The primary remuneration package for the members of the Executive Board consists of fixed pay and pension entitlements. Additionally, Executive Board members receive a package of fringe benefits in line with market standards. Executive Board members were no longer eligible for variable remuneration as from 2016.

Pension

In the Netherlands, the Rabobank pension scheme applies to members of the Executive Board and qualifies as a collective defined contribution scheme. As of January 1, 2018, the maximum income on which the Executive Board may accrue pension amounts to EUR 99,384. Any income exceeding this amount is not pensionable. The members of the Executive Board therefore receive an individual pension contribution in compensation.

In the U.S., the members of the Executive Board receive an individual pension contribution called Supplemental Executive Retirement Plan.

Fringe benefits

Members of the Executive Board are eligible for a package of fringe benefits in line with market standards.

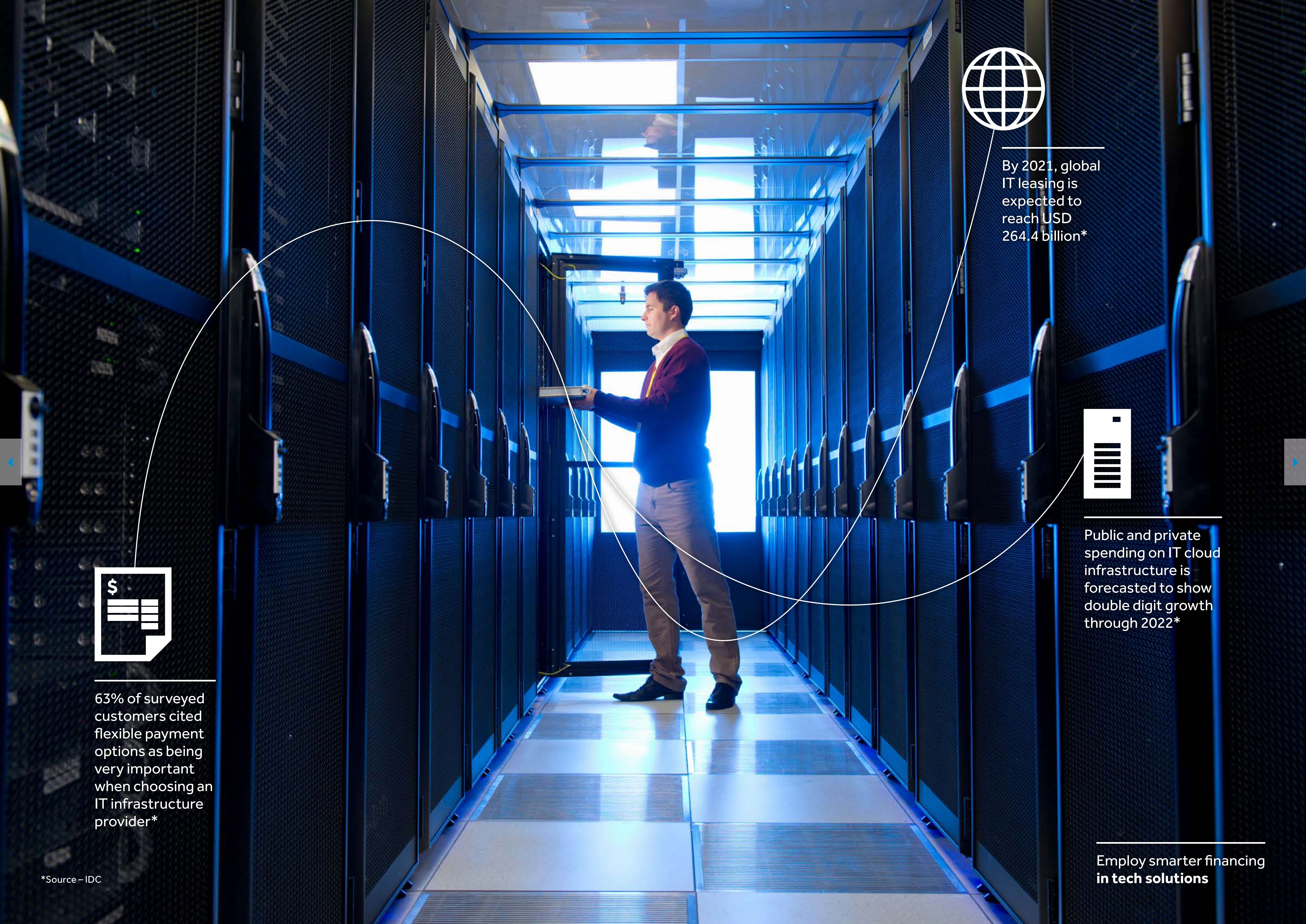
Severance payments

DLL complies with all existing laws and regulations concerning severance payment levels, meaning that Executive Board members would receive a maximum of one year's salary. No Executive Board member received a severance payment in either 2017 or 2018.

Executive Board remuneration

In 2018, the remuneration of members of the Executive Board totaled EUR 3,624 thousand (2017: EUR 3,857 thousand). One member of the Executive Board received total remuneration above EUR 1 million (2017: one member).

Since the variable remuneration for members of the Executive Board was discontinued in 2016, the number of DRNs granted to members of the Executive Board was 0 (zero) for the performance year 2018. In total, there were 11,084 DRNs outstanding with the members of the Executive Board at year-end 2018 (2017: 25,194 DRNs).



By 2021, global IT leasing is expected to reach USD 264.4 billion*

Public and private spending on IT cloud infrastructure is forecasted to show double digit growth through 2022*

63% of surveyed customers cited flexible payment options as being very important when choosing an IT infrastructure provider*

*Source – IDC

Corporate **governance**

Corporate structure

DLL

DLL is structured as a matrix organization, consisting of global business units and country organizations executing on the partnerships with our vendor partners. The majority of DLL's group functions are located at our headquarters in Eindhoven, the Netherlands, which provides coordination and support to the country organizations and business units. Furthermore, group Functions are responsible for DLL's global strategic development and setting and monitoring DLL's risk control framework.

The foundation of our organizational group structure is captured in our corporate governance framework, which supports us in achieving both our business and strategic objectives. De Lage Landen International B.V. is DLL's holding company, and has a banking license, established under the laws of the Netherlands, located and with its statutory seat in Eindhoven. DLL has subsidiaries and branch offices in more than 30 countries over all continents.

DLL meets the criteria of a large company to which the large company structure regime is applicable, as defined in Book 2 of the Dutch Civil Code[1]. However, DLL is exempted from this regime since it is a subsidiary of Rabobank, which is itself subject to the large company rules. As a result, pursuant to the Dutch Civil Code, we are not required to have a supervisory board in place. Since DLL has a Dutch banking license however, we do have a Supervisory Board in place as required by the Dutch Financial Supervision Act.

Shareholder Rabobank

DLL is a wholly owned subsidiary of Coöperatieve Rabobank U.A. (Rabobank), a Dutch bank, headquartered in Utrecht. Rabobank has issued a so-called 403-declaration in respect of DLL and certain of its Dutch subsidiaries, assuming liability for the debts arising from legal transactions of these entities. DLL's financial information is fully consolidated into Rabobank's consolidated financial statements. Certain key decisions and decisions not in the ordinary course of business are subject to the approval of Rabobank in its position as shareholder.

Up to December, De Lage Landen International B.V. participated in Rabobank's cross guarantee system, an intra-group liability system through which the participating entities are jointly and severally liable. On December 11, Rabobank has dissolved this scheme.

1 Due to the fact that (i) the sum of DLL's issued share capital and reserves is at least EUR 16 million, (ii) it has established a mandatory works council, and (iii) DLL employs in aggregate at least 100 employees in the Netherlands.

Management structure

DLL has a two-tier board structure consisting of an Executive Board and a Supervisory Board. Several subsidiaries have supervisory boards in place, in which case amongst others DLL's executive or senior management functionaries are members of those boards.

Executive Board

Through our governance framework and group management structure, the Executive Board oversees the strategic and other important decisions and actions to be taken throughout our organization.

The Executive Board is responsible for strategy setting, managing, and steering, in line with the articles of association and the Executive Board Charter. The Executive Board consists of five members, who are appointed and dismissed by the general meeting of shareholders. As a collective board, the Executive Board is responsible for creating and maintaining a sound balance of the long- and short-term interests of all stakeholders in the company, including customers, shareholders, employees, regulators, and the communities in which we operate. Certain strategic and key actions or decisions to be taken require formal approval of the Executive Board. For more information on the Executive Board members, see Chapter 1 of this Management Board Report.

Supervisory Board

Our Supervisory Board oversees the management by the Executive Board and the general conduct of business. The Supervisory Board also monitors on compliance with the law, the articles of association, and other relevant rules and regulations. Key decisions of the Executive Board, including decisions on the strategy, annual plan, and budgets, are subject to the approval of the Supervisory Board.

The Supervisory Board consists of four members, who are appointed and dismissed by the general meeting of shareholders. The composition of the Supervisory Board reflects the fact that we are a subsidiary of Rabobank: two of its members are shareholder representatives. In the first quarter of 2018, two new Supervisory Board members – one of them external – were appointed. The fourth member, also external, was appointed in the first quarter of 2019.

The roles and responsibilities of the Supervisory Board are set out in the Supervisory Board Charter. The Supervisory Board report includes more information on the (members of the) Supervisory Board and its supervisory tasks during 2018.

Global committees

DLL has global committees in place, in which executive and/or senior management functionaries take part. The committees are mandated by the Executive Board to perform their responsibilities and are mostly chaired by an Executive Board member. The following are descriptions of the global committees, with the function that is chairperson in parenthesis:

– Leadership Development Committee (CEO)

The LDC has the responsibility to nominate candidates for executive and senior management positions and advise on and approve their appointment. Furthermore, it reviews and approves requests for international assignments of employees.

– Audit & Compliance Committee (CEO)

The Audit & Compliance Committee assists the Executive Board in the oversight of integrity of the company's financial and in-control statements; the effectiveness of governance, risk management, and control processes; compliance with legal and regulatory requirements and the Global Code of Conduct; and the performance of our internal audit function and the optimization of collaboration between internal audit and external audit with the aim of providing assurance at optimal costs.

– Global Risk Committee (CRO)
The GRC is the risk management committee that establishes and amends the risk management framework and the risk management policies and risk limits for DLL within its authority. It oversees the implementation of the risk management framework and is the ultimate arbiter on the assessment of risks and acts as the guardian of the risks taken by DLL. Furthermore, it conducts or authorizes any investigations into any matter within its scope of responsibilities.

– Product Approval & Review Committee (CRO)
The PARC is a product governance committee with responsibility to:
- Ensure group-wide quality standards for our products, including new business;
- Ensure that the interests, objectives and characteristics of customers are taken into account;
- Avoid potential customer detriment;
- Manage conflicts of interest;
- Set up a framework for an integral balanced consideration of multiple interests; and
- Align and standardize the ways of working.

Customer groups and employees should be able to rely on the correctness and appropriateness/suitability of our products.

– Regulatory Oversight Committee (CRO)
The ROC is the committee that monitors and oversees changes in the global regulatory environment affecting our organization. The committee is responsible for the regulatory tracking, the internal allocation, and the high-level monitoring of the implementation and embedding of these changes.

– Global Credit Committee (CRO)
The GCC is the highest credit authority within DLL for credit requests subject to the credit application process. For requests exceeding our maximum approval authority, the GCC will formulate a positive recommendation for approval to its shareholder Rabobank. The GCC decides on all credit elements presented and may give instructions in the context of credit risk management and strategic direction in the client relationship development as far as this relates to the credit appetite and pricing (risk/reward).

– Business Principles Committee (CRO)
The BPC functions as DLL's ethics committee and advises the Executive Board on 'what DLL stands for'. It acts as a sounding board to test company policies and decisions against internal and external standards of (business) behavior. The committee advises on business matters in relation to our corporate social responsibility policy.

– Asset Liability Committee (CFO)
The ALCO is a risk management committee and has the responsibility to support the Executive Board in optimizing Asset and Liability Management (ALM) risks within the risk appetite statement set by the GRC and in line with our strategic direction; it is the forum for group-wide ALM issues. Furthermore, it is accountable for active optimization of funding and liquidity risks, interest rate risks, translation risk, and

treasury investments; it reviews the balance sheet in order to balance risk and returns tradeoffs; and it is the accountable body for evaluation of all systems for ALM and Funds Transfer Pricing mechanism. It evaluates other potential drivers of earnings volatility and optimization and defines hedging strategies against relevant risks.

- **Data Governance Board (CFO)**

The DGB exercises group-wide authority and control over the management of data, with the following goals:
- To define, approve, and communicate data strategies, data policies, data standards, data architecture, procedures, and metrics;
- To track and enforce regulatory compliance and conformance to data policies, standards, architecture, and procedures;
- To initiate, track, and oversee the delivery of data management projects and services;
- To manage the resolution of data-related issues; and
- To understand and promote the value of data assets.

- **Finance Governance Committee (CFO)**

The FGC has the responsibility to set and approve polices and instructions for Accounting, Reporting, Financial Control, Tax, and Treasury-related matters; review and approve matters for which the Executive Board needs to provide approval; and to review and approve independent external audit-related matters.

- **Pricing Review Committee (CFO)**

The PRC ensures that the Global Pricing Guidelines and Procedures are fully adhered to and agrees upon ongoing refinements and improvements thereto. It focuses on the pricing of large ticket deals (i.e., those over EUR 1 million) and provides governance mechanisms, particularly those deals that are below agreed profitability hurdle rates.

- **Monitoring Committee (Head of HR)**

The Monitoring Committee advises whether the DLL remuneration policies are compliant with the Group remuneration policy and advises with regard to the implementation and execution of the Group policy within DLL. The committee also assesses if the individual remuneration of Identified Staff is compliant with the group remuneration policy.

- **Whistleblower Committee (Head of Compliance)**

The objective of the Whistleblower Policy is to facilitate and create the possibility for members to report anonymously suspicions of violations of our Code of Conduct, non-compliance with policies, or behaviors affecting our integrity. Such suspicions can be reported through the Global Trusted Network. The Whistleblower Policy and the procedures for execution are intended as an additional mechanism for members to report suspected irregularities through a dedicated channel.

Conduct and integrity

Good corporate governance is more than our solid corporate governance framework in respect to the organizational structure and being in control through a well-structured risk and control framework, for example. Good governance should also be reflected in soft elements, which can be found in our values and culture, and the integrity, conduct, and tone of voice of members throughout the company, starting from the top. Wherever in the world we are doing business, our members speak with the same tone of voice and conduct themselves in the same way when doing business. This is a result of DLL being a truly global network organization. Throughout our functional domains and business units as well as the country organizations, our members are closely connected, working with the same mindset and according to the same values.

Banker's oath

The Dutch banking community, including DLL, considers it important that all those who work in the Dutch banking sector perform their work carefully and with integrity. The banker's oath is a promise to do so in relation to customers, society, and other stakeholders. In the banker's oath, our Supervisory Board, Executive Board, and employees declare, amongst other things, that they are aware of their role in society and that they put the interests of the client first when performing their assigned work.

By taking the banker's oath, all members working in the Netherlands confirm that they uphold the Code of Conduct for the banking sector. The banker's oath is not without consequences: to promote the adherence of rules, disciplinary law is applicable to certain employees. By taking the banker's oath, an employee submits himself to this disciplinary law.

Regulatory framework and supervision

De Lage Landen International B.V., DLL's holding company, holds a Dutch banking license pursuant to the Dutch Financial Supervision Act (Wet op het financieel toezicht) and is supervised by the European Central Bank, the Dutch Central Bank and the Dutch Authority for the Financial Markets. We use our banking license for pass porting it to branches in Germany, Italy, Portugal, and Spain, where a license is required to offer certain leasing and/or loan products. These branches fall under the supervision of both the Dutch Central Bank as well as the respective local supervisory authority. Furthermore, several of our entities have local licenses that may be required for the offering of financial products in their respective countries. Depending on the type of license required, the relevant local supervisory authorities supervise these entities.

As a Dutch bank, we are subject to the European (e.g., Capital Requirements Regulation and Directive) and Dutch regulatory framework that is applicable to credit institutions. The Dutch Financial Supervision Act and the Decree on Prudential Rules for Financial Undertakings (Besluit prudentiële regels Wft), which stipulates the provisions of Part 3 (Prudential supervision of financial undertakings) of the Financial Supervision Act, define the (regulatory) basis for operating as a Dutch bank. Furthermore, the Guidelines on internal governance of the European Banking Authority (EBA) are incorporated in our governance framework.

As a Dutch bank being part of Rabobank, we adhere to the Dutch Banking Code on major parts and take the respective areas into account in our governance framework. Since we are fully owned by Rabobank and incorporated into the Rabobank Group management structure, we do not need to comply on an individual basis with the Dutch Banking Code.

Furthermore, since DLL's shares are not traded on a public (regulated) market or similar system, we are not required to comply with the Dutch Corporate Governance Code 2016. However, we do take the principles of this code into account in our governance framework.

In 2018, DLL initiated a project to restructure its European banking licensed business. The restructuring aims to centralize the banking licensed business and reposition De Lage Landen International B.V. under a (newly created) holding company. This restructuring is expected to run into 2020 before completion.

Diversity

DLL has defined plans to build the pipeline of women in leadership. Recent progress includes: DLL's diversity ambition was approved by the Executive Board in November 2017 and declares goals to increase female representation in so-called leadership feeder roles from 31 percent to 50 percent and increase female representation in leadership from 11 percent to 30 percent. As of year-end 2018, DLL has achieved 3 percent progress toward this ambition.

DLL currently has approximately 4,500 members within the organization (excluding contractors), and 43.5 percent of those members are female, while 56.5 percent are male. It is important to note that in many countries we are not allowed to ask and/or collect individual information (ethnicity, age, or national origin). That's why so far, we have only captured specific member information regarding gender and age.

The current gender distribution shows that women tend to be more prevalent in lower grades. Those roles are mainly supporting staff roles and tend not to be roles with net profit accountability. We also see that we have relatively few female representations in our middle management roles. The trend gets stronger when looking at senior management roles.

While analyzing the existing data, we notice that there is an imbalance between men and women with regards to promotions, job grades, and talent categories. At DLL, we are committed to have our workforce match the labor force and hire and promote women and minorities at parity. DLL's key focus areas therefore are:

1. We will create an inclusive environment respecting all cultural backgrounds and beliefs, which is marked by participation.
2. We will foster a culture that supports and respects the values and needs of every individual. We will do this by establishing D&I ambassadors in every country in which we operate.
3. We will ensure that our recruitment and selection processes are structured in a way that a diverse range of candidates are considered and that there are recruiting practices and policies in place to reduce bias, both conscious and unconscious.
4. We will establish strategic partnerships with diverse organizations in order to attract more diverse candidates to our recruitment candidate pools. We will build networks that support us in developing a diverse and inclusive workforce.
5. We will develop and deliver diversity awareness trainings that explain the dimensions of diversity and equip us with methods to combat unconscious bias.
6. We will design and implement talent management programs that will assist in the development of a broader and more diverse pool of skilled and experienced members. All members will have equal opportunities for advancement, including adequate sponsorship support and access to opportunities.
7. We will monitor all relevant metrics listed below and report updates to the EB on a quarterly basis. Furthermore, DLL is conducting a gender pay analysis to evaluate whether there are gender pay differences.

Executive and Supervisory Board
Our Executive Board consists of five male members of three different nationalities. In the first quarter of 2018, a new Executive Board member was appointed to replace the COO, who pursued his career outside DLL. The new COO has a strong international background with broad vendor finance experience in Europe and Latin America.

Due to our specialized vendor finance business, we need experienced industry professionals on our Executive Board. Board members are selected according to their qualifications to be the best fit for the role, taking into account the collective nature of the board, among other things. The Executive Board benefits from a balanced composition in terms of nationality with the representation of two Dutch members, two American members, and one Belgian member. In the overall succession planning of DLL, it has been recognized to identify and develop high-potential women for Executive Board positions.

The Supervisory Board consists of four members, two of whom are external (no shareholder representatives). In the first quarter of 2018, two new female members were appointed, one of them external. With the appointment of these new members, DLL's Supervisory Board is balanced in terms of gender diversity according to the Dutch Civil Code. In the first quarter of 2019, a new external member (male) was appointed, further adding to diversity in terms of background and nationality.

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More than USD 1 out of every USD 10 produced in the U.S. GDP is related to transportation activity, including trucking

Executive Board **responsibility statement**

The Executive Board of De Lage Landen International B.V. (DLL) hereby declares that:

- The financial statements give a true and fair view of the assets, liabilities, financial position, and profit of DLL and the companies included in the consolidation;
- The management report gives a true and fair view of the state of affairs as at the reporting date, and of the course of affairs during the financial year at DLL and its affiliated entities whose information is included in its financial statements; and
- The management report describes the principal risks that DLL faces.

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

Eindhoven, April 17, 2019

Report of the **Supervisory Board**

General

After the transformative changes in 2016 and 2017 – the disinvestment of car leasing and the integration in Rabobank of DLL's equipment leasing and factoring activities geared to the Rabobank organization in the Netherlands – 2018 was the first full year of focus on global vendor finance as DLL's core business. Management developed numerous initiatives to improve and innovate the vendor finance value proposition and secure DLL's position as the leading global company in this market. Reinforcing the strategic flexibility of the company was another major theme in 2018.

Composition and members of the Supervisory Board

The Supervisory Board consists of four members. With a view to the specialized nature of the business of the company and its strong international presence, going forward the Supervisory Board will have two external members, both bringing specific knowledge and (international) experience to the table that will support DLL in achieving its ambitions for the future and add to the diversity on Board level.

The members of the Supervisory Board are:
- Berry Marttin, chairman (member of the Rabobank Managing Board)
- Petra van Hoeken, appointed on March 29, 2018 (Rabobank Group)
- Annelies Bouma, appointed on March 29, 2018 (external member)
- Ron de Feo, appointed on February 25, 2019 (external member)

Rabobank representatives Rien Nagel and Ralf Dekker stepped down from the Supervisory Board on March 29, 2018.

Roles and responsibilities of the Supervisory Board

The Supervisory Board monitors, challenges, and advises the Executive Board on the company's general direction and a broad variety of financial, risk, regulatory, compliance, IT, and HR topics. This review highlights the most important elements of the supervisory role. The Supervisory Board does not have sub-committees. The full Board performs the roles and responsibilities that a Risk, Audit, Nomination, and Remuneration Committee has according to applicable governance regulations. The roles and responsibilities of the Supervisory Board are described in more detail in DLL's Supervisory Board Charter.

The Supervisory Board had various in-depth discussions about a proposal to restructure the bank licensed activities in Europe, the objective being to use the banking license of De Lage Landen International B.V. in the most efficient way and simultaneously increase strategic flexibility of the organization. As this involves a corporate restructure, final shareholder consent was required and obtained, subject to regulatory approval. Further, the Board discussed and approved centralization of certain finance activities in Europe.

Supervisory Board meetings
The Supervisory Board holds at least four regular meetings a year, attended by the members of the Executive Board. In 2018, the Supervisory Board met six times. An extra meeting was specifically dedicated to the Independent Auditor's Report on financial statements 2017 and DLL's Annual Report 2017. At another special meeting, a proposal to restructure DLL's European bank licensed activities was discussed.

At the regular meetings of the Supervisory Board, the commercial and financial performance of DLL against budget and organizational and IT developments was discussed, as well as the level of customer and employee satisfaction. Discussions were based on in-depth quarterly reports prepared by the Executive Board. Developments in Risk, Compliance, and Audit were specifically addressed in the presence of DLL's Heads of Compliance and Audit.

An evaluation of the company's presence in China led to the conclusion that – against expectations at the time of the start of this operation – most of DLL's international vendor partners do not require such a presence. The Supervisory Board endorsed the Executive Board's decision to discontinue DLL's operation in China and arrange alternative support for vendors as needed.

DLL aims to stay at the forefront of innovation. Executive leadership initiated several projects to boost product development, improvement in customer delivery, and digital transformation. These were discussed by the Supervisory Board against the background of DLL's evolving Medium Term Plan.

In view of the continuous growth of the organization, in 2018 the Supervisory Board paid special attention to succession planning and diversity on the level of the Executive Board and senior management.

The Supervisory Board monitors major projects on the basis of quarterly project updates. This includes among others the diversification of funding sources through securitization programs. The Supervisory Board monitored the development of DLL's portfolio and capital against the requirements of DLL's Medium Term Plan and DLL's shareholder. The Supervisory Board monitored the strategy in respect to DLL's relationship and structures with its most important vendor partners.

The Supervisory Board has been provided with updates on DLL's remuneration policy and reviewed the variable payout to DLL employees. In respect to Compliance, the Supervisory Board was informed on a regular basis about the progress made in upgrading DLL's compliance function. The results of the annual Systematic Integrity Risk Assessment on inherent and residual compliance risks have been shared with the Supervisory Board, as well as mitigating controls and considerations in this respect. The improvement programs that are being implemented will help to reduce the residual risk further.

Furthermore, updates have been provided in respect to anti-money laundering and customer due diligence as well as progress on implementation of the General Data Privacy Regulation that came into effect in May 2018.

Quarterly updates on DLL's risk indicators have been provided to the Supervisory Board. Furthermore, new regulatory requirements impacting DLL's risk position, DLL's large credit exposures and the implementation of specific IFRS standards are discussed with the Supervisory Board on a regular basis. The Supervisory Board is regularly informed on DLL's position in respect to credit impairments. The Supervisory Board took note of the Top Risk Report 2018, prepared by Group Risk as a part of the annual Risk Control Self-Assessment Cycle. This report addresses the main risks DLL is facing in realizing its strategic objectives. Progress of mitigating actions is being monitored on a quarterly basis by the Global Risk Committee. The Supervisory Board is updated through the Risk section of the quarterly Executive Board Report.

Developments within DLL's internal audit function and relevant results of performed audits have been provided to the Supervisory Board, as well as actions to identify root causes of identified issues and remediation actions to resolve certain issues.

The Supervisory Board approved DLL's Annual Plan and related budget for 2018, the annual Compliance plan, and the annual Internal Audit plan.

The Supervisory Board reviewed the division of the portfolios of the Executive Board members. This led to the decision to place Legal under the management of the CRO to bring the closely related group functions of Risk, Legal, and Compliance under the same leadership. In view of the importance of integrating sustainability in the business, this function was moved to the CCO-domain, reporting to the CCO.

The financial statements 2017 were discussed and approved at the Supervisory Board meeting of April 17, 2018.

External independent auditor

The Supervisory Board approved PwC's engagement as independent auditor for the year 2018, discussed the resulting Audit Plan 2018 with the PwC team, and approved this Plan. The Independent Auditor's Report on financial reporting 2017 was extensively discussed with a focus on key audit observations, the control environment, and areas for further improvement of the internal control framework. The Supervisory Board has one-on-one meetings with PwC.

Risk Appetite Statement

The DLL Risk Appetite Statement defines the type and level of risk, both financial and non-financial, that DLL is willing to accept relative to achieving its objectives. The Supervisory Board approved a revised DLL Risk Appetite Statement for 2019. This Statement translates into Risk Appetite Statements for DLL's country organizations with portfolios exceeding a threshold of EUR 150 million.

The Supervisory Board specifically monitored DLL's top risks on a quarterly basis. The top risks are identified annually as a part of a Risk Control Self-Assessment. For more information, refer to the Risk management section.

Performance and development
The Chairman of the Supervisory Board has primary responsibility for the Supervisory Board's learning program. The aim of the program is to maintain and, where necessary, improve the required expertise of the Supervisory Board members. This includes being aware of the social role of financial institutions and of the interests of various stakeholders. The learning program aims to cover relevant developments in the company, corporate governance in general and the financial sector more in particular, the duty of care towards the client, integrity, risk management, financial reporting, and audits. In 2018, specific attention was paid to lease accounting changes and developments in the food, agricultural, and adjacent industries in which DLL is active.

Self-assessment
In view of the changes in the composition of the Supervisory Board, with two of the three members only recently appointed, the Board decided to defer a repeat (self-)assessment of its composition, performance, and effectiveness to 2019.

This notwithstanding, the quality of the interaction between the Supervisory Board and the Executive Board has been a regular theme of discussion. The next (self) assessment will be conducted under the guidance of an external facilitator.

Proposal to the general meeting of shareholders and conclusion
In accordance with the relevant provisions of DLL's Articles of Association, the Supervisory Board reviewed the Annual Report 2018 and the financial statements of DLL as well as other relevant associated information. The Supervisory Board discussed these documents with the Executive Board and the external independent auditor PwC and took note of the unqualified opinion expressed in the independent auditor's report issued by PwC on the 2018 financial statements.

The Supervisory Board would like to propose to the general meeting of shareholders of DLL to adopt the financial statements 2018.

B.J. Marttin
P.C. van Hoeken
A.E. Bouma
R. de Feo

Utrecht, April 17, 2019

Financial statements 2018

Consolidated financial statements

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Primary financial statements

Consolidated statement of **financial position**

in millions of euros	Notes	2018	2017
Assets			
Cash and cash equivalents	3.6	399	362
Accounts receivable and other short- term assets	4.3	774	569
Derivatives	3.4	56	62
Due from banks	3.5	2,070	1,805
Due from customers	1.1	31,239	28,019
Fixed assets under operating lease	1.2	2,603	2,461
Goodwill and other intangible assets	4.1	83	99
Current tax receivables	2.6	115	101
Deferred tax assets	2.6	107	174
Other assets	4.3	199	189
Assets in disposal group held for distribution or sale	4.2	-	702
Total assets		**37,645**	**34,543**
Liabilities			
Short-term loans and overdrafts	3.2	5,072	4,439
Accounts payable and other short-term liabilities	4.4	855	912
Issued debt securities	3.3	1,880	588
Provisions	4.5	96	90
Derivatives	3.4	79	71
Long-term borrowings	3.2	24,984	23,918
Current tax payables	2.6	24	17
Deferred tax liabilities	2.6	393	347
Other liabilities	4.4	331	147
Liabilities in disposal group held for distribution or sale	4.2	-	372
Total liabilities		**33,714**	**30,901**
Equity			
Share capital and share premium	3.1	1,233	1,233
Retained earnings	3.1	2,141	1,831
Foreign currency translation reserve	3.1	84	108
Total equity attributable to equity holders of the parent		**3,458**	**3,172**
Non-controlling interest		473	470
Total equity		**3,931**	**3,642**
Total liabilities and equity		**37,645**	**34,543**

Consolidated statement of **profit or loss**

for the year ended December 31

in millions of euros	Notes	2018	2017
Interest revenue		1,545	1,486
Interest expense		(595)	(485)
Net interest income	2.1	**950**	**1,001**
Revenue from operating leases		703	636
Depreciation and other operating lease expenses		(538)	(511)
Net operating lease income		**165**	**125**
Gains/(losses) from financial instruments	2.2	(3)	49
Fee and other income	2.3	246	243
Fee expenses		(25)	(35)
Total net income		**1,333**	**1,383**
Staff expenses	2.4	(486)	(477)
Other operating expenses	2.5	(238)	(284)
Total operating expenses		**(724)**	**(761)**
Credit losses and other impairments	1.3	(114)	(105)
Profit before tax from continuing operations		**495**	**517**
Income tax credit/(expense) on continuing operations	2.6	(115)	71
Profit for the year from continuing operations		**380**	**588**
Profit after tax for the year from discontinued operations	4.2	-	18
Profit for the year		**380**	**606**
Profit for the year attributable to:			
Shareholders of the parent		320	552
Continuing operations		320	534
Discontinued operations		-	18
Non-controlling Interest		60	54
Continuing operations		60	54
Discontinued operations		-	-

Consolidated statement of **other comprehensive income**

for the year ended December 31

in millions of euros	Notes	2018	2017
Profit for the year		380	606
Other comprehensive income/(expense) not to be reclassified to profit or loss in subsequent years			
Employee benefit:			
Remeasurement of post-employment benefit reserve, before tax		(1)	(2)
Income tax effect	2.6	-	-
		(1)	(2)
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent years:			
Foreign currency translation reserves			
Gains/(losses) during the year		(30)	(69)
Recycling to profit or loss		-	-
		(30)	(69)
Other comprehensive income/(expense) for the year, net of tax		(31)	(71)
Total comprehensive income for the year, net of tax		**349**	**535**
Total comprehensive income attributable to:			
Shareholders of the parent		295	511
Non-controlling interest		54	24

Consolidated statement of **changes in equity**

in millions of euros	Note	Share capital and share premium*	Retained earnings*	FCTR*	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the parent					
Balance at January 1, 2017		**1,233**	**2,481**	**147**	**3,861**	**517**	**4,378**
Profit for the year		-	552	-	552	54	606
Other comprehensive expense		-	(2)	(39)	(41)	(30)	(71)
Remeasurement of post-employment benefit reserve, net of tax		-	(2)	-	(2)	-	(2)
Fair value changes of derivatives designated for net investment hedging, net of tax		-	-	188	188	-	188
Exchange differences on translation of foreign operations		-	-	(227)	(227)	(30)	(257)
Total comprehensive income		**-**	**550**	**(39)**	**511**	**24**	**535**
Equity contributions**		-	-	-	-	7	7
Dividends	3.1	-	(1,200)	-	(1,200)	(78)	(1,278)
Balance at December 31, 2017		**1,233**	**1,831**	**108**	**3,172**	**470**	**3,642**
Change in accounting policy as a result of IFRS 9 implementation net of tax		-	(9)	-	(9)	-	(9)
Restated balance at January 1, 2018		1,233	1,822	108	3,163	470	3,633
Profit for the year		-	320	-	320	60	380
Other comprehensive expense		-	(1)	(24)	(25)	(6)	(31)
Remeasurement of post-employment benefit reserve, net of tax		-	(1)	-	(1)	-	(1)
Fair value changes of derivatives designated for net investment hedging, net of tax		-	-	(53)	(53)	-	(53)
Exchange differences on translation of foreign operations		-	-	29	29	(6)	23
Total comprehensive income		**-**	**319**	**(24)**	**295**	**54**	**349**
Equity contributions**		-	-	-	-	5	5
Dividends	3.1	-	-	-	-	(56)	(56)
Balance at December 31, 2018		**1,233**	**2,141**	**84**	**3,458**	**473**	**3,931**

* Refer to note 3.1

** Pro-rata contributions in capital of subsidiaries from respective holders of non-controlling interest (no change in ownership).

Consolidated statement of **cash flows**

for the year ended December 31

in millions of euros	Notes	2018	2017
Cash flows from operating activities			
Profit before tax from continuing operations	2.6	495	517
Profit before tax from discontinued operations	4.2	-	23
Profit before tax		**495**	**540**
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of fixed assets under operating lease	1.2	538	511
Loss/(gain) on disposal of fixed assets under operating lease		11	(1)
Depreciation of fixed assets for own use	4.3	10	13
Amortization and impairment of intangible assets	4.1	17	18
Reversal of impairment disposal group held for sale	4.2	(40)	40
Net foreign exchange differences	2.2	3	(17)
Unrealized gains and losses from derivatives		13	(118)
Movements in provisions	4.5	10	8
Credit losses: charges & recoveries	1.3	101	95
Interest income	2.1	(1,545)	(1,526)
Interest expenses	2.1	595	485
		208	48
Net change in operating assets and liabilities:			
Due from customers		(2,545)	(2,287)
Purchase of fixed assets under operating lease	1.2	(1,100)	(1,150)
Proceeds from sale of fixed assets under operating lease		364	197
Due from banks		(265)	293
Short term loans from banks and overdrafts		633	(248)
Other assets		(181)	(156)
Other liabilities		63	(97)
		(2,823)	(3,400)
Interest received		1,536	1,477
Interest paid		(595)	(485)
Income tax paid		(32)	(69)
Other		(6)	(15)
Net cash flows from operating activities		**(1,920)**	**(2,492)**
Cash flows from investing activities			
Net cash flow from disposal of subsidiary		-	18
Proceeds from disposal of subsidiary	4.2	-	-
Cash disposed as part of sale of subsidiary	4.2	-	18
Purchase of fixed assets for own use	4.3	(9)	(12)
Proceeds from sale of fixed assets for own use		1	3
Purchase of intangible assets	4.1	(4)	(5)
Net cash flows from investing activities		**(12)**	**4**
Cash flows from financing activities			
Repayments of long-term Rabobank borrowings		(9,140)	(10,226)
Drawdowns of long-term Rabobank borrowings		9,323	8,833
Drawdowns of other long-term borrowings		584	4,241
Issue of debt securities	3.3	1,473	418
Repayments of debt securities	3.3	(235)	(87)
Equity contributions received*		5	7
Dividends paid		(56)	(1,278)
Net cash flows from financing activities		**1,954**	**1,908**
Net increase/(decrease) in cash and cash equivalents		22	(580)
Net exchange differences		-	-
Cash and cash equivalents at January 1		377	957
Cash and cash equivalents at December 31	3.6	**399**	**377**

* Pro-rata contributions in capital of subsidiaries from respective holders of non-controlling interest (no change in ownership).

Notes to the **consolidated financial statements**

Introduction

i. Corporate information

These consolidated financial statements of De Lage Landen International B.V. (the Company) and its subsidiaries (collectively, DLL or the Group) for the year ended December 31, 2018 were authorized for issue in accordance with a resolution of the Executive Board (EB) on April 17, 2019.

DLL is a privately held limited liability company (in Dutch 'besloten vennootschap met beperkte aansprakelijkheid') incorporated and domiciled in Eindhoven, the Netherlands (Chamber of Commerce number 17056223). The registered office is located at Vestdijk 51, 5611 CA, Eindhoven. DLL is a wholly owned subsidiary of Coöperatieve Rabobank U.A. (Rabobank), a Dutch cooperative bank with statutory seat in Amsterdam, the Netherlands. Rabobank is the parent and the ultimate controlling party of DLL. Information on other related party relationships is provided in note 4.6.

The Group offers customers various financial solution products including leasing and lending, with presence in over 30 countries all across the world.

DLL has a banking license in the Netherlands since 1988 and is regulated by the European Central Bank and the Dutch Central Bank (De Nederlandsche Bank or DNB). This license is pass ported to four European countries; Germany, Italy, Spain and Portugal.

Cross-guarantee system
Under the Dutch Financial Supervision Act various legal entities owned by Rabobank, including DLL and three of its former subsidiaries, were jointly and severally liable under an internal intra-group mutual keep well arrangement. Following approval by the Dutch Central Bank, this cross-guarantee system (a remnant of the previous cooperative structure of Rabobank Group) was terminated on December 11, 2018. There are no outstanding, residual and/or contingent liabilities on this arrangement.

Up until the system's termination on December 11, 2018, the remaining participants were:
- Coöperatieve Rabobank U.A.
- De Lage Landen International B.V.
- Rabo Factoring B.V. (previously named De Lage Landen Trade Finance B.V.)
- Rabo Lease B.V. (previously named De Lage Landen Financial Services B.V.)
- Rabo Direct Financiering B.V. (previously named De Lage Landen Financiering B.V.)

Pursuant to Section 403 of Book 2 of the Dutch Civil Code, Coöperatieve Rabobank U.A. has assumed liability for the debts arising from the legal transactions of the following DLL entities:
- De Lage Landen America Holdings B.V.
- De Lage Landen Corporate Finance B.V.
- De Lage Landen Facilities B.V.
- De Lage Landen International B.V.
- De Lage Landen Vendorlease B.V.

ii. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities that are measured at fair value (including derivatives and fair value financial assets) and defined benefit pension plans where the plan assets are measured at fair value. All figures are presented in euros with values rounded to the nearest million, except when indicated otherwise.

The Executive Board considers it appropriate to adopt the going concern basis of accounting in preparing these financial statements based on a financial forecast analysis that supports the going concern assumption.

The consolidated financial statements provide comparative information for the year ended December 31, 2017, as required for financial statements prepared in accordance with IFRS. As of January 1, 2018, IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, the amendments to IFRS 2 Share Based Payments and the amendments to IFRS 4 Insurance Contracts have become effective.

IFRS 9 Financial Instruments replaces IAS 39 Financial instruments: Recognition and Measurement. DLL applies the classification, measurement and impairment requirements retrospectively by adjusting the balance sheet and retained earnings as per January 1, 2018, with no restatement of comparative periods. The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. The new accounting policies are set out in paragraph iii 'Changes in accounting policies and presentation'. The adjusted amounts are set out in paragraph 'Key impacts of the implementation of IFRS 9'. DLL applies IFRS 9 as per January 1, 2018. The comparative figures for 2017 are still based on IAS 39. Besides the aforementioned new IFRS, accounting policies adopted are the same as in previous year.

Differences between IFRS 9 and IAS 39 methodology applied for comparative figures 2017
The main difference between IFRS 9 and IAS 39 is the impairment of financial assets. The IAS 39 impairment methodology is based on an 'incurred loss' model, meaning that an allowance is determined when an instrument is credit-impaired, that is, when a loss event has occurred that had a detrimental impact on estimated future cash flows. This will generally align with the lifetime ECL – credit-impaired category of IFRS 9. However, within the expected credit loss framework of IFRS 9 the entire portfolio of financial instruments is awarded allowance through the additions of the 12-month ECL category and the lifetime ECL category – non-credit-impaired categories, generally leading to increases in overall allowances. In note 1.3 the IAS 39 impairment methodology is presented in detail.

DLL applies IFRS 15 from January 1, 2018. IFRS 15 replaces IAS 11 and 18, IFRIC 13, 15 and 18 and SIC-31 provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue for obligations as they are satisfied.
The standard does not apply to financial instruments, insurance contracts or lease contracts. DLL's product range is developed to service the finance needs in the distribution channels of vendors. Main products are:
- Finance lease
- Loans
- Commercial finance
- Operating lease

These products are all out of-scope for IFRS 15, as they are within the scope of IFRS 9 (financial instruments) and IFRS 16 (leases). The revenue (interest income) for these products is approximately 80% of DLL's total revenue. Revenue recognition policies for the other products of DLL were re-assessed against IFRS 15 requirements. No changes in existing accounting policies are required based in this assessment. Therefore this new standard has very limited impact on DLL's revenues.

The amendments to IFRS 4 permit entities that predominantly undertake insurance activities to defer the implementation of IFRS 9 and IFRS 17 until January 1, 2021. The effect of such a deferral is that the entities concerned may continue to report under IAS 39 Financial Instruments: Recognition and Measurement. DLL RE, a subsidiary of DLL, will make use of this exemption until January 1, 2021.

The minor amendments to IFRS 2 Share Based Payments did not have any impact on presentation and/or measurement.

Basis of preparation cash flow statement
Cash and cash equivalents include cash resources, cash in transit and deposits at central banks. The cash flow statement is prepared using the indirect method and provides details of the source of the cash and cash equivalents that became available during the year as well as their application during the year. The net pre-tax cash flow from operating activities is adjusted for non-cash items in the statement of income and for non-cash changes in items in the statement of financial position. The consolidated statement of cash flows presents separately the cash flows from operating, investing and financing activities. Cash flows from operating activities include net changes in loans and receivables. Investment activities include acquisitions and disposals of subsidiaries and investments in property, plant and equipment for own use. Financing activities include drawdowns and repayments of funding through Rabobank and other banks, debt securities and dividends paid. The difference between the net change presented in the statement of cash flows and the change in cash and cash equivalents included in the statement of financial position is due to exchange differences.

Refer to 4.11 for standards that have been issued but that DLL has chosen not to early adopt. Of these IFRS 16 will have the most impact on measurement and/or presentation.

The policies adopted are the same as the previous financial year with the exception of the policies stated below in 'iii Changes in accounting policies and presentation' and under 'iv Basis of consolidation'.

IFRS 16 Leases
In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after January 1, 2019. IFRS 16 replaces IAS 17 and the related interpretations IFRIC 4, SIC-15 and SIC-27 and results in lessees accounting for most leases within the scope of the standard in a manner similar to the way that finance leases are currently accounted for under IAS 17 'Leases.' Lessees should therefore recognize a 'right of use' asset and a corresponding financial liability on the balance sheet.

The asset will be amortized over the length of the lease and the financial liability will be measured at amortized cost. The depreciation of the assets and interest expenses of the lease liabilities will be presented in the P&L. Lessor accounting remains substantially the same as under IAS 17. DLL has elected to apply the modified retrospective approach that retains the prior period figures as reported under the previous standard and recognizes the cumulative effect of IFRS 16 as an adjustment to the opening balance sheet as per January 1, 2019. DLL expects that the right of use of assets and liabilities will increase by an estimated amount of EUR 35 million, without any impact on equity or profit.

iii. Changes in accounting policies and presentation

IFRS 9 Financial Instruments
In July 2014, the IASB published IFRS 9 Financial Instruments as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. The new standard became effective on January 1, 2018 and was endorsed by the EU in 2016. DLL applied the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening retained earnings as per January 1, 2018, with no restatement of comparative periods.

Classification
As of January 1, 2018, DLL has classified its financial assets in the following measurement categories:
– Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
– Those to be measured at amortized cost.

The classification depends on:
1. Business model assessment; An assessment of how the business is managed and how the business is seen from a strategic point of view:
   • Hold to collect: where the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or
   • Hold to collect and sell: where the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or
   • Other business model.
2. Contractual cash flow assessment; An assessment of whether the cash flows of the financial assets are solely payment of principal and interest (SPPI test).

The business model assessment can be made on a portfolio basis, whereas the contractual cash flow assessment is assessed for each individual financial asset. DLL assessed it's portfolios and concluded that it has the following two portfolios: origination of loans covered by collateral for the purpose of hold to collect and investments in government bonds. It is concluded that all businesses and portfolios classify as held to collect.

A debt instrument that is held within a business model 'hold to collect' and meets the SPPI test is measured at amortized cost unless the asset is designated at fair value through profit or loss. A debt instrument that is held within a business model 'hold to collect and sell' and meets the SPPI test is measured at fair value with fair value adjustments recognized in other comprehensive income unless the asset is designated at fair value through profit or loss. All other debt instruments are mandatorily measured at fair value through profit or loss.

Measurement
At initial recognition, DLL measures a financial asset at its fair value. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss. Derivative financial instruments are initially recognized and subsequently measured at fair value through profit or loss.

Expected Credit Loss on financial assets
The rules governing impairments apply to financial assets at amortized cost, as well as to finance lease receivables, contract assets, trade receivables, certain loan commitments, and financial guarantees. At initial recognition, an allowance is formed for the amount of the expected credit losses from possible defaults in the coming 12 months ('12-months expected credit loss' (ECL)). If credit risk has increased significantly since origination (but remains non-credit-impaired), an allowance is required for the amount that equals the expected credit losses stemming from possible defaults during the expected lifetime of the financial asset ('lifetime ECL'). If the financial instrument becomes credit-impaired the allowance will remain at the lifetime ECL. Financial instruments become credit-impaired when one or more events have occurred that had a detrimental impact on estimated future cash flows.

Two fundamental drivers of the IFRS 9 impairments requirements are a) the methodology for the measurement of 12-Month and lifetime expected credit losses and b) the criteria used to determine whether a 12-Month ECL, lifetime ECL non-credit impaired, or lifetime ECL credit-impaired should be applied (also referred to as stage determination criteria).

a) Methodology to determine expected credit losses
In order to determine ECLs DLL utilizes point-in-time Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) models for the majority of the portfolio. In note 1.3 Credit Risk Management the methodology of determination of PD, LGD, and EAD is presented in more detail.

b) Stage determination criteria
In order to allocate financial instruments in scope between the categories 12-month ECL (stage 1 performing), lifetime ECL (stage 2 under-performing), and lifetime ECL (stage 3 non-performing) a framework of qualitative and quantitative factors has been developed. The criteria for allocating a financial instrument to stage 3 are fully aligned with the

criteria for assigning a defaulted status, for example 90 days past-due status, or if a debtor is likely to become unable to pay its credit obligations without liquidation of the underlying asset or collateral by DLL. In order to allocate financial instruments between stages 1 and 2, DLL uses criteria, such as days-past-due status, special asset management status and deterioration of the PD since origination.

For portfolios without individual PDs or with PDs that are not updated on a frequent basis such that an assessment of the change in PD is not possible, a collective assessment on groups of financial instruments with shared credit risk characteristics is made.

DLL uses internal models to estimate PD, LGD, and EAD parameters as key inputs to its provision calculations. Different modelling methodologies are applied for different portfolios, ranging from statistical models to expert-based models that take into account quantitative and qualitative risk drivers. These models are embedded in the credit approval and internal reporting processes. All models in use at DLL are regularly reviewed and validated, following the model governance framework of DLL, which includes a Model Risk Committee. Policies ensure controlled procedures surrounding review, (re)development, validation, approval, and implementation of models.

Macroeconomic scenarios, which are forward looking, are incorporated into these models and probability weighted in order to determine the expected credit losses.

Hedge accounting

Hedge accounting is an option IFRS offers to mitigate profit or loss volatility caused by measurement differences between assets and/ or liabilities measured at amortized cost and assets measured at fair value through OCI (hedged items), and related hedging derivatives measured at fair value through profit or loss (hedging instruments). DLL applies IFRS 9 for non-portfolio hedge accounting. IFRS 9 does not offer a solution for fair value hedge accounting for a portfolio hedge of interest rate risk (macro fair value hedging). DLL opted to use the accounting choice in IFRS to continue to apply the IAS 39 EU carve-out for such portfolio hedge accounting.

For non-portfolio hedge accounting an economic relationship between the hedged item and the hedging instrument is required without the possibility of a voluntary de-designation of the hedge relationship afterwards. DLL designates effective non-portfolio hedge accounting relationships with cross-currency swaps by bifurcating the currency basis. The fair value changes caused by the bifurcated currency basis will be considered as costs of hedging and are recognized in other comprehensive income. DLL has implemented this change prospectively.

Changes in presentation of interest income

As a result of a change in IAS 1 due to the implementation of IFRS 9, interest income on financial assets using the effective interest method should be presented separately in the statement of income. Interest income on financial assets using the effective interest method includes interest income on 'Cash and cash equivalents,' 'Due from banks,' and 'Due from customers.' The line-item 'Other interest income' refers to interest income on all other financial instruments. Refer to note 2.1 'Interest Revenue and Expense' for an overview of all interest income items.

Key impacts of the implementation of IFRS 9

The implementation of IFRS 9 resulted in an increase of the impairment allowance of financial assets of EUR 13 million per January 1, 2018. There was no impact of other movements due to the IFRS 9 implementation. The table on the next page shows a reconciliation between the consolidated statement of financial position as reported per December 31, 2017, under IAS 39 and the restated amounts per January 1, 2018 under IFRS 9.

Impact on CET 1 ratio

The total decrease in equity due to the introduction of IFRS 9 was approximately EUR 9 million and was the basis for defining the impact on CET1 ratio. The impact on equity due to impairments was compensated by the existing IRB-shortfall. The total impact on CET1 ratio is limited.

	Measurement category IFRS 9*	Measurement category IAS 39	IAS 39	Reclassification	Remeasurements (ECL)	Other remeasurements	IFRS 9
in millions of euros			31-12-2017	2017	2018	2017	1-1-2018
Assets							
Cash and cash equivalents	AC	AC	362	-	-	-	362
Accounts receivables and other short term assets	AC	AC	569	-	-	-	569
Derivatives	FVPL	FVPL	62	-	-	-	62
Due from banks	AC	AC	1,805	-	-	-	1,805
Due from customers	AC	AC	28,019	-	(13)	-	28,006
Fixed assets under operating lease	n/a	n/a	2,461	-	-	-	2,461
Goodwill and other intangible assets	n/a	n/a	99	-	-	-	99
Current tax receivables	n/a	n/a	101	-	-	-	101
Deferred tax assets	n/a	n/a	174	-	-	-	174
Other assets	n/a	n/a	189	-	-	-	189
Assets in disposal group held for distribution or sale	n/a	n/a	702	-	-	-	702
Total assets			**34,543**	**-**	**(13)**	**-**	**34,530**
Liabilities							
Short-term loans and overdrafts	AC	AC	4,439	-	-	-	4,439
Accounts payable and other short-term liabilities	AC	AC	912	-	-	-	912
Issued debt securities	AC	AC	588	-	-	-	588
Provisions	n/a	n/a	90	-	-	-	90
Derivatives	FVPL	FVPL	71	-	-	-	71
Long-term borrowings	AC	AC	23,918	-	-	-	23,918
Current tax payables	n/a	n/a	17	-	-	-	17
Deferred tax liabilities	n/a	n/a	347	-	(4)	-	343
Other liabilities	n/a	n/a	147	-	-	-	147
Liabilities in disposal group held for distribution or sale	n/a	n/a	372	-	-	-	372
Total liabilities			**30,901**	**-**	**(4)**	**-**	**30,897**
Equity							
Share capital and share premium			1,233	-	-	-	1,233
Retained earnings			1,831	-	(9)	-	1,822
Foreign currency translation reserve (FCTR)			108	-	-	-	108
			3,172	-	(9)	-	3,163
Non-controlling interests			470	-	-	-	470
Total equity			**3,642**	**-**	**(9)**	**-**	**3,633**
Total equity and liabilities			**34,543**	**-**	**(13)**	**-**	**34,530**

* AC = Amortized cost, FVPL = Fair value through profit or loss and FVOCI = Fair value through other comprehensive income.

Reconciliation of impairment allowances

The following table reconciles the impairment allowances determined in accordance with IAS 39 as of December 31, 2017 to the impairment allowances in accordance with IFRS 9 as per January 1, 2018. The IAS 39 impairment methodology was based on an 'incurred loss' model, meaning that an allowance is determined when an instrument is credit-impaired. Next to the allowance for these credit impaired instruments under IAS 39, an allowance also was recognized for assets that were in difficulties but not yet reported as such (incurred but not reported). The allowance for instruments that are credit impaired will generally align with the stage 3 category of IFRS 9. However, within the expected credit loss framework of IFRS 9 the entire portfolio of financial instruments will be assigned an impairment allowance to increases in overall allowances. The additions of the 12-month ECL category (stage 1) and the lifetime ECL non-credit-impaired (stage 2) will generally lead to increases in overall allowances.

in millions of euros	Impairment allowances IAS 39 as on December 31, 2017	Reclassification of financial assets at amortized cost	Remeasurements	Impairment allowances IFRS 9 as on January 1, 2018
Loans and advances to customers	247	-	13	260
Assets in disposal group held for distribution or sale	15	-	-	15
Total	**262**	**-**	**13**	**275**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	56	40	164	260
Assets in disposal group held for distribution or sale	4	-	11	15
Total	**60**	**40**	**175**	**275**

iv. Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group and its subsidiaries as on December 31, 2018. The Group structure at December 31, 2018, is presented in note 4.8.

The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and adopted by the EU.

Subsidiaries are entities under control of the Group. Control is achieved when, and only when, the Group has:
- Power over the subsidiary (an ability to direct the activities of the subsidiary that significantly affect its returns);
- Exposure, or rights, to variable returns from its involvement with the subsidiary; and
- The ability to use its power over the subsidiary to affect its returns.

The acquisition method of accounting (recognizing net identifiable assets and goodwill) is used by the Group to account for business combinations.

The Group consolidates a subsidiary from the date it obtains control. The Group reassesses whether or not it controls an investee if there are changes to one or more of the three elements of control.

Non-controlling interests in the results or equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity, and statement of financial position.

Profit or loss and total comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

Investments in associates represent interests held in various entities where DLL exhibits significant influence. This is generally the case where the group holds between 20% to 50% of the voting rights. Share of profit from associates are included in fee and other income within the statement of profit or loss. Investments in associates are accounted for using the equity method of accounting.

When necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between Group companies are eliminated in full on consolidation.

From the date the Group loses control over a subsidiary, the Group ceases to consolidate it. If the Group loses control over a subsidiary, it:
- Derecognizes
  - assets (including goodwill) and liabilities of the subsidiary
  - carrying amount of any non-controlling interest
  - cumulative translation differences recorded in equity; and
- Recognizes
  - fair value of the consideration received
  - fair value of any investment retained
  - any surplus or deficit in profit or loss
  - parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

v. Key judgments and estimates

The tables below summarize the key judgments made and key estimates used in the preparation of these consolidated financial statements.

Key judgments	Note
Classification of leases and loans to customers	1.1
Consolidation of special-purpose vehicles	3.3
Hedge accounting effectiveness	3.4

Key estimates	Note
Residual value reassessment	1.2
Allowance for impairment	1.3
Fair value of derivatives	3.4

vi. Prior year adjustments

During the year contracts were identified which were in prior year erroneously classified and measured as operating leases instead of finance leases. Hence a reclassification adjustment in the consolidated statement of financial position 2018 of EUR 72 million has been made (refer to paragraph 1.2). This reclassification adjustment has no impact on income nor equity.

Furthermore, it was identified that an amount of EUR 75 million is erroneously classified as accounts payable in the statement of financial position 2017, as given its nature it meets the criteria of other liabilities. As from 2018 these liabilities are classified as other liabilities and the comparable information 2017 has not been adjusted. This matter has no impact on income nor equity.

vii. Events occurring after reported period

Events after the reporting date that relate to conditions that existed at the end of the reporting period have been reflected in these financial statements.

Portfolios

1.1 Due from customers

DLL's portfolio comprises of asset-based financing, that includes finance leases and loans. The table below shows the composition of DLL's portfolio:

in millions of euros	2018*	2017*
Finance lease receivables**	16,224	14,352
Loans to customers**	15,292	13,914
	31,516	28,266
Allowance for impairment finance lease receivables**	(147)	(104)
Allowance for impairment loans to customers**	(130)	(143)
	(277)	(247)
Total due from customers	**31,239**	**28,019**

* As on December 31
** Refer to notes ii Basis of preparation and iii Change in accounting policies and presentation.

During the year contracts were identified which were in prior year erroneously classified as finance leases instead of loans within the financial statement line item balances due from customers. At year-end 2017 the finance lease receivables were overstated by EUR 271 million, while the loans to customers were understated by EUR 271 million. This disclosure item has been adjusted in the financial statements 2018 and has no impact on income nor equity.

The table below displays an analysis of amounts due from customers by underlying asset type.

in millions of euros	2018*	2017*
Technology solutions	6,027	5,550
Construction, transportation and industrial equipment	7,299	6,474
Food and agricultural equipment	12,443	11,582
Health care and clean tech	3,158	3,038
Other	2,312	1,375
Total due from customers	**31,239**	**28,019**

* As on December 31

Fair value of amounts due from customers

At December 31, 2018, the fair value of amounts due from customers was EUR 30,975 million (2017: EUR 27,946 million). The fair value was estimated using a discounted cash flow model where the discount rate is determined by a market related credit risk spread (Level 2) over cost of funds and the relevant market interest rate extrapolated from a market yield curve. The credit spreads are based on those charged by DLL to customers on new leases and loans provided. Since the inputs for this model are observable market inputs that are adjusted as necessary, these fair value measurements are fully classified as Level 2 within the fair value hierarchy as described in note 4.10.

Fair value changes of finance receivable portfolios hedged

During 2017, DLL applies a macro fair value hedge accounting model for the interest rate risk in the fixed-rate EUR and USD finance receivable portfolios. The difference between amortized cost and fair value (basis adjustment) for assets that have been designated for macro fair value hedge accounting is included in amounts due from customers and amounted to positive EUR 28 million as on December 31, 2018 (2017: EUR (9) million).

Amounts due from customers pledged

DLL enters into securitization transactions in the ordinary course of its business. As part of those transactions, finance lease, operating lease, and loan receivables were pledged as collateral for notes issued by the Group (asset-backed securities). As of December 31, 2018, EUR 2,376 million (2017: EUR 894 million) of assets have been pledged in various funding transactions. The increase compared to last year is fully caused by the securitization transactions conducted in 2018, which are detailed in note 3.3.

Unguaranteed residual value
The value of unguaranteed residual values included in the carrying amount at December 31, 2018, was EUR 2,424 million (2017: EUR 1,973 million).

Residual value reassessment
Residual values in finance lease contracts are included in the carrying amount of the finance lease receivable. Unguaranteed residual values are influenced by asset market prices and are therefore subject to management estimation, requiring assumptions to be made. They are reassessed regularly in line with the methodology applied to operating leases as described in note 1.2.

Investment in finance leases
The below summarizes outstanding gross investment in finance lease receivables as well as unearned finance income, all net of impairment:

in millions of euros	2018*	2017*
Less than 1 year	6,050	5,567
More than 1, less than 5 years	10,669	9,421
More than 5 years	680	453
Gross investment in leases	**17,399**	**15,441**
Unearned finance income	(1,322)	(1,193)
Net investment in leases	**16,077**	**14,248**

* As on December 31

The table below summarizes the aging profile of DLL's net investment in finance leases:

in millions of euros	2018*	2017*
Less than 1 year	5,960	5,454
More than 1, less than 5 years	9,574	8,432
More than 5 years	543	362
Net investment in leases	**16,077**	**14,248**

* As on December 31

Key judgment: classification of a finance lease, operational leases and loans to customers
An arrangement contains a lease if its fulfilment is dependent upon the right to use the asset. Leases that transfer substantially all the risks and rewards of ownership of such assets are classified as finance leases (others are classified as operating leases). Determination of transfer of substantially all the risks and rewards of ownership is subjective in nature and involves significant judgment. Contracts where the end user has ownership of the asset and DLL provides financing are considered to be loans.

The vast majority of DLL's lease portfolio is classified as finance lease given that the vendor or end customer bears substantially all of the economic risk associated with the underlying assets. DLL does not retain significant asset risk from these arrangements. Transactions where DLL retains significant asset risk are classified as operating lease. Refer to note 1.2.

Accounting policy for amounts due from customers
A. Finance leases
Accounting treatment for finance leases:
- Underlying assets are derecognized and a finance lease receivable is recognized. These receivables equate to contractual lease payments and any unguaranteed residual value (i.e., gross investment in leases) discounted to present value (i.e., net investment in leases).
- Net investment in leases is presented net of allowance for impairment. Refer also to note 1.3 Credit risk management on further guidance relating to allowance for impairments.
- The difference between the gross investment in leases and the net investment in leases is recognized as unearned finance income.
- Lease income is determined using the rate implicit in the lease. This is the rate that discounts the net investment in the lease to the sum of the fair value of underlying assets and initial direct costs incurred.
- If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognized immediately in the statement of profit or loss.

B. Loans to customers
- Loans to customers are non-derivative financial assets (classified as loans and receivables) with fixed or definable payments, not listed on an active market. Refer to iii. Changes in accounting policies for IAS 39 and IFRS 9 accounting policies.
- Measurement is initially at fair value including transaction costs.
- Subsequently, balances are carried at amortized cost less impairment allowance.
- Interest revenue on loans to customers is calculated using the Effective Interest Rate (EIR) in the loan. Refer also to note 4.10.

1.2 Fixed assets under operating lease

DLL's other core product is operating lease contracts provided to lessees. A typical tenor of an operating lease contract is between three and five years. The below table presents a reconciliation of the carrying amount of the assets under operating lease at the beginning and end of the year comprising of a wide range of assets like trucks, forklifts, tractors, and copiers:

in millions of euros	2018	2017
Cost	3,537	3,199
Accumulated depreciation and impairment	(1,076)	(991)
Carrying amount at January 1	**2,461**	**2,208**
Purchases	1,100	1,150
Transfer to inventories	(13)	(11)
Disposals	(373)	(167)
Depreciation	(538)	(511)
Impairment	(10)	(4)
Correction of prior year error	(72)	-
Other	12	(8)
Net exchange differences	36	(196)
Cost	3,772	3,537
Accumulated depreciation and impairment	(1,169)	(1,076)
Carrying amount at December 31	**2,603**	**2,461**

During the year a portfolio of operating leases of EUR 72 million was identified to be finance leases and has been adjusted accordingly.

The table below summarizes future minimum lease payments under operating leases where DLL acts as a lessor:

in millions of euros	2018*	2017*
Less than 1 year	574	665
More than 1, less than 5 years	989	1,101
More than 5 years	69	66
Total minimum lease payments	**1,632**	**1,832**

* As on December 31

Refer to note 1.1 for key judgment in respect of classification of leases.

Assets under operating lease pledged
As on December 31, 2018, DLL pledged EUR 353 million (2017: EUR 398 million) of assets under operating lease as collateral under term financing received from banks in the U.S. Refer to note 3.2.

Key estimate: residual value reassessment
Residual values of assets under operating lease form a significant part of the carrying amount of those assets. Residual values are influenced by asset market prices and are therefore subject to management estimation. Residual values are at least reassessed on an annual basis, or more often when necessary, by the Global Asset Management department using local market information (e.g., sales prices) by type of leased assets. Reassessments are based on a combination of realization of assets sold, expert knowledge and judgment of local markets.

Accounting policy for operating leases
DLL as a lessor
- DLL as a lessor presents the assets subject to operating leases in the balance sheet as fixed assets according to the nature of the asset.
- The leased asset is carried at cost less any accumulated depreciation and impairment losses.
- Operating lease installments are recognized as revenue on a straight-line basis over the lease term.

Determining the carrying amount of a leased asset
- Cost of the asset comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for operation, such that future benefits can be derived from it.
- These assets are depreciated over their expected useful lives on a straight-line basis to the expected residual value. Expected useful lives for equipment are approximately between 5 and 20 years, respectively.
- Expected useful lives and residual values are reassessed annually (see above) with any changes being accounted for prospectively over the remaining lease term unless the total asset is considered to be impaired following this change in useful life and/or expected residual value.

Credit losses on assets under operating lease
Credit losses on assets under operating lease may arise from payment delinquency of lessees. The delinquency of lessees is considered to be an indication of impairment for the leased asset. If such indication exists, an impairment test is carried out to determine whether the carrying amount exceeds the recoverable amount.

1.3 Credit Risk Management

Credit risk defined
Credit risk is the risk that DLL will incur a loss because its customers or counterparties fail to fulfill their obligations towards DLL. DLL aims to maintain a credit portfolio with a manageable risk profile in order to limit the impact of bad debt costs on the profitability and reputation of the company. DLL manages credit risk through a process of ongoing identification, measurement and monitoring of risk exposures, subject to risk limits and other controls established by DLL's Risk Appetite Statement and its credit risk policy.

Information regarding credit risk associated with amounts outstanding from counterparties (including current accounts, derivatives and loans to Rabobank, other banks as well as accounts receivable, which are not linked to the lease portfolio) is disclosed in respective notes (refer to notes 3.6, 3.4, 3.5, and 4.3).

Credit risk policies, processes, and governance
DLL pursues a credit risk policy aimed at maintaining a moderate credit risk profile. DLL has two levels of credit committees that manage credit risk:
- A Global Credit Committee (GCC) operating at a global level; and
- Local Credit Committees (LCC) operating at country level.

Authority limits are granted to the GCC by DLL's Executive Board, who in turn is granted authority by Rabobank. Decisions for exposures above GCC authority require an approval from Rabobank. Authority limits for LCCs and Group Risk departments within DLL are granted and reviewed annually by the Global Risk Committee (GRC) under authority of DLL's Executive Board. Credit authorities are also delegated to professionals within a country and within the Group Risk department, which oversees global risk activities. These limits are also reviewed annually.

The credit committees or authorized professionals decide on, or recommend to the next higher level authority, credit applications for new, amended or unchanged:
- Exposure limits;
- Credit protections such as collateral or enhancements required;
- Credit quality classifications;
- Specific impairment provisions for individual defaulted accounts as well as collective provisions; and,
- Customer rating (i.e., probability of default – PD), Loss Given Default (LGD) and Exposure at Default (EAD) calculations, resulting in an appropriate collectively determined impairment provision.

Group Risk is responsible for credit and other risk related policies, maintains oversight on underwriting and provisioning models, supports countries on credit risk matters and coordinates interaction with Rabobank concerning credit risk.

Exposure limits
DLL manages credit risk by setting limits on the amount of risk it accepts for individual exposures to counterparties, such as: end users (lessees or borrowers), and vendors and dealers (collectively 'vendors'). The vast majority of counterparties are assigned a risk rating, which reflects the level of associated credit risk. As a rule, all counterparty limits and risk ratings are reviewed at least once a year. Where a counterparty is assigned a higher-risk rating (i.e., greater credit risk) it is reviewed on a more frequent basis. Credit committees may request for more frequent reviews.

DLL has policies in place to restrict or prohibit certain counterparty types, assets or industries, limiting credit risk as well as other risk types (based on for example compliance and reputational risk).

Credit risk exposures
Maximum exposure to credit risk on amounts due from customers is reflected through their carrying amounts and for operating lease through book value of the underlying assets. The below tables summarizes DLL's credit risk exposures in its finance lease, loans and operating lease portfolios.

	2018*		2017*	
in millions of euros	Maximum exposure	Collateral coverage (%)	Maximum exposure	Collateral coverage (%)
Due from customers	31,239	98.27%	28,019	99.11%
Fixed assets under operating lease	2,603	93.42%	2,461	93.68%
Amounts due from customers in a disposal group**	-	-	645	100.00%
Total exposure	**33,842**	**97.90%**	**31,125**	**98.70%**

* As on December 31
** Refer to note 4.2 for further details.

Collateral and credit enhancements
DLL accepts collateral and other credit enhancements from end users and third parties to manage the credit risk level. Material financing arrangements under finance leases and loans are secured by DLL's title to or a lien/pledge on the underlying assets. The fair values of those assets are determined by DLL's Global Asset Management department which provides values based on for example the asset type, manufacturer, resale history, historic value depreciation, location and other factors.

These fair values are regularly reviewed by Global Asset Management Committees for each Global Business Unit, which focuses on respective industries.

Other types of credit enhancements include:
- cash, which is received primarily in the form of security deposits from end users;
- guarantees, which may be corporate and personal guarantees or guarantees from our vendors, as well as from third parties related to an end-user lessee;
- credit insurance obtained externally by DLL for selected portfolios; and,
- loss pools: funded and unfunded security provided by vendors for specifically defined risks and vendor programs.

Credit risk concentration
At group level DLL manages if concentration of credit risks is within DLL's risk appetite by monitoring its top 20 customers relative to exposure size (integral for finance lease, loans and operating lease exposures). The maximum exposure to top 20 customers at December 31, 2018 was EUR 1,297 million, comprising 4% of the total portfolio (2017: EUR 1,155 million, comprising 4% of the portfolio).

Apart from this, DLL further avoids significant concentrations by managing country limits, credit risk concentrations within countries as well as avoiding or limiting exposure to defined industries. These limits are included in the Local Risk Appetite Statements.

DLL's internal customer rating

In the financing approval process, DLL uses the Rabobank Risk Rating (RRR), that reflects the risk of failure or the probability of default (PD) of the loan relation over a period of one year. The table below shows the loan quality of the loan related balance sheet items after deduction of the impairment allowance. The loan-quality categories are determined on the basis of the internal RRR. The RRR consists of 21 performance ratings (R0-R20) and four default ratings (D1-D4). The performance ratings assess the probability of default within a period of one year. The rating is determined, in principle, on a cyclically neutral basis. D1-D4 ratings refer to default classifications. D1 represents 90 days' past due (depending on local conditions this may be extended to more than 90 days); D2 indicates high probability that the debtor is unable to pay; D3 indicates that the debtor's assets will most likely need to be liquidated due to default; and D4 indicates bankruptcy status. The default ratings make up the total impaired exposure. The 'vulnerable' category consists of performance ratings that are not (yet) classified as impaired.

Credit risk exposure within quality categories of portfolio assets

The customer base of DLL mainly consists of small and medium sized enterprises, which is also reflected in the table below that presents portfolio exposures, including operating leases, by underlying customer risk rating:

The table below shows the credit quality of the financial assets subject to impairment. The gross carrying amount of the financial assets, excluding operating leases, below also represents the maximum exposure to credit risk on these assets.

	Not credit-impaired		Credit impaired	
Gross carrying amount in millions of euros	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	Total gross exposure
December 31, 2018				
(Virtually) no risk	816	50	-	866
Adequate to good	26,472	3,103	-	29,575
Vulnerable	2	328	-	330
Defaulted	4	-	464	468
Total gross exposure	**27,294**	**3,481**	**464**	**31,239**

DLL also assesses credit quality of its portfolio within the following categories, which in turn drive the provisioning methodology:

- **Neither past due nor impaired (performing)** are current receivables within portfolios and considered to be of good credit quality.
- **Past due but not impaired (underperforming)** are overdue balances for which no loss is anticipated.
- **Impaired (non-performing)** are receivables where DLL does not expect to recover all amounts due from customers. This category has low credit quality and includes all assets with default ratings.

in millions of euros	Due from customers	FAOL*	Due from customers in a disposal group**	FAOL* in a disposal group**	Total exposure
December 31, 2018					
(Virtually) no risk	866	121	-	-	987
Adequate to good	29,575	2,428	-	-	32,003
Vulnerable	330	24	-	-	354
Defaulted	468	30	-	-	498
Total exposure	**31,239**	**2,603**	**-**	**-**	**33,842**
December 31, 2017					
(Virtually) no risk	967	153	-	-	1,120
Adequate to good	26,361	2,253	622	-	29,236
Vulnerable	223	29	4	-	256
Defaulted	468	26	19	-	513
Total exposure	**28,019**	**2,461**	**645**	**-**	**31,125**

* Fixed assets under operating lease.
** Refer to note 4.2 for further details.

The table below further analyzes credit quality of the portfolio (including aging analysis of past due but not impaired assets).

in millions of euros	Due from customers	Due from customers in a disposal group *
As on December 31, 2018		
Neither past due nor impaired	28,689	-
Past due but not impaired	2,086	-
< 30 days	1,374	-
30 to 60 days	382	-
61 to 90 days	116	-
> 90 days	214	-
Impaired**	464	-
Total exposure	**31,239**	**-**
As on December 31, 2017		
Neither past due nor impaired	25,603	562
Past due but not impaired	1,948	64
< 30 days	1,311	49
30 to 60 days	373	5
61 to 90 days	101	5
> 90 days	163	5
Impaired**	468	19
Total exposure	**28,019**	**645**

* Refer to note 4.2 for further details.
** Impaired category illustrates the gross amount of receivables individually determined to be impaired, before deducting the impairment allowance.

Allowance for impairment
Impairment is the difference between contractual and expected cash flows of a financial asset (e.g., finance lease or loan) both discounted to present value using the original implicit rate/ effective interest rate. DLL presents allowance for impairment separately from the gross balance of respective assets rather than directly reducing their carrying amounts. Given the number of uncertainties involved in estimation of allowance for impairment, it is considered by management to be a key estimate in preparation of these financial statements.

IFRS 9 establishes three separate approaches for measuring and recognizing expected credit losses. DLL implemented these three-stage expected credit loss impairment models, which involve a significant degree of management judgement. The impairment methodology for loans and advances results in the recognition of allowances measured at an amount equal to 12-month expected credit losses (stage 1); allowances measured at an amount equal to lifetime expected credit losses for financial assets for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets (stage 2); and financial assets that are credit-impaired (stage 3).

Impairment methodology
After DLL enters into a lease contract or grants a loan, it conducts continued credit management, closely monitoring payment behavior, and for larger and/or higher risk exposures, periodically assesses new financial and non-financial information. DLL's credit risk management procedures ascertain whether the customer complies with the agreements made and whether this is expected to continue in the future.

If doubts arise, DLL monitors the exposures more frequently and maintains them on a watch list. When a loss event has occurred, an impairment allowance is calculated and recognized.

At initial recognition, an allowance is formed for the amount of the expected credit losses from possible defaults in the coming 12 months ('12-months expected credit loss' (ECL)). If credit risk increased significantly since origination (but remains non-credit-impaired), an allowance will be required for the amount that equals the expected credit losses stemming from possible defaults during the expected lifetime of the financial asset ('lifetime ECL'). If the financial instrument becomes credit-impaired the allowance will remain at the lifetime ECL. Financial instruments become credit-impaired when one or more events have occurred that had a detrimental impact on estimated future cash flows.

The total loan impairment allowance consists of three components:
- **Specific allowance for impaired exposures (IFRS 9 stage 3)** determined for individually assessed impaired exposures. Thresholds for this allowance for impairment are country-specific and in some countries all defaults are assessed on an individual basis.
- **Collective allowance for impaired exposures (IFRS 9 stage 3)** determined for impaired exposures that are not individually significant.
- **Allowance for not credit-impaired exposures** determined as a collective provision for the portion of the portfolio that is not impaired and has a credit risk that either has not increased significantly since origination (stage 1) or has increased significantly since origination (stage 2).

Specific and collective impairments are based on actual portfolio analysis, with considerations of asset/collateral recovery and expected collections to establish the estimated loss on defaulted positions.

Credit risk models used for stage 1 and stage 2 for credit losses
Two fundamental drivers of the IFRS 9 impairments requirements are a) the methodology for the measurement of 12-month and lifetime expected credit losses and b) the criteria used to determine whether a 12-month ECL, lifetime ECL non-credit-impaired, or lifetime ECL credit-impaired should be applied (also referred to as stage determination criteria).

a) Methodology to determine expected credit losses

In order to determine ECLs DLL utilizes point-in-time Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) models for the majority of the portfolio in scope. Three global macroeconomic scenarios are incorporated into these models and probability weighted in order to determine the expected credit losses.

DLL uses internal models to estimate PD, LGD, and EAD parameters as key inputs to its provision calculations. Different modelling methodologies are applied for different portfolios, ranging from statistical models to expert-based models that take into account quantitative and qualitative risk drivers. These models are embedded in the credit approval and internal reporting processes. All models of DLL are regularly reviewed and validated, following the model governance framework of DLL, which includes a Model Risk Committee. Policies ensure controlled procedures surrounding review, (re)development, validation, approval, and implementation of models.

b) Stage determination criteria

In order to allocate financial instruments in scope between the categories 12-month ECL (stage 1), lifetime ECL non-credit-impaired (stage 2), and lifetime ECL credit-impaired (stage 3) a framework of qualitative and quantitative factors has been developed. The criteria for allocating a financial instrument to stage 3 are fully aligned with the criteria for assigning a defaulted status, for example 90 days past due status, or if a debtor is likely to become unable to pay its credit obligations without liquidation of collateral by DLL. In order to allocate financial instruments between stages 1 and 2, DLL uses criteria, such as days past due status, special asset management status, and deterioration of the PD since origination.

For portfolios without individual PDs or with PDs that are not updated on a frequent basis such that an assessment of the change in PD is not possible, a collective assessment on groups of financial instruments with shared credit risk characteristics is made.

Composition of credit losses and other impairments

The following table presents the composition of credit losses and other impairments in profit or loss arising from allowance for impairments of due from customers:

in millions of euros	2018	2017
Charge for the year	137	134
Recoveries	(36)	(39)
Collection and recovery costs	13	13
Total credit losses and other impairments	**114**	**108**
Total credit losses attributable to:		
Continuing operations	114	105
Discontinued operations (note 4.2)	-	3

Composition of allowance for impairment

The following table presents movements in allowances of impairment as well as the composition of the allowance by sub-classifications performing, underperforming, and not performing:

	Subject to 12-month ECL	Subject to lifetime ECL non-credit impaired	Subject to lifetime ECL credit impaired	Total	Total loan impairment allowance (IAS 39)
in millions of euros	Stage 1	Stage 2	Stage 3	2018	2017
Balance on January 1	56	40	164	260	264
Charge for the year	4	-	105	109	134
Written off	-	-	(143)	(143)	(123)
Net exchange differences	(1)	-	(2)	(3)	(14)
Stage transfer due to change in credit risk	(4)	6	40	42	n/a
Classification as a disposal group	-	-	-	-	(15)
Other changes	12	-	-	12	1
Balance on December 31	**67**	**46**	**164**	**277**	**247**
IFRS 9 remeasurement					13
IFRS 9 opening balance					**260**

In millions of euros	Due from customers	Due from customers in a disposal group *
As on January 1, 2017	264	64
Charge for year	134	-
Written off	(123)	-
Net exchange differences	(14)	-
Disposal of subsidiary	-	(64)
Classification as a disposal group	(15)	15
Other	1	-
As on December 31, 2017	**247**	**15**
Comprising:		
Specific allowance	97	11
Collective allowance	67	-
IBNR allowance	83	4
	247	15

* Refer to note 4.2 for further details.

In the following table an overview is given of the significant changes in the gross carrying amount of loans and advances to customers during the period that contributed to changes in the total impairment allowance performing, underperforming, and not performing:

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	Subject to 12-month ECL	Subject to lifetime ECL non-credit impaired	Subject to lifetime ECL credit impaired	Total
in millions of euros	Stage 1	Stage 2	Stage 3	2018
Balance on January 1	24,965	2,619	435	28,019
New loans and advances originated	13,529	1,030	168	14,727
Loans and advances that have been derecognized	(10,412)	(906)	(235)	(11,553)
Write-offs	-	-	(88)	(88)
Other changes	(788)	738	184	134
Balance on December 31	**27,294**	**3,481**	**464**	**31,239**

Key estimate: allowance for impairment

Determining a provision requires a significant degree of judgement, based on the evaluation of management of risks in the portfolio, the current and expected economic circumstances, customer payment trends, credit losses over the previous years, as well as developments in financial credits, industry sectors, business concentrations, and geopolitics. Changes in judgment as well as further analyses may lead to changes in the magnitude of an impairment allowance over time.

Determining objective evidence for changes in creditworthiness and determining the magnitude of the recoverable amount form part of the processes that are surrounded by inherent uncertainty and that involve various assumptions and factors regarding the creditworthiness of the lessees/borrowers, expected future cash flows, and the value of collateral.

Credit-related commitments

DLL has credit-related commitment risk arising through its ordinary business activities. DLL may, in a number of cases, provide customers with preset credit facilities from which customers can draw. Such obligations expose DLL to similar risks as leases/loans even though these unfunded commitments are not recognized on balance sheet. These risks are mitigated by the same control process and policies. Refer to note 3.7 for DLL's liquidity risk management of credit-related commitments.

in millions of euros	2018*	2017*
Undrawn irrevocable credit facilities	4,295	4,006
Guarantees and other commitments	108	99
Total credit-related commitments	**4,403**	**4,105**

* As on December 31

Impairment methodology reporting year 2017

After DLL enters into a lease contract or grants a loan, it conducts continued credit management, closely monitoring payment behavior, and for larger and/or higher risk exposures, periodically assess new financial and non-financial information. DLL's credit risk management procedures ascertain whether the customer complies with the agreements made and whether this is expected to continue in the future.

If doubts arise, DLL monitors the exposures more frequently, and maintains them on a watch list. When a loss event has occurred, an impairment allowance is calculated and recognized. The total loan impairment allowance consists of three components:

- **Specific allowance for impaired exposures** determined for individually assessed impaired exposures. Thresholds for this allowance for impairment are country-specific and in some countries all defaults are assessed on an individual basis.
- **Collective allowance for impaired exposures** determined for impaired exposures which are not individually significant.
- **Allowance for incurred but not reported (IBNR) credit losses** determined as a collective provision for the portion of the portfolio that is actually impaired at reporting date, but that has not been incurred as yet.

Specific and collective impairments are based on actual portfolio analysis, with considerations of asset/collateral recovery and expected collections to establish the estimated loss on defaulted positions.

Credit risk models used for IBNR for credit losses reporting year 2017

DLL uses internal models to estimate PD, LGD, and EAD parameters as key inputs to its provision calculations. Different modelling methodologies are applied for different portfolios, ranging from statistical models to expert-based models, that take into account quantitative and qualitative risk drivers. These models are embedded in the credit approval and internal reporting processes. Models are regularly reviewed and validated, following the model governance framework of DLL, which includes a Model Risk Committee. Policies ensure controlled procedures surrounding review, (re)development, validation, approval, and implementation of models.

Performance

2.1 Interest revenue and expense

in millions of euros	2018	2017
Interest revenue		
Interest income from customers	1,454	1,425
Interest income from loans to discontinued operations (note 4.2)	-	7
Interest income from loans to Rabobank	22	21
Interest income from derivatives with Rabobank	66	11
Other interest income	3	22
	1,545	**1,486**
Interest expense		
Interest expense on borrowings from Rabobank	(375)	(349)
Interest expense on derivatives with Rabobank	(81)	(40)
Interest expense on other borrowings	(128)	(87)
Interest expense on derivatives with other banks	(2)	(1)
Other interest expense	(9)	(8)
	(595)	**(485)**
Net interest income	**950**	**1,001**

Accounting policy for interest revenue and expense

For all financial instruments measured at amortized cost, interest-bearing financial assets classified as measured at fair value and derivatives carried at fair value through profit or loss, interest income and expense are recorded on an accrual basis using the effective interest rate (EIR) method (refer to note 4.10). The calculation takes into account all of the contractual terms of the financial instruments and are an integral part of the EIR, with the exception of future credit losses.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.2 Gains/(losses) from financial instruments

in millions of euros	2018	2017
Gains/(losses) from derivatives held for trading	(5)	18
Foreign exchange differences	(3)	17
Gains/(losses) from financial assets designated for fair value hedge accounting	37	(9)
Gains/(losses) on derivatives used to hedge the interest risk on the portfolio	(32)	23
Total gains/(losses) from financial instruments	**(3)**	**49**

Gains/(losses) from derivatives

Gains/(losses) from derivatives relate to derivative transactions that are undertaken by DLL for risk mitigation purposes. DLL applies a foreign net investment hedging model, which reduces the volatility of the gains/(losses) reflected in other comprehensive income. Refer to note 3.4.

During 2017, DLL implemented a macro fair value hedging model to hedge the fixed rate EUR and USD finance receivable portfolios. DLL opted to use the accounting policy choice of IFRS 9 to continue to apply the IAS 39 EU carve-out for such portfolio hedge accounting. This hedge accounting model is a model that comprises a portfolio of hedged items (finance lease receivables and loans) and a portfolio of hedging instruments (interest rate swaps). At each cash flow date, the model aims to designate an appropriate amount of hedged items to match the swap cash flow. The model performs two tests to determine effectiveness:

– Prospective test: performed at the start of the month and assesses the fair value movement of hedged items and hedging instruments due to a 1% parallel shift in interest rate curves.
– Retrospective test: performed at the end of the month and compares fair value movement over the period due to actual movement of interest rate curves.

For the model to be effective, the offsetting fair value changes of hedged items and hedging instruments must be within the 80%-125% range for both tests (IAS 39). Changes in the fair value of interest rate derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with the changes in the fair value of the effective part of the hedged items. The changes in fair value of the effective part of hedged items are included in gains/(losses) from financial assets designated for fair value hedge accounting. Refer to note 3.4.

All of the gains/(losses) from derivatives relate to derivatives transacted with Rabobank Group entities.

Foreign exchange differences

Please refer to 4.10 for description of accounting policies related to foreign currency translation.

2.3 Fee and other income

in millions of euros	2018	2017
Net early termination income	40	41
Other lease-related fee income	101	84
Insurance brokerage fee income	71	68
Other income	26	45
Net reinsurance income	8	5
Total fee and other income	**246**	**243**

Net early termination income
This is income arising from gains on lease contracts that were terminated early by the customer and for which penalties were charged.

Other lease-related fee income
Other lease-related fee income includes lease syndication fees, brokerage commissions, and documentation fees. Syndication fees relate to income generated by syndicating lease contracts to third parties. Brokerage commissions are commissions received for the setting up of leasing contracts. Finally, documentation fees relate to the origination services that DLL has performed for its customers (i.e., the assessment of a customer's credit file), as well as processing fees for small contract changes.

Insurance brokerage fee income
This is fee income that DLL receives for brokering insurance contracts for its customers with third-party insurers.

Net reinsurance income
Net reinsurance income is related to the reinsurance activities of DLL RE Designated Activity Company. For further details on net reinsurance income and its treatment, refer to note 4.5.

Accounting policy for fee income
Fees earned for services that are provided over a period of time are accrued and recognized over that period. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of these activities. Fees or components of fees that are linked to a certain performance are recognized only after fulfilling the corresponding criteria.

Fees that are an integral part of corresponding financial instruments are recognized as interest income through an adjustment to the EIR, refer to note 4.10.

2.4 Staff expenses

in millions of euros	2018	2017
Short- term employee benefit	370	354
Wages and salaries	270	268
Social security costs	54	51
Temporary staff	46	35
Other short term benefits	94	101
Pension – defined contribution plans	21	18
Pension – defined benefit plans	-	2
Other long-term employee benefits	1	2
Total staff expenses	**486**	**477**

The average number of employees (both internal and external) in DLL was 4,875 (2017: 4,577) of whom 844 (2017: 881) were employed in the Netherlands. The 2017 average number of employees excludes 95 employees of DLL's Dutch non-vendor finance operations (Financial Solutions) that were transferred to Rabobank as per April 1, 2017; refer to note 4.2.

DLL's remuneration policy consists of fixed and variable remuneration components and various fringe benefits, including a pension scheme. According to DLL's remuneration policy in the Netherlands, on average, variable remuneration may not exceed 20% of the fixed income. Outside of the Netherlands the fixed income, variable pay and benefits are based on the local market of the respective country. In no case variable income is higher than 100% of base salary, in line with the Rabobank Group Remuneration Policy.

Short-term benefits include wages, paid annual leave, sick leave and parental leave, that are expected to be paid within 12 months.

Long-term employee benefits include retirement benefits such as pensions, national pension plan contributions and post-employment life insurance. The pension plans are typically defined contribution plans, for which DLL is obliged to pay a periodical contributions. Other long-term employee benefits are DLL's deferred bonus scheme (i.e., variable remuneration to identified staff).

Identified staff
For employees who have a material influence on the risk profile of DLL (Identified Staff), the granted variable remuneration is partly deferred in line with EBA regulations (a minimum 40%). The direct portion of variable remuneration is unconditional, whereas the deferred portion is conditional. Each year one-third part of the deferred variable remuneration becomes unconditional. The cash component of the direct portion is immediately paid after it has been awarded.
The cash component of the deferred portion is awarded to employees only after vesting. The other 50% is of the variable remuneration is awarded in the form of an underlying instrument, i.e. the Deferred Remuneration Note (DRN).

The value of a DRN is linked directly to the price of a Rabobank Certificate (RC) as listed on Euronext Amsterdam.

The instrument component is converted into DRNs at the time of allocation on completion of the performance year. The number of DRNs is determined on the basis of the closing rates of the RCs as traded during the first five trading days of February of each year. This therefore represents both the instrument component of the direct and the deferred portion of the variable remuneration. The final number of DRNs relating to the deferred portion is established on vesting. The payment of the instrument component is subject to a one year retention period. After the end of the retention period, the employee receives, for each DRN (or a portion thereof) an amount in cash that corresponds with the value of the DRN at that moment.

Payment of the cash component of the variable remuneration is measured in accordance with IAS 19 Employee benefits, whereas payment of the DRNs is measured in accordance with IFRS 2 Share-based payment. The immediate portion of the variable remuneration is recognized in the performance year, whereas the deferred portion is recognized in the years before vesting.

On December 31, 2018, a liability of EUR 1,706 thousand was included (2017: EUR 2,678 thousand) in respect to the instrument portion of the variable remuneration of the identified staff. Total compensation on instruments incurred on this variable remuneration end 2018 was EUR 87 thousand (2017: EUR 210 thousand). The number of DRNs still outstanding is presented in the following table:

in thousands of DRNs	2018	2017
Opening balance at January 1	96	149
Awarded during the year	1	7
Paid in cash during the year	(32)	(58)
Changes from previous year	(11)	(2)
Closing balance at December 31	**54**	**96**

The estimated future variable remuneration payments are shown in the following table:

in thousands of euros	Year of payment					
As on December 31, 2018	2019	2020	2021	2022	2023	Total
Variable remuneration excluding DRNs	500	361	28	2	0	891
DRNs	736	611	412	31	2	1,792
Total	**1,236**	**972**	**440**	**33**	**2**	**2,683**
As on December 31, 2017	2018	2019	2020	2021	2022	Total
Variable remuneration excluding DRNs	715	588	355	28	-	1,686
DRNs	1,150	740	580	393	25	2,888
Total	**1,865**	**1,328**	**935**	**421**	**25**	**4,574**

Key management personnel

Key management personnel of DLL consist of the members of the Executive Board and the Supervisory Board. Compensation of the Executive Board members:

in thousands of euros	2018	2017
Short-term employee benefits	3,534	3,760
Post-employment benefits	90	97
Total Executive Board compensation	**3,624**	**3,857**

Compensation for Executive Board (EB) members consisted of fixed pay, deferred variable remuneration (see above) and pension entitlements. They are also entitled to a package of fringe benefits. EB members are not eligible for variable remuneration as from 2016. DLL does not provide any loans, advance payments or guarantees to members of the Executive Board and the Supervisory Board.

On December 31, 2018, a liability of EUR 351 thousand (2017: EUR 701 thousand) in instruments (DRN) for EB members was determined. This is the sum of the direct and deferred parts. At December 31, 2018, there were a total of 11,084 DRNs outstanding for the EB members (2017: 25,194 DRNs).

In the Netherlands, EB members participate in a collective defined contribution scheme. As of January 1, 2018, the maximum income on the basis of which the members of the EB can build up pension amounts to EUR 99,384. Any income exceeding this amount is not pensionable.

One member (2017: one member) of the EB received a total compensation exceeding EUR 1 million in 2018.

Compensation of the Supervisory Board members

On March 29, 2018, two new Supervisory Board members have been appointed, which resulted into a Supervisory Board of three members. From three members of the

Supervisory Board (SB), only one external board member receives a direct compensation from DLL based on her SB responsibilities. The other SB members are employed by Rabobank and are compensated in that capacity by Rabobank. They do not receive an extra compensation for their SB responsibilities.

The total amount of remuneration for the SB in 2018 was EUR 62.5 thousand (2017: EUR 7.5 thousand). The 2017 figure was just for 3 months and relates to the board member that resigned per March 2017.

DLL did not pay termination compensation or benefits of key management personnel in 2018 (2017: none).

2.5 Other operating expenses

in millions of euros	2018	2017
Administrative expenses	134	124
Administrative charges from parent	44	25
Depreciation, amortization and impairment	(13)	71
IT related cost	73	64
Total other expenses	**238**	**284**

The table below indicates the composition of amounts accrued to the independent auditor and its network, included in administration expenses:

in millions of euros	2018	2017
Audit of financial statements	6	6
Other audit services	1	1
Permitted tax services	1	1
Other permitted (non-audit) services	-	-
Total expenses	**8**	**8**

Next to the statutory audit of these financial statements our independent auditor, PricewaterhouseCoopers Accountants N.V., renders the following services to De Lage Landen International B.V. and its controlled entities: 1) Review of the Financial Statements for one its controlled entities, 2) audit and review procedures related to the (semi) annual financial reporting towards the parent company, 3) audit procedures in relation to the regulatory returns to be submitted to the regulators and 4) agreed-upon procedures for SRB and on cost allocations within the group. These are the sole fees paid to PricewaterhouseCoopers Accountants N.V. in the amount of EUR 2 million (2017: EUR 2 million) and are reflected under the line Audit of financial statements.

Administrative expenses
Administrative expenses include costs of travelling, marketing and advertising, consultant fees, and the independent auditor's remuneration. Audit fees were incurred by DLL for the external audit services received from Pricewaterhouse Coopers Accountants N.V. in 2018 and 2017.

Administrative charges from parent
As the holder of a banking license, DLL is subject to bank taxes and resolution levies. These charges are paid by Rabobank for all Rabobank group companies collectively. Rabobank subsequently recharges applicable amounts to DLL as part of an administrative charge. Furthermore Rabobank has charged part of its head office costs to DLL as of 2018.

Depreciation, amortization, and impairment
Depreciation, amortization, and impairment expenses relate to usage of DLL-owned land, buildings, and equipment; as well as the amortization and impairments of intangible assets. Refer to notes 4.1 and 4.3 for further description. The amount for 2018 is EUR (13) million comparing to EUR 71 million for 2017. The difference is mainly driven by the reversal in 2018 of an impairment of EUR 40 million recognized for DLL China in 2017.

IT-related costs
IT-related costs include hardware rent, software rent, and maintenance costs as well as costs of developing software and maintenance costs that do not meet the capitalization criteria in terms of IAS 38 Intangible Assets.

Accounting policy for other operating expenses
Expenses are recognized by DLL when the related goods or services have been received or rendered. Accruals are recognized for all such expenses that have been incurred but have not yet been invoiced.

2.6 Taxation

DLL's key operating entities in the Netherlands are part of the fiscal unity for Dutch corporate income tax purposes of Rabobank (including a number of other domestic subsidiaries). Under the fiscal unity, each participating legal entity is jointly and severally liable for the fiscal unity's corporate tax liabilities.

The following table summarizes the amounts of tax expenses recognized in profit or loss in respect of continuing operations:

in millions of euros	2018	2017
Current tax charge for the year	9	96
Deferred tax (credit)/charge for the year	116	(159)
Origination and reversal of temporary differences	120	45
Effect of changes in tax rates	(4)	(204)
Adjustments for prior years	(10)	(3)
Tax (credit)/charge for the year	**115**	**(66)**
Income tax (credit)/charge on continuing operations	115	(71)
Income tax attributable to discontinued operations (see note 4.2)	-	5

Reconciliation of the total tax charge

The effective tax rate for 2018 was 23% and differs from the theoretical rate that would arise using the Dutch corporate tax rate. This difference is explained as follows:

in millions of euros	%	2018
Operating profit before taxation		495
Applicable tax rate	25	124
Increase/(decrease) in taxes resulting from:		
Tax-exempt income	(3)	(17)
Tax rate differences	-	3
Non-deductible expenses	1	5
Recognition of previously unrecognized tax losses	-	(1)
Other permanent differences	-	2
Adjustments of previous years	-	(2)
Adjustments due to changes in tax rates	-	1
Other non-recurring tax items	-	-
Total income tax	**23**	**115**

The Group's reconciliation of the total tax charge is based on the Dutch domestic tax rate, with a reconciling item in respect to tax rates applied by the Group companies in other jurisdictions. This reconciliation is based on an applicable tax rate that provides the most meaningful information to users. The statutory tax rate in the Netherlands is 25% (2017: 25%). There were no changes in the statutory tax rate in the Netherlands. The following table shows a reconciliation of the tax expense and the accounting profit multiplied by the domestic tax rate:

in millions of euros	2018	2017
Profit before tax from continuing operations	495	517
Profit before tax from discontinued operations	-	23
Profit before income tax	**495**	**540**
Tax-exempt income	(67)	(39)
Non-deductible expenses	19	64
Non-recognizable fiscal losses	7	3
Utilization of previously unrecognized tax losses	(2)	(3)
Local tax credits	(35)	(25)
Other	(1)	(3)
Taxable income	**416**	**537**
Tax calculated using applicable tax rates	106	149
Effect of changes in tax rates	1	(204)
Adjustments for prior years	(2)	(3)
Other adjustments	10	(8)
Tax (credit)/expense for the year	**115**	**(66)**
Income tax (credit)/expense on continuing operations	115	(71)
Income tax attributable to discontinued operations (see note 4.2)	-	5

The effect of changes in tax rate in 2018 is EUR 1 million (2017: EUR 204 million profit). DLL has uncertain tax positions in several countries. If outflow of cash is deemed probable a current tax liability is recognized. Refer to note 4.5.

In December 2017, the U.S. has enacted a new tax code. DLL has a significant tax liability in the U.S. The lower tax rates have therefore resulted in a gain of EUR 204 million recognized in 2017.

Deferred tax assets and liabilities are measured for all temporary differences using the liability method and are detailed as follows:

	Deferred tax assets/(liabilities)		Profit or loss credit/(charge)		Other comprehensive income credit	
in millions of euros	2018*	2017*	2018	2017	2018	2017
Deferred tax assets						
Leases	1	54	23	121	-	-
Allowance for impairment	92	37	1	7	-	-
Provisions	5	9	(1)	-	-	-
Fixed assets for own use	-	-	-	(2)	-	-
Intangible assets	1	-	-	-	-	-
Other	(4)	70	4	(43)	-	-
Net operating losses	12	12	(4)	98	-	-
Total deferred tax assets	**107**	**182**	**23**	**181**	**-**	**-**
Continuing operations	107	174	23	-	-	-
Disposal group held for sale	-	8	-	-	-	-

	Deferred tax assets/liabilities		Profit or loss credit/(charge)		Other comprehensive income credit	
in millions of euros	2018	2017	2018	2017	2018	2017
Deferred tax liabilities						
Leases	(570)	(434)	(191)	(65)	-	-
Allowance for impairment	13	28	42	1	-	-
Provisions	2	3	(4)	1	-	-
Fixed assets for own use	(5)	(5)	-	-	-	-
Intangible assets	-	1	-	-	-	-
Alternative minimum tax credits	-	-	-	(43)	-	-
General reserves	7	16	(9)	45	-	-
Other	(21)	(72)	(39)	36	-	-
Net operating losses	181	116	62	3	-	-
Total deferred tax liabilities	(393)	(347)	(139)	(22)	-	-
Continuing operations	(393)	(347)	(139)	-	-	-
Disposal group	-	-	-	-	-	-
Net deferred tax liabilities	**(286)**	**(165)**	**-**	**-**	**-**	**-**
Net deferred tax benefit/(expense)	**-**	**-**	**(116)**	**159**	**-**	**-**

* As on December 31

Unrecognized deferred tax assets

No deferred tax asset of EUR 13 million (2017: EUR 18 million) has been recognized for unused tax losses, because there are no sufficient future taxable profits expected to utilize these tax losses. These carry forward losses relate to various tax authorities and their term to maturity is largely unlimited.

The movement in the net deferred tax assets/(liabilities)

The movement in the net deferred tax assets/(liabilities) can be summarized as follows:

in millions of euros	2018	2017
Net deferred tax liabilities at January 1	(165)	(383)
Adjustment opening balance IFRS 9	4	-
Total net deferred tax liabilities at January 1	**(161)**	**(383)**
Profit or loss (charge)/credit	(116)	159
Disposal of subsidiary Financial Solutions	-	(5)
Net exchange differences	(14)	38
Other	5	26
Net deferred tax liabilities at December 31	**(286)**	**(165)**

Recognition of deferred tax assets

The Group is subject to corporate income tax in numerous jurisdictions. Estimation is required in determining the Group's deferred tax positions.

Deferred tax assets in a particular DLL entity are recognized for deductible temporary differences, unused tax losses, and unused tax credits, to the extent it is probable that taxable profits will be available in that entity against which the deferred tax asset can be utilized in the foreseeable future, as based on budgets and forecasts. Where an entity has a history of tax losses, no deferred tax asset is recognized until such time that there is certainty about future profitability of that entity.

Tax losses carried forward

The future taxable profits available to utilize deferred tax assets (including deductible temporary differences, unused tax losses, and unused tax credits), are regularly reassessed for respective entities, and recognized deferred tax asset balances are adjusted when required.

The Group recognizes deferred tax assets for the tax value of losses and tax credits carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The deferred tax assets for the tax value of losses and tax credits carried forward amount to EUR 192 million (2017: EUR 128 million) of which EUR 8 million is expected to be recovered within a year (2017: EUR 3 million).

The Group has not recognized deferred tax assets in respect to tax losses of EUR 13 million (2017: EUR 18 million) as the Group considers it not probable that future taxable profits will be available to offset these tax losses (also taking into account expiry dates when applicable).

Funding & Liquidity

3.1 Equity and capital management

Components of equity

Share capital and share premium

At December 31, 2018, DLL's authorized capital was EUR 454 million (2017: EUR 454 million), divided into 950 ordinary A shares and 50 ordinary B shares (2017: 950 A and 50 B). The nominal value of each share is EUR 454,000. EUR 98 million (2017: EUR 98 million) is issued and paid up, consisting of 215 ordinary shares A (A1-A215) and 2 ordinary shares B (B1 and B2). Additional paid-in capital (share premium) on the outstanding shares amounts to EUR 1,135 million (2017:

EUR 1,135 million). For the years 2018 and 2017 there is no difference in shareholders' rights related to the class A and class B shares.

Retained earnings

Retained earnings represents DLL's, undistributed cumulative net profits, where profit is appropriated upon decision of the shareholder. DLL's retained earnings also include cumulative actuarial gains/losses on remeasurement of DLL's defined benefit plans. Annual actuarial gains/ losses resulting from this remeasurement are not recyclable through profit or loss and are therefore recognized directly in retained earnings rather than as a separate reserve in equity. These movements are recorded as a component of other comprehensive income in the period in which they arise.

Foreign currency translation reserve (FCTR)

Exchange differences arising from translation of DLL's net investment in foreign operations and the associated fair value movements of the hedge instruments used in a hedge relationship are recognised as FCTR. Movements in FCTR are recorded as a component of other comprehensive income in the period in which they arise. The hedging reserve on December 31, 2018 amounts to EUR 134 million (2017: EUR 187 million) and the translation reserve on December 31, 2018 amounts to EUR (50) million (2017: EUR (79) million).

Dividends

In 2018 no dividend was paid to the sole shareholder Coöperatieve Rabobank U.A. (2017: EUR 1.2 billion; EUR 6 million per share).

Capital management

DLL obtains its capital from its parent, Rabobank. DLL's Executive Board (EB) is responsible for capital management of DLL and further ensures compliance with regulatory requirements imposed on DLL. Effective and efficient capital management is realized by a strong focus on capital allocation. The EB controls the local business and actual capital levels to ensure sufficient capital is held to meet local regulatory requirements as well.

For the purpose of DLL's capital management, solvency is considered a key measure and therefore three different capital levels are defined in accordance with regulation, and utilized for solvency ratios, being the CET 1, Tier 1, and Total Capital Ratio.

Regulatory capital requirements

The Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) are the EU implementation of Basel II and Basel III rules on capital measurement and capital standards.

The CRD IV package was implemented – via a Regulation (Regulation EU) and a Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms – the new global standards on bank capital (the Basel III agreement) into EU law.

These rules, which became effective on January 1, 2014, are applied by DLL. DLL is under direct supervision of the European Central Bank as part of the Rabobank Group.

DLL received waivers for certain reporting requirements as defined in CRR (such as the exemption for solo reporting). Due to the organizational structure of DLL, DLL must, on a sub-consolidated basis, meet the CRR requirements on Own Funds, Capital, and Large exposures.

The table below presents DLL's regulatory capital and capital adequacy ratios:

in millions of euros	2018*	2017*
Common Equity Tier 1 capital (CET1)	2,966	2,436
Tier 1 capital (T1)	2,966	2,442
Total capital (own funds)	2,972	2,449
Risk weighted assets	19,406	18,041
CET 1 ratio	15.28%	13.50%
T1 ratio	15.28%	13.54%
Own funds ratio	15.31%	13.58%

* As on December 31

Capital requirements (taking into consideration the respective disposals of Athlon and Financial Solutions in 2016 and 2017) are managed actively through DLL's risk strategy, risk appetite, and balance sheet management. Refer to note 1.3 for description of credit risk management and to note 3.7 for a description of market and liquidity risk management.

Regulatory capital buffers

The buffers on the right-hand side are applicable as of 2016 gradually phasing in until 2019. DLL has incorporated these increased buffer requirements in its capital management. The table shows the minimum legal buffers based on CRR/ CRD IV.

		CET 1	Tier 1	Own funds
Minimum (required)		4.500%	6.000%	8.000%
Pillar 2		0.000%	0.000%	0.000%
Capital conservation buffer*	2017 - 2019	1.875%	1.875%	1.875%
		6.375%	7.875%	9.875%
Countercyclical buffer	2017 - 2019		0.000% - 2.500%	
Systemic buffer	2017 - 2019	0.000%	0.000%	0.000%
			0.000% - 2.500%	

* This buffer is phased in from 0.625% in 2016 to the full buffer requirement of 2.5% in 2019.

The total required CET1 capital ratio as of December 31, 2018, is 6.375% (i.e., a minimum Pillar 1 requirement of 4.5%, a Pillar 2 requirement of 0.000%, and a capital conservation buffer of 1.875%), excluding the Pillar 2 guidance. The required total capital amounts to 9.875% (i.e., a minimum

Pillar 1 requirement of 8%, a Pillar 2 requirement of 0.000% and a capital conservation buffer of 1.875%). In addition to these ratios, the supervisory authorities can impose a countercyclical buffer of up to 2.5%. For DLL the average countercyclical capital buffer requirement was 0.099% per December 31, 2018. Based on the outcome of the Supervisory Review and Evaluation Process, the ECB did not impose a Pillar 2 requirement or Pillar 2 guidance for 2018.

Also note that the following buffers for DLL equal 0% (reference is made to article 128 of the CRD; the combination of these buffers plus the capital conservation buffer is referred to as combined buffer requirement):
- The G-SII buffer; N/A
- The O-SII buffer; N/A
- The systematic risk buffer; N/A

Taking into account these requirements, DLL sets its internal objectives to extend available capital beyond the minimum requirements of supervisors, as a response to market expectations and developments in legislation and regulations.

No changes have been made to the objectives, policies, and processes of the capital management from the previous years. However, they are under constant review by the EB.

During 2018 and 2017, DLL was in compliance with all the applicable capital requirements.

Stress testing

Stress testing is an important risk management tool for DLL that provides a forward-looking assessment of risk and assists in the optimization of risk capital. It enables the exploration of vulnerabilities in business models while overcoming the limitations of risk models and historical data.

Stress tests are used to measure the impact of extreme, yet plausible events. Where necessary, measures are taken on the basis of the results of the stress tests that are in line with DLL's risk appetite.

Stress test governance

Given the importance of stress testing in terms of regulatory compliance and sound risk management, the stress testing process and governance warrant the involvement of senior and executive management via review and approval of the approach and results by DLL Global Risk Committee and DLL's EB.

Stress test activities

Stress tests occur in different scopes. The current types of stress tests that are executed within DLL can be categorized by a variety of determinants:
- Scenario (macroeconomic, non-macroeconomic);
- Initiator (external versus internal);
- Scope (firm-wide, portfolio-specific and risk-type-specific); and,
- Type (bottom-up, top-down, reverse stress test).

Applied scenarios include scenarios for a set of regular macroeconomic stress tests, thematic stress tests driven by macroeconomic developments, regulator-provided stress tests, as well as scenarios generated as a result of risk identification and ad hoc scenarios. In the various internal and external scenarios both macroeconomic and non-macroeconomic factors are taken into account. The macroeconomic factors include growth, unemployment, inflation, and interest rates.

Once a scenario is generated, quantitative approaches are developed. The stress test models used for that are subject to review by the model validation team. Subsequently, the stress tests are executed.

The results of stress tests include impact on the CET1 ratio and its constituent parts (CET1 capital and Risk Weighted Assets) over a projected period of five years. In each scenario, the CET1 ratio is compared to the applied recovery trigger.

The results of stress testing in 2019 demonstrate that DLL's capital levels were above the required thresholds, across all five years forecasted, under each scenario.

3.2 Short-term loans and long-term borrowings

in millions of euros	2018*	2017*
Short-term loans and overdrafts		
Short-term loans from Rabobank	5,032	4,403
Other short-term loans	40	36
	5,072	**4,439**
Long-term borrowings		
Long-term borrowings from Rabobank	21,556	20,950
Other long-term borrowings	3,428	2,968
	24,984	**23,918**
Total short-term loans and long- term borrowings	**30,056**	**28,357**

* As on December 31

Short-term loans and overdrafts represent balances that are repaid within 12 months of reporting date.

DLL receives the majority of its funding from its parent, Rabobank, through individually agreed long- and short-term loans, which are part of a long-term multi-currency facility with no end-date. DLL acts within the limits of this facility. For maturity analysis of loans drawn under this facility, refer to note 3.7. While these tranches are mainly fixed-tenor loans, the specific terms of these loans (currency, maturity, and interest rate) are individually agreed upon.

Also included in the long-term borrowings from Rabobank as on December 31, 2018, are USD, CAD and GBP denominated loans of EUR 1,170 million (2017: EUR 1,123 million). The short term loans from Rabobank on December 31, 2018 amount to EUR 460 million (2017: EUR 254 million). This adds up to total loans EUR 1,630 million (2017: EUR 1,377 million). As the second leg of this loan-deposit structure, DLL issued EUR denominated loans to Rabobank in the amount of EUR 1,549 million (2017: EUR 1,343 million), included in due from banks (refer to note 3.5). This structure relates to a loan-deposit structure between DLL and Rabobank that is used to mitigate DLL's foreign currency risk in respect of net investments in foreign subsidiaries. These loans and deposits are floating rate transactions and carry interest rates based on 3M LIBOR and EURIBOR plus currency funding spreads and mature between 2019 and 2022. These loans are pledged as collateral for the corresponding borrowings. While the principal amounts and terms of these loans match, they do not qualify for offsetting and are recorded gross in the consolidated statement of financial position.

Other long-term borrowings are received by DLL local entities in several countries and include the following main borrowings:

- Long-term funding program from the National Bank for Economic and Social Development (BNDES) in Brazil, aimed to support financing of local industry, with a total agreed amount of EUR 1,087 million (2017: EUR 1,149 million) and a maturity ranging from 1 to 10 years. The carrying amount as on December 31, 2018 was EUR 958 million (2017: EUR 1,025 million) an annually pre-fixed rate of 0.30% to 18.68% or post-fixed rate of 6.52% to 6.98% plus Brazilian Long-term Interest Rate (4.60% for the year ended December 31, 2018) (2017: 7%).
- Long-term borrowing from the European Investment Bank (EIB), received for the purpose of supporting small and medium sized borrowers with a total facility amount of EUR 1,002 million (2017: EUR 658 million) and a maturity ranging from 1 to 6 years. The carrying amount as on December 31, 2018 was EUR 1,002 million (2017: EUR 658 million) with interest rates ranging from 0.044% to 3.063% (2017: 0.215% – 0.384%).
- Long-term collateralized financing received in the U.S. from multiple financial counterparties with a maturity ranging from 1 to 8 years. The carrying amount as on December 31, 2018 was EUR 2,241 million with interest rates ranging between (0.57)% and 3.96% (2017: EUR 1,068 million, 1.50% – 2.96%). DLL pledged operating lease receivables in the U.S. as collateral for this financing in the amount of EUR 353 million (2017: EUR 398 million), as well as finance receivables in the amount of EUR 2,122 million (2017: EUR 711 million); refer to note 1.1 and note 1.2.

Short-term loans and long-term borrowings from Rabobank and other borrowings, primarily from BNDES and EIB, require compliance with certain covenants. Management monitors all such contractual covenants from both a legal and financial perspective. In neither 2018 nor 2017 were there breaches of covenants that could give any lender a right to demand accelerated repayment of a respective borrowing.

For all short-term loans and overdrafts and long-term borrowings, expected maturities match respective contractual maturities. Contractual liquidity gap analysis as well as the principal and interest contractual cash flows of short-term loans and overdrafts and long-term borrowings are presented in note 3.7.

The fair value of long-term borrowings as on December 31, 2018, was EUR 24,724 million (2017: EUR 23,965 million). This fair value was estimated using a discounted cash flow model where the discount rate is determined based on observable yield curves at commonly quoted intervals. Since the inputs for this model are observable market inputs that are adjusted to the situation, these fair value measurements are classified as Level 2 within the fair value hierarchy as described in note 4.10. For short-term loans and overdrafts the carrying amount is deemed to reflect fair value.

Accounting policy for short-term loans and long-term borrowings

Recognition and measurement

Loans and borrowings are financial liabilities carried at amortized cost. These are recognized when DLL becomes a party to a respective contract and are initially recognized at fair value net of directly attributable capitalized transaction costs. After initial recognition, short-term loans and borrowings are measured at amortized cost using the effective interest rate (EIR) method. Refer to note 4.10 for description of the EIR method.

In case of premature repayment of the borrowings by DLL, lenders (including Rabobank) may charge DLL prepayment penalties, where such penalties are provided by the contract. Such prepayment penalties are accounted for as an expense when charged within Interest expenses.

Derecognition

Short-term and long-term loans and borrowings are derecognized when the obligations of DLL under respective contract are discharged (for instance, by repayment of all amounts due) or cancelled or expire. Where gains and losses arise on derecognition, they are recognized in profit or loss.

3.3 Issued debt securities

Issued debt securities represent asset backed securities issued by DLL in the following securitization transactions:

in millions of euros	2018*	2017*
Securitization transactions:		
LEAP (Australia)	129	129
U.S. public finance securitizations	119	65
DLL 2017A	268	394
DLL 2018-1 LLC	549	-
DLL 2018-2 LLC	815	-
Total issued debt securities	**1,880**	**588**

* As on December 31

DLL attracts external funding through securitizations as part of its overall funding strategy. The fair value of issued debt securities at December 31, 2018 was EUR 1,880 million (2017: EUR 588 million). This fair value was estimated using a discounted cash flow model where the discount rate is determined by cost of funds of DLL and the relevant market interest rate extrapolated from a market yield curve. Since the inputs for this model are observable market inputs that are adjusted as needed, these fair value measurements are classified as Level 2 within the fair value hierarchy as described in note 4.10.

The securitization transactions are described below.

LEAP

In 2013 DLL entered into a securitization transaction in Australia with a limit of EUR 185 million (AUD 300 million) to fund loan receivables originated by De Lage Landen Pty Ltd, an Australian subsidiary. This revolving transaction has a term of one year with an annual option for noteholders to extend the term for one year. On October 11, 2018, the maturity date of the notes was extended to October 11, 2019. If the maturity date is not extended after this date, the notes will amortize in accordance with the Cash Flow Allocation Methodology in the Series Supplements. The underlying assets include food and agricultural, construction, and infrastructure equipment leased to end-users in Australia in amount of EUR 172 million. Refer to note 1.1.

The LEAP transaction involved establishing LEAP Warehouse Trust, a special purpose vehicle (SPV) that issued two classes of unrated notes, with the class A notes distributed to external investors and the class B notes retained by DLL.

U.S. public finance securitization

The securities issued in 2018 are backed by EUR 125 million (2017: EUR 62 million) of finance lease assets under Tax Exempt Finance leases. This transaction involved establishing SPVs that issued two classes of unrated notes: class A notes EUR 119 million (2017: EUR 65 million), sold to external investors, and class B notes EUR 8 thousand (2017: EUR 8 thousand), retained by DLL. The class B notes are subordinated to the class A notes and are eliminated in these financial statements at consolidation of this SPV.

DLL-2017 A

In November 2017, DLL entered into a securitization transaction in the US with an initial underlying pool of EUR 488 million (USD 559 million). In 2018, notes are issued of EUR 268 million (USD 307 million). The assets securitized are lease and loans for food and agricultural equipment. For this transaction an SPV was established that issued four classes of notes, with current outstanding of: class A2 notes EUR 79 million (USD 91 million) (2017: EUR 138 million (USD 165 million)), class A3 notes EUR 135 million (USD 155 million) (2017: EUR 129 million (USD 155 million)) and class A4 notes EUR 54 million (USD 61.5 million) (2017: EUR 51 million (USD 61.5 million)). All class A1 notes were fully paid off in 2018.

DLL 2018-1 LLC and 2018-2 LLC

In 2018, DLL entered into two securitizations in the U.S. The first one is DLL 2018-1 with an initial underlying pool of EUR 720 million (USD 824 million) and notes issued of EUR 549 million (USD 630 million). Interest rates as of December 2018 range between 2.45% and 3.27%. The second securitization has an initial underlying pool of EUR 894 million (USD 1,024 million) and notes issued of EUR 815 million (USD 936 million). Interest rates as of December 2018 range between 2.71% and 3.59%.

Key judgment: consolidation of special purpose vehicles

Control over a SPV is usually not evidenced by direct shareholding/voting rights, but rather by indirect factors that require significant judgment.

DLL decides whether a SPV should be included in the consolidated financial statement on the basis of an assessment of its control over the SPV and its exposure to variable returns from its involvement. DLL takes a number of factors into consideration, including the activities carried out by the SPV, decision-making powers and the allocation of the benefits and risks (exposure to losses) associated with the activities of the SPV.

The securitization SPVs are deemed to be 'auto-pilot' entities because their operations and cash flows are prescribed by the respective securitization documentation. DLL retains control over the operating activities related to the underlying (securitized) assets and retains most of the risks associated with these assets through the subordinated class B notes that it holds in each transaction. Accordingly, DLL concluded that it controls these SPVs and consolidates them in these financial statements.

Accounting policy for issued debt securities

Issued debt securities, issued as a part of the securitization transaction, are financial liabilities carried at amortized cost. Issued debt securities are initially recognized at fair value, net of directly attributable transaction costs. After initial recognition, issued debt securities are measured at amortized cost using the effective interest rate (EIR) method. Please refer to note 4.10 for description of the EIR method.

3.4 Derivatives

DLL enters into the vast majority of derivative transactions with Rabobank, except for the countries where Rabobank does not have an office or where Rabobank does not have the capability to offer financial derivatives to DLL. In such cases, DLL enters into derivative transactions with locally present high profile banks (at least rated AA- for long term): as on December 31, 2018 the fair value of these derivatives was EUR (2) million (2017: EUR (7) million). There is no collateral posted or received under derivatives.

DLL uses derivative financial instruments to mitigate interest rate risk as well as foreign exchange risk to which DLL is exposed. All derivative transactions are therefore undertaken for risk mitigation purposes. During 2017 DLL has implemented hedge accounting solutions for both foreign net investment hedging and macro fair value hedging. DLL uses the IAS 39 EU carve-out options, which allow the application of fair value portfolio hedge accounting to certain positions.

Fair value hedges
DLL uses interest rate swaps to manage the interest rate risk of the assets with a fixed rate nature in both local and foreign currencies, such as finance leases and loans. In 2017, DLL has implemented a macro fair value hedging model for EUR and USD.

The hedge effectiveness is tested by comparing the changes in fair value of the hedged items against the changes in fair value of the hedge instruments, both prospectively and retrospectively. The model runs the tests on a monthly basis and is effective if the results are within the effectiveness range as defined by IAS39.

The ineffectiveness for the year ended December 31, 2018, was EUR 5 million (2017: EUR 14 million). The result on the hedging instrument amounted to EUR (32) million (2017: EUR 23 million), with the positive result from the hedged position, to be allocated to the hedged risk, amounting to EUR 37 million (2017: EUR (9) million). Refer to note 2.2.

Net investment hedges
DLL uses foreign forward-exchange contracts to hedge the currency translation risk of net investments in foreign operations. DLL applied net investment hedging as of January 1, 2017. On December 31, 2018, forward contracts with a nominal amount of EUR 1,072 million (2017: EUR 755 million) were designated as net investment hedges. These resulted in exchange gains of EUR 53 million for the year (2017: EUR 188 million), which were recorded in equity. For the years ended December 31, 2018 and December 31, 2017, DLL reported no material ineffectiveness resulting from the net investment hedges, whereby 2017 was tested against IAS 39 whereas 2018 was tested against IFRS 9 requirements.

Key estimate: Fair value of derivatives
The fair value of derivatives is determined using valuation techniques and is based on discounted cash flow models using observable market inputs. Management therefore considers fair value of derivatives a key estimate. The discounting curve applied depends on the currency of the underlying derivative, where an appropriate cross-currency base adjustment is applied for cross currency derivatives. When measuring the fair value, counterparty credit risks as well as own credit risk are taken into account (Credit/Debit Valuation Adjustment, respectively).

The main inputs of the estimated fair values are interest rate curves and currency rates. Sensitivity of the DLL exposures (including derivative exposures) to these variables is disclosed in note 3.7.

The estimation of the fair values of these derivatives is outsourced to the Treasury of Rabobank that operates within Rabobank control framework, which ensures sufficient governance and control within the process. The resulting fair values are reviewed and signed-off by DLL Treasury and DLL management.

Accounting policy: Derivatives
Derivatives are recognized at trade date, being the date when DLL becomes a party to a derivative contract. These derivatives are classified as assets or liabilities measured at fair value through profit or loss (held for trading) or as held for hedging (presented through OCI). If and when a hedge is designated in a hedging relationship, at time of inception, derivatives are designated as one of the following:
1) a hedge of the fair value of an asset, a group of assets or a liability in the statement of financial position (fair value hedge); or
2) a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is applied for derivatives designated in this manner provided that certain criteria are met, including the following:
– There must be formal documentation of the hedging instrument, the hedged item, the objective of the hedge, the hedging strategy, and the hedge relationship;
– The hedge must be expected to be effective, within 80% to 125%, in covering changes in the hedged item's measured fair value allocable to the hedged risks during the reporting period;
– The hedge must be continuously effective from the moment of its inception; and

- There is an economic relationship between the hedged item and hedging instrument. As the hedging items (Interest Rate Swaps) hedge the interest rate risk of the hedged items (lease assets) on a portfolio basis, specific rules have been implemented to include only permissible hedged items in the hedge accounting model.

Changes in the fair value of derivatives that are designated as fair value hedges and are effective in terms of the hedged risks are recognized in the statement of income in 'Gains/(losses) from financial instruments,' together with the corresponding changes in the fair values of the assets or liabilities hedged. As and when the hedge no longer meets the criteria for hedge accounting, the cumulative adjustment to the fair value of the hedged assets or liabilities is amortized through profit and loss over the relevant interest repricing period. Refer to note 2.2.

Hedges of net investments in foreign operations are measured at fair value, with changes in the fair value (to the extent that they are effective) being recognized in other comprehensive income. Changes in the hedged equity instrument resulting from exchange rate fluctuations are also recognized in other comprehensive income. Gains and losses accumulated in other comprehensive income are reclassified to profit or losses when the equity instrument is disposed of.

Net investment hedges

DLL uses forward currency contracts to hedge a portion of the currency translation risk of net investments in foreign operations. For the changes in the value of the hedging instrument recognized in other comprehensive income and the amount reclassified from the net investment hedge reserve to profit or loss, reference is made to note 3.1 Capital management, reserves, and retained earnings. Hedge ineffectiveness amounts to EUR 29 thousand –and is included in the statement of income on line item 'Gains/(losses) on financial assets and liabilities at fair value through profit or loss.'

	Remaining maturity per reporting date		
in millions of euros	Less than 1 year	1–5 years	More than 5 years
Maturities			
Notional amount of hedging instrument	2,650	124	-

Notionals and measured at fair value derivatives

	2018*			2017*		
in millions of euros	Notional amounts	Fair value assets	Fair value liabilities	Notional amounts	Fair value assets	Fair value liabilities
Derivatives held for trading	1,702	23	(18)	4,396	36	(44)
Derivatives held for hedging	14,003	33	(61)	7,829	26	(27)
Total derivative financial assets/liabilities	**15,705**	**56**	(79)	**12,225**	**62**	(71)
Derivatives held for trading						
- Foreign exchange forwards**	229	1	(1)	476	1	(2)
- Cross currency swaps	285	13	(13)	418	13	(28)
- Interest rate swaps	1,188	9	(4)	3,502	22	(14)
Total derivative held for trading	**1,702**	**23**	(18)	**4,396**	**36**	(44)
Derivatives designated as fair value hedge						
- Cross currency swaps	58	-	(3)	90	-	(6)
- Interest rate swaps	12,873	27	(52)	6,984	24	(12)
Total derivatives designated as fair value hedge	**12,931**	**27**	(55)	**7,074**	**24**	(18)
Derivatives designated as foreign net investment hedge						
- Foreign exchange forwards**	1,072	6	(6)	755	2	(9)
Total derivatives designated as foreign net investment hedge	**1,072**	**6**	(6)	**755**	**2**	(9)
Total derivative financial instruments	**15,705**	**56**	(79)	**12,225**	**62**	(71)

* As on December 31
** Including non-deliverable forwards.

in millions of euros	Notional amount	Carrying amount: Assets	Carrying amount: Liabilities	Change in fair value used for calculating hedge ineffectiveness for current year	Changes in the value of the hedging instrument recognised in other comprehensive income
Designed hedging instruments					
Foreign exchange derivatives	1,072	1,069	1,072	53	53
Foreign exchange loans	1,702	-	1,702	Included in foreign exchange derivatives	Included in foreign exchange derivatives

in millions of euros	Change in value used for calculating hedge ineffectiveness	Foreign currency translation reserve for continuing hedges	Remaining foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied
Designated hedged items			
Net investment	(29)	(43)	93

3.5 Due from banks

in millions of euros	2018*	2017*
Loans to and receivables from Rabobank	2,018	1,689
Reverse repurchase agreements with Rabobank	34	79
Loans to and receivables from other banks	18	37
Total due from banks	**2,070**	**1,805**

* As on December 31

DLL issued EUR denominated loans to Rabobank entities amounting to EUR 1,549 million (2017: EUR 1,344 million), that relate to a loan-deposit structure between DLL and Rabobank, that is used to mitigate foreign currency risk of DLL's net investments in foreign subsidiaries. These loans and deposits are floating rate transactions carrying interest rates of Euribor and Libor, plus funding spreads where the durations exceed one year. Under these loan-deposit structures, DLL has received USD, CAD, and GBP denominated long-term borrowings from Rabobank of EUR 1,170 million (2017: EUR 1,123 million) and short-term borrowings of EUR 460 million (2017: EUR 254 million) where the issued loans are pledged as collateral for these borrowings. These loans and deposits are all floating rate transactions that mature between 2019 and 2022. The loans are designated in three currencies: USD, GBP, and CAD. They carry interest rates based off 3M USD LIBOR, 3M GBP LIBOR, and 3M CDOR respectively plus currency funding spreads. The EUR designated deposits carry interest rates based off 3M EURIBOR plus EUR funding spreads. Refer to note 3.2.

While the principal amounts and terms of these loans match, they do not qualify for offsetting and are recorded gross in the consolidated statement of financial position.
The loans to and receivables from Rabobank relate to liquidity management and are short-term balances of both fixed and floating loans issued primarily in USD and EUR. These loans bear interest rates ranging between (0.37)% and 2.79% (2017: between 0.087% and 4.58%).

Securities received under reverse repurchase agreements are listed bonds issued by the Brazilian government with a fair value of EUR 34 million (2017: EUR 79 million).

For all due from banks, contractual maturities reflect their expected maturities. Contractual liquidity gap analysis as well as the principal and interest contractual cash flows of due from banks are presented in note 3.7.

The fair value of due from banks at December 31, 2018 was EUR 2,059 million (2017: EUR 1,808 million). This fair value was estimated using a discounted cash flow model where the discount rate is determined based on observable yield curves at commonly quoted intervals. Since the inputs for this model are observable market inputs that are adjusted as necessary, these fair value measurements are classified as Level 2 within the fair value hierarchy as described in note 4.10.

Accounting policy for due from banks
Due from banks are non-derivative financial assets (classified as loans and receivables in 2017 according to IAS 39 and as held at amortized cost in 2018) with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Refer to note 4.10 for a description of the EIR method.

Securities purchased under agreements to resell at a specified future date are not recognized in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, as due from banks (reverse repurchase agreements), reflecting the transaction's economic substance as a loan by DLL. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using EIR.

3.6 Cash and cash equivalents

in millions of euros	2018*	2017*
Current account Rabobank and its related entities	270	249
Current account other banks	129	113
Total cash and cash equivalents	**399**	**362**

* As on December 31

A reconciliation of cash and cash equivalents presented in the statement of financial position and cash and cash equivalents on the face of the statement of cash flows is presented below.

in millions of euros	2018*	2017*
Cash and cash equivalents presented on the face of the statement of financial position	399	362
Cash and cash equivalents included in disposal groups (note 4.2)	-	15
Cash and cash equivalents presented in the statement of cash flows	**399**	**377**

* As on December 31

Cash and cash equivalents do not bear material credit risk as cash is primarily maintained on the accounts of Rabobank (S&P A+ rating). Current accounts with other banks are held with banks holding A ratings or higher. Cash is usually held in the functional currency of the subsidiary that holds the account.

Accounting policy for cash and cash equivalents
Cash and cash equivalents as referred to in the statement of cash flows and statement of financial position comprises cash on hand, non-restricted current accounts with banks and amounts due from banks on demand or with an original maturity of three months or less. These cash and cash equivalents are held at amortized cost, which due to the short maturity approximates their fair value. These fair values are classified as Level 1 in the fair value hierarchy, refer to note 4.10 for further details.

3.7 Market and liquidity risk management

Market risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates or equity prices. Also considered part of market risk is prepayment risk. The main financial instruments held by DLL that are affected by market risk include financial lease receivables, loans issued, high quality bonds and investments held, borrowings, debt securities issued, cash, and derivatives.

For risk management purposes DLL also recognizes an exposure to market risk on its operating lease portfolio. DLL manages market risk collectively for all portfolio assets (including operating leases) as part of the same processes and risk governance that are in line with industry standards as well as DLL's own risk strategy. DLL is not exposed to material risk on third party equity instruments.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. DLL aims to achieve stable earnings from interest margins and not from exposure to uncertain or volatile interest rate risk position outcomes. This is achieved by a policy of mitigation of interest risk exposures through transacting money market and derivative instruments with mainly Rabobank and also some third party banks. Additionally, DLL may incur financial loss because its customers and counterparties repay or request repayment earlier than expected. DLL manages prepayment risk as part of interest rate risk.

To manage the above risks, DLL applies a policy of match-funding, after equity is deployed, to all asset-financing businesses from an interest rate perspective. Interest rate exposures on certain finance lease portfolios are mitigated based on their expected maturity terms (or repricing if shorter) and for the remaining portfolio financial assets on contractual maturity terms (or repricing if shorter). DLL uses historic termination information to identify finance lease portfolios with a consistent early termination pattern and calculates expected maturity terms using a minimum of three years' data. These expected maturity terms are approved by DLL's Asset and Liability Committee (ALCO) and are reviewed annually.

Where equity or short-term liquidity is used to fund assets, derivative transactions may be used to cover the longer-term interest rate risk with the approval of Group Treasury. DLL applies fair value hedge accounting for interest rate risk on its derivative portfolio.

Interest rate risk sensitivity analysis
DLL tracks interest rate risk sensitivity through monthly calculation of an Earnings at Risk (EatR) sensitivity analysis. Five scenarios are tested (EatR interest rates up, EatR interest rates down, DNB interest rates down curve steepening, and curve flattening) and analyzed per currency.

The scenarios are analyzed for movement in the fixed-rate (5-year) and floating rate (1-month) over a 1- and 2-year time horizon and the cumulative impact of each scenario is converted into euro. This is tracked both in aggregate and per scenario per currency.

DLL monitors all scenarios in the 1-year time horizon with a specific loss limit of EUR 10 million set for all scenarios that yield a negative result. This limit is monitored on a monthly basis and any breaches are reported to DLL's ALCO. There were no limit breaches in 2018 or 2017.

The monthly level of EatR is monitored by Group Treasury. Month on month there is some variation in terms of the total number. However, the level of EatR remains stable at a very small percentage of the total interest income (2018 0.35% vs 2017 0.59%). The EatR values on December 31, 2018 and December 31, 2017 are therefore representative of the entire respective years. DLL's total EatR for the down scenario on December 31, 2018 across currencies and aggregating the impact of both fixed and floating interest impacts, was EUR 3.8 million (2017: EUR 6.7 million).

Interest rate risk exposure

On a consolidated DLL level, interest rate risk is managed by calculation of a one basis point delta move (PV01) on the net interest rate gap. This interest rate gap is monitored monthly against an overall limit. Interest rate risk is also managed at country level using a similar analysis per time bucket and monitored by Group Treasury. On December 31, 2018, DLL's PV01 on the net interest rate gap was EUR (183,782) (2017: EUR (212,882)). The table below analyzes DLL's interest rate risk exposure by presenting carrying amounts of interest-bearing financial instruments and operating leases at the earlier of repricing or contractual maturity. For finance lease receivables, DLL manages repricing risk with reference to expected maturity rather than contractual maturity. Derivatives are presented at their net notional position per interest rate type (refer to note 3.4 for gross notional positions).

in millions of euros	Carrying amount*	< 1 month	1 to 3 months	3 to 12 months	1 to 5 years	>5 years	No contractual maturity
As on December 31, 2018							
Interest-bearing assets							
Cash	399	399	-	-	-	-	-
Due from banks	2,070	635	1,405	26	3	1	-
Due from customers	31,239	6,633	1,510	6,598	15,664	834	-
Fixed assets under operating lease	2,603	40	214	621	1,649	79	-
	36,311	**7,707**	**3,129**	**7,245**	**17,316**	**914**	**-**
Interest-bearing liabilities							
Short-term loans and overdrafts	(5,072)	(3,668)	(1,317)	(87)	-	-	-
Issued debt securities	(1,880)	(310)	(138)	(517)	(915)	-	-
Long-term borrowings	(24,984)	(5,019)	(4,925)	(4,889)	(9,908)	(243)	-
	(31,936)	**(8,997)**	**(6,380)**	**(5,493)**	**(10,823)**	**(243)**	**-**
Derivatives							
Interest rate swap – net floating-rate notional	7,901	6,761	1,133	7	-	-	-
Interest rate swap – net fixed-rate notional	(7,901)	44	(80)	(1,473)	(5,850)	(542)	-
FX derivative net	2	2	(1)	1	-	-	-
Derivative FV adjustment	-	-	-	-	-	-	-
Cross currency swap – net floating-rate notional	308	242	66	-	-	-	-
Cross currency swap – net fixed-rate notional	(310)	(32)	(28)	(76)	(161)	(13)	-
	0	**7,017**	**1,090**	**(1,541)**	**(6,011)**	**(555)**	**-**
Net interest gap	**4,375**	**5,727**	**(2,161)**	**211**	**482**	**116**	**-**

* Except in the case of derivatives which are presented at notional value rather than carrying amount.

in millions of euros	Carrying amount*	< 1 month	1 to 3 months	3 to 12 months	1 to 5 years	>5 years	No contractual maturity
As on December 31, 2017							
Interest-bearing assets							
Cash	362	362	-	-	-	-	-
Fair value bond portfolio	95	-	-	95	-	-	-
Due from banks	1,805	387	1,400	16	2	-	-
Due from customers	28,019	5,754	1,475	6,042	13,983	765	-
Fixed assets under operating lease	2,461	29	137	586	1,632	77	-
Assets in disposal group	702	-	-	702	-	-	-
	33,444	**6,532**	**3,012**	**7,441**	**15,617**	**842**	**-**
Interest-bearing liabilities							
Short-term loans and overdrafts	(4,439)	(2,572)	(1,356)	(511)	-	-	-
Issued debt securities	(588)	(208)	(27)	(99)	(254)	-	-
Long-term borrowings	(23,918)	(3,282)	(5,365)	(4,732)	(10,214)	(325)	-
Liabilities in disposal group	(372)	-	-	(372)	-	-	-
	(29,317)	**(6,062)**	**(6,748)**	**(5,714)**	**(10,468)**	**(325)**	**-**
Derivatives							
Interest rate swap – net floating-rate notional	6,754	5,547	1,199	8	-	-	-
Interest rate swap – net fixed-rate notional	(6,754)	(65)	(271)	(1,532)	(4,472)	(414)	-
FX derivative net	(9)	(7)	(2)	-	-	-	-
Derivative FV adjustment	(2)	-	-	-	-	-	(2)
Cross currency swap – net floating-rate notional	457	227	230	-	-	-	-
Cross currency swap – net fixed-rate notional	(479)	(32)	(38)	(195)	(201)	(13)	-
	(33)	**5,670**	**1,118**	**(1,719)**	**(4,673)**	**(427)**	**(2)**
Net interest gap	**4,094**	**6,140**	**(2,618)**	**8**	**476**	**90**	**(2)**

* Except in the case of derivatives that are presented at notional value rather than carrying amount.

Foreign exchange risk
Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

DLL seeks to minimize its exposure to foreign exchange risk associated with its net investments in foreign operations. DLL's policy allows the use of foreign exchange derivatives (refer to note 3.4) and foreign currency debt in managing foreign exchange risk. DLL uses forward foreign-exchange contracts to hedge the currency translation risk of material net investments in foreign operations. The only exceptions with an exposure above EUR 1 million are DLL's investment in Brazil and Argentina, for that a decision was made by DLL's ALCO to not hedge these exposures due to high costs of doing so as well as inefficiencies of instruments used.

DLL also manages its forecasted net foreign currency exposures, above EUR 5 million or currency equivalent by mitigating risk from such deemed material exposures at the beginning of each year through the use of derivatives. Other foreign currency earnings are managed as earned also through the use of derivatives.

DLL subsidiaries are not permitted to have open foreign currency risk positions. Where unavoidable, limits are in place and breaches are monitored by DLL ALCO.

Foreign exchange risk sensitivity analysis
The table below indicates the currencies to which DLL has the largest exposures on December 31, 2018, on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in currency rates against the euro (all other variables being held constant). These reasonably possible movements in currency rates were estimated based on the actual volatility of exchange rates in the past two years.

During 2017 DLL implemented a Foreign Net Investment hedging model, which is applied for all major currencies, except for the currencies that would not be cost efficient (e.g. BRL).

Accordingly, changes in exchange rates impact will have very limited impact on the equity and profit for the year.

in millions of euros	Change in currency rate in %*	Effect on profit for the year	Effect on equity	Total effect
As on December 31, 2018				
USD	+/- 4%	66/(72)	66/(72)	1/(1)
BRL	+/- 11%	0/0	(16)/20	(16)/20
NOK	+/- 3%	1/(1)	(1)/1	0/0
CNY	+/- 3%	2/(2)	(2)/2	0/0
CAD	+/- 3%	6/(6)	(5)/6	0/0
As on December 31, 2017				
USD	+/- 4%	50/(54)	(51)/55	(1)/1
BRL	+/- 8%	0/0	(13)/15	(13)/15
NOK	+/- 2%	1/(1)	(1)/1	0/0
CNY	+/- 3%	3/(3)	(3)/3	0/0
CAD	+/- 3%	5/(5)	(5)/5	0/0

* The percentage change represents a reasonable possible change over two years.

Liquidity risk and funding

Liquidity risk is the risk that DLL will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that DLL might be unable to meet its payment obligations when they fall due under either normal or stress circumstances.

DLL applies a policy of matched-funding for liquidity risk based on currency and maturity profiles of assets and liabilities. This matched-funding policy requires DLL to fund all its portfolio assets with matched-funded sources, including borrowings, DLL's own equity (less intangibles), non-controlling interests and other working capital items such as deferred tax.

DLL has a waiver from DNB to meet regulatory liquidity requirements (such as the Net Stable Funding Ratio and Liquidity Coverage Ratio on a solo or consolidated basis). Therefore all regulatory reporting in this respect is done by Rabobank.

The limit set for the unmatched liquidity gap is 10% of portfolio assets. This limit is cascaded down to country level, where a limit of 1% is applied to the local unmatched liquidity gap. Group Treasury monitors country-level adherence and manages overall usage of the 10% limit. DLL's ALCO reviews the 10% usage on a monthly basis, the trend in usage over a period of 13 months, as well as country-level breaches.

Calculation of the 10% limit usage is based on contractual maturity of assets and liabilities, except for certain finance lease portfolios where expected maturity terms are applied. DLL uses historic termination information to identify finance lease portfolios with a consistent early termination pattern and calculates expected maturity terms using a minimum of three years' data. These expected maturity terms are approved by DLL's ALCO and reviewed annually.

Usage of the 10% limit on December 31, 2018 was on a maximum of 6.75% during a monthly time bucket over the forward looking maturity of the assets and liabilities (2017: 8.57%).

The current primary usage of the liquidity limit is the short-term commercial finance business, which is match-funded to expected maturity, but refinancing assumptions are calculated as utilizing the liquidity limit.

From a funding perspective, DLL aims to continue diversifying its funding base by expanding global securitization programs and attracting further funding from the multilateral development banks (MDBs), such as the National Bank for Economic and Social Development (BNDES) in Brazil and European Investment Bank (EIB) in Europe. DLL executed two asset backed securitization transactions in the U.S. in 2018, and is investigating other similar opportunities for the future. DLL will continue to attract funding from MDBs and will work to grow such funding opportunities both in new territories and by increasing facilities in existing countries.

EIB and BNDES funding are the only material funding contracts with covenants. Management monitors all contractual covenants from both a legal and a financial perspective. There were no breaches of covenants that impacted DLL's liquidity in either 2018 or 2017.

The table below reflects the carrying amounts of DLL's assets and liabilities at contractual maturities except for certain finance lease portfolios where DLL uses expected maturity. Loans within the consumer financing business (within due from customers) are categorized in >5 years. Assets and liabilities in disposal groups held for distribution are categorized at expected settlement (i.e., between 3-12 months). Assets and liabilities with maturities under one year are considered current in nature.

in millions of euros	Carrying amount	< 1 month	1 to 3 months	3 to 12 months	1 to 5 years	>5 years	No contractual maturity
As on December 31, 2018							
Assets							
Cash	399	399	-	-	-	-	-
Accounts receivable and other short-term assets	774	202	402	170	-	-	-
Derivatives	56	576	511	16	21	3	(1,071)
Due from banks	2,070	530	8	1,030	396	106	-
Due from customers	31,239	1,199	4,446	7,283	17,419	892	-
Fixed assets under operating lease	2,603	41	214	620	1,649	79	-
Goodwill and other intangible assets	83	-	-	-	-	-	83
Current tax receivable	115	-	-	-	-	-	115
Deferred tax asset	107	-	-	-	-	-	107
Other assets	199	-	-	-	-	-	199
Assets in disposal group	-	-	-	-	-	-	-
	37,645	**2,947**	**5,581**	**9,119**	**19,485**	**1,080**	**(567)**
Liabilities							
Short-term loans and overdrafts	(5,072)	(3,668)	(1,317)	(87)	-	-	-
Accounts payable and other short-term liabilities	(855)	-	(855)	-	-	-	-
Issued debt securities	(1,880)	(63)	(161)	(597)	(1,059)	-	-
Provisions	(96)	-	-	-	-	-	(96)
Derivatives	(79)	(579)	(515)	(16)	(17)	-	1,048
Long-term borrowings	(24,984)	(944)	(1,253)	(8,120)	(14,264)	(403)	-
Current tax payable	(24)	-	-	-	-	-	(24)
Deferred tax liability	(393)	-	-	-	-	-	(393)
Other liabilities	(331)	-	-	-	-	-	(331)
Liabilities in disposal group	-	-	-	-	-	-	-
	(33,714)	**(5,254)**	**(4,101)**	**(8,820)**	**(15,340)**	**(403)**	**204**
Liquidity gap	**3,931**	**(2,307)**	**1,480**	**299**	**4,145**	**677**	**(363)**

in millions of euros	Carrying amount	< 1 month	1 to 3 months	3 to 12 months	1 to 5 years	>5 years	No contractual maturity
As on December 31, 2017							
Assets							
Cash	362	362	-	-	-	-	-
Accounts receivable and other short-term assets	569	88	443	38	-	-	-
Derivatives	62	1	1	5	4	3	48
Due from banks	1,805	387	16	16	1,089	297	-
Due from customers	28,019	3,814	1,887	6,526	14,977	815	-
Fixed assets under operating lease	2,461	30	137	586	1,631	77	-
Goodwill and other intangible assets	99	-	-	-	-	-	99
Current tax receivable	101	-	-	-	-	-	101
Deferred tax asset	174	-	-	-	-	-	174
Other assets	189	-	-	-	-	-	189
Assets in disposal group	702	-	-	702	-	-	-
	34,543	**4,682**	**2,484**	**7,873**	**17,701**	**1,192**	**611**
Liabilities							
Short-term loans and overdrafts	(4,439)	(2,572)	(1,356)	(511)	-	-	-
Accounts payable and other short-term liabilities	(912)	-	(912)	-	-	-	-
Issued debt securities	(588)	(20)	(43)	(167)	(358)	-	-
Provisions	(90)	-	-	-	-	-	(90)
Derivatives	(71)	(4)	(4)	(10)	(14)	-	(39)
Long-term borrowings	(23,918)	(505)	(1,363)	(6,654)	(14,729)	(667)	-
Current tax payable	(17)	-	-	-	-	-	(17)
Deferred tax liability	(347)	-	-	-	-	-	(347)
Other liabilities	(147)	-	-	-	-	-	(147)
Liabilities in disposal group	(372)	-	-	(372)	-	-	-
	(30,901)	**(3,101)**	**(3,678)**	**(7,714)**	**(15,101)**	**(667)**	**(640)**
Liquidity gap	**3,642**	**1,581**	**(1,194)**	**159**	**2,600**	**525**	**(29)**

The table below summarizes the maturity profile of undiscounted contractual cash flows of DLL's financial liabilities. Cash flows from gross settled, non-trading derivatives are shown separately by their contractual maturity. Repayments subject to notice are treated as if notice were immediate.

in millions of euros	Total	On demand	< 3 months	3 to 12 months	1 to 5 years	>5 years
As on December 31, 2018						
Undiscounted financial liabilities						
Short-term loans and overdrafts	(5,078)	(3,672)	(1,319)	(87)	-	-
Accounts payable*	(696)	-	(696)	-	-	-
Issued debt securities	(1,958)	(69)	(169)	(629)	(1,091)	-
Long-term borrowings	(26,038)	(974)	(1,327)	(8,429)	(14,732)	(576)
	(33,770)	**(4,715)**	**(3,511)**	**(9,145)**	**(15,823)**	**(576)**
Non-trading gross settled derivatives						
Derivative assets						
Contractual amounts receivable	781	351	143	99	164	24
Contractual amounts payable	(728)	(346)	(136)	(82)	(143)	(21)
	53	**5**	**7**	**17**	**21**	**3**
Derivative liabilities						
Contractual amounts receivable	956	261	430	76	179	10
Contractual amounts payable	(1,033)	(272)	(442)	(102)	(210)	(7)
	(77)	**(11)**	**(12)**	**(26)**	**(31)**	**3**
	(33,794)	**(4,721)**	**(3,516)**	**(9,154)**	**(15,833)**	**(570)**

* The effects of discounting are immaterial and therefore aggregated cash flows approximate carrying amount.

in millions of euros	Total	On demand	< 3 months	3 to 12 months	1 to 5 years	>5 years
As on December 31, 2017						
Undiscounted financial liabilities						
Short-term loans and overdrafts	(4,441)	(2,574)	(1,357)	(510)	-	-
Accounts payable*	(761)	-	(761)	-	-	-
Issued debt securities	(630)	(22)	(45)	(176)	(387)	-
Long-term borrowings	(24,779)	(533)	(1,426)	(6,923)	(15,195)	(702)
Financial liabilities in disposal group*	(372)	-	-	(372)	-	-
	(30,983)	**(3,129)**	**(3,589)**	**(7,981)**	**(15,582)**	**(702)**
Non-trading gross settled derivatives						
Derivative assets						
Contractual amounts receivable	(684)	(563)	(346)	98	98	29
Contractual amounts payable	754	574	352	(90)	(60)	(22)
	70	**11**	**6**	**8**	**38**	**7**
Derivative liabilities						
Contractual amounts receivable	(930)	(827)	(336)	90	138	5
Contractual amounts payable	859	811	327	(110)	(163)	(6)
	(71)	**(16)**	**(9)**	**(20)**	**(25)**	**(1)**
	(30,984)	**(3,134)**	**(3,592)**	**(7,993)**	**(15,569)**	**(696)**

* The effects of discounting are immaterial and therefore aggregated cash flows approximate carrying amount.

Liquidity management of credit-related commitments

Undrawn loan commitments are assessed and managed by DLL at the earliest date they can be drawn down by customers. For DLL, this is largely on demand. For issued financial guarantee contracts, the maximum amount of the guarantee is managed at the earliest period in which the guarantee could be called, which is also on demand. Refer to note 1.3 for DLL's credit risk management of these credit-related commitments.

Other

4.1 Goodwill and other intangible assets

in millions of euros	Goodwill	Other	Total
Cost	75	165	240
Accumulated amortization and impairment	-	(141)	(141)
Carrying amount as on January 1, 2018	**75**	**24**	**99**
Acquisitions	-	4	4
Amortization	-	(17)	(17)
Net exchange differences	(3)	-	(3)
Cost	72	162	234
Accumulated amortization and impairment	-	(151)	(151)
Carrying amount as on December 31, 2018	**72**	**11**	**83**
Cost	77	161	238
Accumulated amortization and impairment	-	(123)	(123)
Carrying amount as on January 1, 2017	**77**	**38**	**115**
Acquisitions	-	5	5
Amortization	-	(18)	(18)
Net exchange differences	(2)	(1)	(3)
Carrying amount as on December 31, 2017	**75**	**24**	**99**

Goodwill is allocated to the lowest identifiable cash-generating unit (CGU). The goodwill of EUR 72 million relates to the acquisition of operations in the Nordics in 2006.

Goodwill impairment testing
Goodwill is tested for impairment annually by comparing the carrying amount of the CGU to which goodwill was allocated with the best estimate of that CGU's recoverable amount that is determined based on its value in use. A discounted cash flow (DCF) model is applied in order to calculate the value in use. The two key parameters in application of the DCF are the discount rate and the cash flow forecasts.

Discount rate
The pre-tax discount rate is used to determine the present value of forecasted cash flows in order to derive the value in use of the CGU. As on December 31, 2018, the discount rate applied by DLL was 5.31% (2017: 6.31%). The discount rate is determined using the capital asset pricing model (CAPM), with key inputs being:
- **Risk free rate**: 20-year (2017: 20-year) government bonds.
- **Beta**: an average across a selection of appropriate companies.
- **Equity market risk premium**: Publicly available research on market risk premiums prepared by external valuation experts.

Cash flow forecasts
For this purpose, the best estimate of the value in use is determined on the basis of a cash flow forecast as derived from DLL's annual planning cycle. The plans reflect management's best estimates of market conditions, market restrictions, growth in operations and other relevant factors. The cash flows are established through a bottom up process, where future profitability is determined by estimating profitability at vendor level. The results per business unit and country are then endorsed by DLL's Executive Board. Projections are made for a four year period. A terminal growth rate of 1.0% (2017: 1.0%) is applied for the periods into perpetuity.

Sensitivity analysis of assumptions
For the key parameters in the model, a sensitivity analysis is performed:
- **Discount rate**: The value in use equals the total of equity and goodwill invested (break-even point) when the discount rate is increased to 11.7% from the current 5.3% (2017: increased to 10.0% from the current 6.3%). This discount rate is reached when the 20-year government bond rate is 7.0% (2017: 5.0%). As of the goodwill testing date, the government bond was 1.0% (2017: 0.9%), indicating considerable headroom.
- **Terminal growth rate**: In an extreme case of a 0% terminal growth rate, the value in use is still above the carrying amount with a headroom of EUR 237 million (2017: EUR 111 million), resulting in no impairment.

Accounting policy for goodwill and other intangible assets
A. Goodwill
Consideration provided in a business combination in excess of the fair value of the identifiable net assets acquired is recognized as goodwill, subject to an assessment of its recoverability.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if there are indicators of impairment.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the DLL's CGUs, which are expected to benefit from the synergies of the combination. Each unit to which the goodwill is allocated represents the lowest level within DLL at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments. When subsidiaries are disposed, associated goodwill is written off against the net proceeds and included in the result from disposal that is recorded in the statement of profit or loss.

B. Other intangible assets
Other intangible assets comprise mainly purchased and self-developed software. Purchased software is recognized at cost when this can be reliably measured and it is probable that economic benefits will flow to DLL. Internally developed software is capitalized only if these are capable of being separated from DLL or arise from contractual or other legal rights. Internal development occurs in two phases: research (planning and investigation); and development (the application of this). DLL expenses research cost while it capitalizes development cost.

Following initial recognition, other intangible assets are amortized on a straight-line basis over their estimated useful lives and carried at cost less accumulated amortization and impairment losses. All other intangible assets are amortized over the definite useful economic life (ranging from 5 to 10 years and reviewed each year). Amortization of intangibles is included in other operating expenses. Other intangible assets are tested for impairment upon indication of impairment. Impairment losses are recognized immediately in profit or loss. Changes in the expected useful life or the expected future benefit related to the asset are accounted for prospectively.

4.2 Discontinued operations and disposal group held for sale

Profit from discontinued operations
The profit from discontinued operations comprised the following:

in millions of euros	2018	2017
Disposal group held for distribution: Financial Solutions		
Profit for the year	-	18
Profit for the year from discontinued operations	**-**	**18**

The intended disposals of DLL Hungary and DLL China were classified as disposal groups held for sale and not as discontinued operations as per December 31, 2017. Therefore, in accordance with IFRS 5, the results realized by these disposal groups were included in the profit of the year from continued operations. During 2018 it turned out that that the IFRS 5 criteria were no longer met as a sale was no longer highly probable. Consequently, DLL Hungary and DLL China are no longer classified as disposal groups held for sale. The Executive Board of DLL also decided that the DLL China portfolio will go in run down as from September 2018.

Disposal group held for distribution: Financial Solutions
On December 7, 2016 the Executive Board of DLL approved a transfer of DLL's Dutch non-vendor finance operations (Financial Solutions) to Coöperatieve Rabobank U.A., the parent of the Company. Financial Solutions includes primarily leasing, factoring, commercial and consumer finance to existing customers of Rabobank in the Netherlands. This transfer was planned in line with the DLL's strategy to focus on its core business –vendor finance.

On December 19, 2016, the transaction was approved by Rabobank's Executive Board, at which point DLL initiated the restructuring process. Accordingly, DLL classified the assets and liabilities of Financial Solutions as a disposal group held for distribution to its parent (and its operations as a discontinued operation) in its consolidated financial statements as on December 31, 2016. The DNB and the Authority Financials Markets approved the transaction on March 23 and March 27, 2017, respectively.

The transaction was completed on April 1, 2017, when the control over Financial Solutions was transferred to Rabobank. The agreed consideration of EUR 107 million was transferred on March 30, 2017, and approximated the carrying amount of the net assets as of the date of transfer, resulting in no material gain nor loss on transfer.

Disposal group held for sale: DLL Hungary
On November 15, DLL and Erste Group Bank AG (Erste Group) signed a memorandum of understanding aimed at establishing a Strategic Alliance Agreement (SAA) with respect to their vendor financing and leasing activities in Central and Eastern Europe. One of the countries in scope of this SAA is Hungary. Therefore this memorandum of understanding foresaw the transfer of DLL Hungary to Erste Group (or one of its affiliates). The transaction was expected to be finalized in in 2018 and was expected not to result in a gain or loss to be recognized by DLL. In 2018 DLL concluded a sale was no longer highly probable and the IFRS 5 requirements were no longer met. Consequently DLL Hungary is no longer included as disposal group held for sale as per December 31, 2018, which has no impact on equity or profit and loss.

Disposal group held for sale: DLL China
As of year-end 2017, the DLL operations in China met the requirements from IFRS 5 to be classified as disposal group held for sale. The carrying value of these operations was EUR 40 million higher than the estimated fair value and consequently an impairment was recognized within the other operating expenses. In March 2018 it was concluded that a sale is no longer considered as highly probable. Consequently DLL China is no longer included as disposal group held for sale as per December 31, 2018. The impairment of EUR 40 million was reversed in 2018, presented in other operating expenses. (refer to note 2.5).

4.3 Accounts receivable and other assets

in millions of euros	2018*	2017*
Accounts receivables and other short-term assets		
Prepayments	249	160
VAT to be claimed	131	96
Inventory	89	92
Accounts receivable	135	126
Fair value bond portfolio	170	95
	774	**569**
Other assets		
Fixed assets for own use	74	74
Investments in associates	24	24
Other	101	91
	199	**189**
Total other assets	**973**	**758**

* As on December 31

Inventory
Inventory represents assets for resale, which comprise equipment returned to DLL after related lease contracts have ended. These assets are remarketed by DLL in the short-term.

Prepayments and VAT represents non-interest bearing assets that are settled on a short term.

Accounts receivable
Accounts receivable represents non-interest bearing amounts due to DLL. Among others, these receivables relate to maintenance fees, warranties, and commissions.

Accounts receivable typically have a maturity of 30-90 days. On December 31, 2018, there were no material accounts receivable aged beyond 90 days (2017: none). Furthermore, due to the short-term nature of these accounts receivable their carrying amount is assumed to approximate their fair value.

Fair value bond portfolio

The fair value bond portfolio comprises of investments in U.S. money market funds and Dutch government bonds. The investments in Dutch bonds amount to EUR 78 million (2017: EUR 78 million) that are held by DLL in Sweden for the purpose of compliance with local regulatory liquidity requirements. This portfolio is measured using quoted market prices as of the reporting date (Level 1). Revaluation of these assets measured at fair value is recognized in a reserve in equity (via other comprehensive income). Investments in U.S. money market funds amount to EUR 92 million (level 1) (2017: EUR 17 million). These investments are held as part of the securitization transactions issued in 2017 and 2018. The funds invest in AAA rated instruments.

Fixed assets for own use

Fixed assets for own use represent land and buildings as well as office and other equipment used by DLL. DLL did not realize any gains or losses from the disposal of these assets during 2018. The table below presents key movements in the fixed assets balances:

in millions of euros	Land and buildings	Equipment	Total
Cost	86	93	179
Accumulated depreciation and impairment	(45)	(60)	(105)
Carrying amount at January 1, 2018	**41**	**33**	**74**
Purchases	-	9	9
Disposals	-	(1)	(1)
Depreciation	(2)	(8)	(10)
Net exchange differences	2	-	2
Disposal of a subsidiary	-	-	-
Cost	86	100	186
Accumulated depreciation	(45)	(67)	(112)
Carrying amount at December 31, 2018	**41**	**33**	**74**
Cost	101	99	200
Accumulated depreciation and impairment	(52)	(65)	(117)
Carrying amount at January 1, 2017	**49**	**34**	**83**
Purchases	2	10	12
Disposals	(3)	-	(3)
Depreciation	(4)	(9)	(13)
Net exchange differences	(3)	(1)	(4)
Disposal of a subsidiary	-	(1)	(1)
Carrying amount at December 31, 2017	**41**	**33**	**74**

Investments in associates

Investments in associates represent interests held in various European leasing entities where DLL exhibits significant influence but does not control the entity nor is entitled to significant economic benefits or risk associated with this ownership. The share of profit of associates attributable to DLL is included in other income.

Other assets

These mainly consist of capitalized bonuses, commissions, and non-lease receivables related to operating lease contracts (warranties, maintenance).

Accounting policy for accounts receivable

Accounts receivable are recognized for services performed by DLL or goods transferred, for which DLL has not yet received payment for the revenues earned. They are carried at amortized cost, which approximates the nominal value due to its short-term nature.

Accounting policy for prepayments and VAT

Prepayments and VAT are carried at nominal value due to its short-term nature.

Accounting policy for inventory

Inventory is valued at the lower of cost and net realizable value (nrv). The cost is determined as the net book value of a respective asset when this asset is returned to DLL after the related lease contract has ended, minus the estimated selling price in the ordinary course of remarketing, less estimated selling costs.

Accounting policy for bond portfolio measured at fair value

Financial assets measured at fair value include government bonds and U.S. money market funds that are held to meet liquidity requirements in a regulated subsidiary of DLL.

At fair value measured financial assets are presented at fair value in the balance sheet. Unrealized gains or losses are recognized in other comprehensive income and adjusted in the fair value reserve until such time that the investment is derecognized. When the investment is derecognized, the cumulative gain or loss is recognized in gains/ (losses) from financial instruments in profit or loss. Interest earned while holding fair value financial assets is reported as interest income using effective interest rate (EIR) method. Refer to note 4.10 for description of the EIR method.

Accounting policy for fixed assets for own use

All items classified as fixed assets for own use in the statement of financial position are initially measured at cost. After initial recognition, these are carried at historical cost less accumulated depreciation. Subsequent costs are only capitalized when future economic benefits are increased, probable, and can be measured reliably.

Depreciation is calculated on the straight-line basis over the estimated useful life to the estimated residual value, as follows:

Type of asset	Years
Land	Indefinite
Own buildings	40 years
Equipment	5-20 years

An item of fixed assets for own use is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized.

The residual values, useful lives, and method of depreciation are reviewed regularly, and at least at each financial year-end. These are adjusted prospectively, if necessary.

Accounting policy for investments in associates
Investments in associates are accounted using the equity method of accounting.

4.4 Accounts payable and other liabilities

in millions of euros	2018*	2017*
Accounts payable and other short-term liabilities		
Accounts payable	696	761
Accrued expenses	102	97
VAT payable	57	54
	855	**912**
Other liabilities		
Deferred income	118	86
Net defined benefit plan liability	26	25
Other	187	36
	331	**147**
Total other liabilities	**1,186**	**1,059**

* As on December 31

Accounts payable
Accounts payables are non-interest bearing short-term obligations due from DLL, that and are normally settled on 60-day terms. Furthermore, due to the short-term nature of these accounts payable, their carrying amount approximates their fair value. Furthermore, it was identified that an amount of EUR 75 million is erroneously classified as accounts payable in the statement of financial position 2017, as given its nature it meets the criteria of other liabilities. As from 2018 these liabilities are classified as other liabilities and the comparable information 2017 has not been adjusted. This matter has no impact on income nor equity.

Net defined benefit plan liabilities
A defined benefit pension plan is a retirement plan that defines an amount of pension benefit an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service, and salary.

DLL operates two defined benefit pension plans in UK and in Sweden:

in millions of euros	2018*	2017*
DLL UK		
Plan assets	10	11
Plan liabilities	(20)	(22)
Net defined benefit plan liability	(10)	(11)
DLL Sweden		
Net defined benefit plan liability	(16)	(14)
Total net defined benefit plans liabilities	(26)	(25)

* As on December 31

DLL UK
The defined benefit plan in the UK requires contributions to be made to a fund in which both DLL Leasing Limited and Rabobank London Branch participate. The fund is closed to new members and is therefore a run off scheme with no active members, only deferred members and retired members at December 31, 2018. DLL has a constructive obligation to fund any deficits on the plan in relation to its (former) staff.

DLL Sweden
Unlike the UK defined benefit plan, the defined benefit plan in Sweden is an unfunded plan. However, the fund administrator of DLL Sweden's defined benefit plan issues credit insurance against which employee pensions are secured. Employees will therefore receive their pensions regardless of the financial position of DLL Sweden.

In 2018 and in 2017 there were no material changes to underlying assumptions.

Both defined benefit plans demonstrated no material sensitivity to a reasonably possible change in the key underlying assumptions (discount rate, income increase, inflation rate and mortality) on December 31, 2018 (nor on December 31, 2017).

Valuation of net defined benefit liabilities
The value of a defined benefit pension liability is determined through a full actuarial valuation by a qualified independent actuary. This valuation, performed annually, involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. These assumptions are developed by a qualified independent actuary and validated by the management of DLL Sweden (for DLL Sweden pension plan) or the management of Rabobank London Branch (for the DLL UK pension plan). Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Accounts payable and other liabilities

These mainly consist of wage tax and Social Security to be paid and accrued expenses related to rental of buildings, external service providers, and pensions.

Accounting policy for accounts payable

Accounts payable are recognized for services consumed by DLL or goods received, for which DLL has not yet paid. They are carried at amortized cost, which approximates the nominal value due to its short-term nature.

Accounting policy for net defined benefit plan liabilities

- The cost of providing benefits is determined separately for each plan using the projected unit credit method.
- Plan assets (only applicable to DLL UK) are measured at fair value at balance sheet date.
- Remeasurements comprise actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability), and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability). Remeasurements are recognized immediately in the statement of financial position with a corresponding adjustment to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.
- Net interest income/expense is calculated by applying the discount rate to the net defined benefit liability or asset and is recognized directly in profit or loss in other interest income/expense as appropriate.
- Service costs – comprise current service costs, past-service costs, gains and losses on curtailments, and non-routine settlements recognized directly in profit or loss in staff expenses.

4.5 Provisions

in millions of euros	2018*	2017*
Provision for restructuring	12	7
Provision for tax and legal claims	16	23
Other provisions	-	-
	28	**30**
Insurance related provisions	68	60
Total provisions	**96**	**90**

* As on December 31

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Provision for restructuring

Provisions for restructuring consists of future payments relating to redundancy and other costs directly attributable to a reorganization program. The outflow is expected to occur in 2019. Staff are notified before any provision for restructuring is created.

Provision for tax and legal claims

Legal claims contain provisions related to legal claims against DLL. This provision is based on the best possible estimates of the outcomes that take into account legal advice received where available. The timing of the cash outflow of these provisions is uncertain because the outcome of the disputes and the time involved are complex to reasonably predict. Fines and interest charged by tax authorities are included in the provision for tax claims if the outflow is probable.

Changes in provisions (other than insurance provisions, which are presented separately below) were as follows:

in millions of euros	Provision for restructuring	Provision for tax and legal claims	Other provisions	Total
As on January 1, 2018	7	23	-	30
Added	10	4	-	14
Released	-	(4)	-	(4)
Utilized	(5)	(4)	-	(9)
Net exchange differences	-	(3)	-	(3)
As on December 31, 2018	**12**	**16**	**-**	**28**
As on January 1, 2017	15	26	4	45
Added	-	3	11	14
Released	(4)	(1)	(1)	(6)
Utilized	(4)	(3)	(14)	(21)
Net exchange differences	-	(2)	-	(2)
As on December 31, 2017	**7**	**23**	**-**	**30**

Insurance-related provisions

Insurance-related provisions include unearned reinsurance premium reserve and loss reserves (outstanding loss reserve and reserve for incurred but not reported losses, or IBNR reserve). These reserves arise from reinsurance activities carried out by DLL through its subsidiary DLL RE Designated Activity Company in Ireland (DLL RE). These reinsurance activities are limited to providing reinsurance coverage to insurance companies related to insured property, personal accident, and liability risks associated with assets that DLL finances to its customers.

DLL RE operates as a non-life reinsurance business, reinsuring programs underwritten by insurance companies insuring risks related to assets, leases, and financing provided by DLL, its subsidiaries and its vendor partners.

Insurance related provisions comprised:

in millions of euros	2018*	2017*
Unearned premium reserve	46	37
Loss reserves	22	23
Total insurance related provisions	**68**	**60**

* As on December 31

The analysis of the remaining maturity of the insurance related provisions is included in the note 3.7.

Over 52% (2017: over 55%) of total premiums written are related to reinsurance of physical damage of motor vehicles (predominantly agricultural equipment).

Changes in insurance related provisions are presented below:

in millions of euros	2018*	2017*
Unearned premium reserve		
Opening balance	37	40
Premiums written	23	20
Premiums earned	(16)	(16)
Net exchange differences	2	(7)
Closing balance	**46**	**37**
Loss reserve		
Opening balance	23	21
Movement in provision	(1)	3
Net exchange differences	-	(1)
Closing balance	**22**	**23**

* As on December 31

The total amount of premiums written by DLL RE was EUR 23 million (2017: EUR 20 million) net of movements in unearned premium reserve, loss reserves as detailed above and total amount of claims paid of EUR 10 million (2017: EUR 8 million) is included in other income.

Insurance risk management
The DLL RE business assumes risk of losses from persons or organizations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. DLL RE manages the insurance risk through underwriting limits, approval procedures and limits for transactions that involve new products or that exceed those limits, pricing guidelines, centralized management of reinsurance and monitoring of emerging issues.

Underwriting risk is the key risk involved in DLL RE's reinsurance business. Underwriting risk is the risk that DLL RE does not charge premiums appropriate for the portfolio it reinsures. As part of its underwriting procedures, DLL RE undertakes careful and extensive analysis, taking external advice where necessary, before final approval by the DLL RE Risk committee or Board.

The DLL's underwriting strategy it to provide insurance products associated with the DLL's existing business operations, adding value to the Group. Primary opportunities are set out in the DLL RE business plan, which outlines the classes of business to be written and respective territories. DLL RE currently does not retrocede any of its risks to third parties.

The principal assumptions underlying the DLL RE reserving policy are based on the probability that the expected future claims, in frequency and severity, shall be met by the claims liabilities provided. The provisions for outstanding claims and unexpired risks are established accordingly. DLL uses actuarial techniques for calculating loss reserves.

Accounting policy for provisions
Provisions other than insurance-related are recognized when DLL has a legal or constructive obligation and future cash outflows associated with settlement of that obligation are probable and can be estimated. Expense relating to provisions is recorded in the profit or loss. Provisions for legal claims, service warranties and make good obligations are recognized when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Insurance related provisions
Unearned premium reserve comprises the part of the gross reinsurance premiums written, which is to be allocated to the current financial period. The change in this reserve is taken to the statement of profit or loss as recognition of revenue over the period of risk.

Loss reserves include the outstanding claims provision and reserve for identified but not yet reported (IBNR) losses. The outstanding claims provision represent the estimated ultimate cost of settling all claims arising from events that have occurred up to the reporting date and have been identified by DLL. The IBNR reserve represents an estimate of loss and claims adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern. This pattern is used to estimate IBNR amounts and the timing of those amounts for financial statement purposes.

4.6 Related party transactions

DLL identified the following related parties:

Parent company
The immediate and ultimate parent of DLL is Coöperatieve Rabobank U.A. (refer to Section A, for further details).

Companies under common control
All companies that are controlled by the Rabobank group.

Associates
DLL has investments in other entities that it does not control but exercises significant influence over (associates). Refer to note 4.3 for further details.

Key management personnel
Key management personnel of DLL comprise members of DLL's Executive Board and members of DLL's Supervisory Board.

Defined benefit pension funds
DLL's post-employment benefit plans for its employees are administered through the following separate pension funds in the UK and Sweden, respectively:
– Rabobank London Branch Pension Fund
– PRI Pensionsgaranti

From time to time DLL enters into transactions with its related parties. All related party transactions were made at arm's length on normal commercial terms and conditions and at market rates. Information about such transactions and associated balances, income and expenses are disclosed in these financial statements as follows:

Related party and type of transaction	Note
Rabobank and members of Rabobank group	
Borrowings	3.2
Associated interest expenses	2.1
Disposal group held for distribution	4.2
Derivatives	3.4
Associated gains and losses	2.2
Due from banks	3.5
Associated interest income	2.1
Issued debt securities*	3.3
Cash and cash equivalents	3.6
Administrative cost from the parent	2.5
Net defined benefit liability	4.4
Associates	
Investment in associates	4.3
Share of profit or loss of associates	4.3
Key management personnel of DLL	
Short- and long-term benefits and other remuneration	2.4

* Interest expenses associated with debt securities issued to related parties are not material.

DLL does not issue commitments to its related parties.

4.7 Commitments and contingencies

Commitments
Financial guarantees and undrawn irrevocable credit facilities
To meet the financial needs of customers, DLL enters into various revocable and irrevocable commitments in the ordinary course of conducting its business. These commitments include financial guarantees and commitments to provide financing to customers. Even though these obligations are not recognized on the balance sheet, DLL is exposed to credit risk on these instruments and therefore includes them in its credit risk management process (refer to note 1.3). Given that these instruments can lead to a cash outflow, they are included in the liquidity management purposes framework of DLL (refer to note 3.7).

Intra-group mutual keep well system
DLL was part of an intra-group mutual keep well system as described in note i Corporate Information, under which all the participating entities are bound, in the event of a lack of funds of a participating entity to satisfy its creditors, to provide the funds necessary to allow the deficient participant to satisfy its creditors. This system was terminated on December 8, 2018.

DLL does not have any other material commitments from contractual arrangements or constructive obligations.

Contingencies
Legal claims
DLL is involved in various litigation, arbitration, and regulatory proceedings, both in the Netherlands and in other jurisdictions in the ordinary course of its business. DLL has formal controls and policies for managing legal claims. Based on professional legal advice, DLL provides and/or discloses amounts in accordance with its accounting policies described below.

On December 31, 2018, DLL had no material unresolved legal claims and disputes (2017: none), where a negative outcome and a respective cash outflow was possible (the probability is higher than 'remote' but lower than 'probable'). For legal claims with a probable negative outcome, leading to a probable cash outflow in the future, DLL recognized provisions on its statement of financial position; refer to note 4.5.

Accounting policy for contingencies
Where the probability of outflow is considered to be higher than remote, a contingent liability is disclosed. However, in the event DLL is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then DLL does not include detailed, case-specific disclosures.

Contingent liabilities disclosed by DLL are assessed continually to determine whether an outflow of funds was probable, in which case a provision is recognized in the financial statements of the period in which the change in probability occurs.

4.8 Group structure

The consolidated financial statements of DLL include the following key legal operating entities as on December 31, 2018. There were no changes to the group structure in the key operating entities compared to prior year.

Country of incorporation	Entity name	Principal activities	% equity interest December 31, 2018
Australia	De Lage Landen Pty Limited	Vendor financing	100
Brazil	Banco De Lage Landen Brasil S.A.	Vendor financing	77.5
Canada	De Lage Landen Commercial Finance Inc.	Vendor financing	100
Canada	De Lage Landen Financial Services Canada Inc.	Vendor financing	100
France	AGCO Finance S.N.C.	Vendor financing	51
Germany	De Lage Landen Leasing GmbH	Vendor financing	100
Ireland	DLL Ireland DAC	Treasury entity	100
The Netherlands	De Lage Landen Vendorlease B.V.	Vendor financing	100
Sweden	De Lage Landen Finans AB	Vendor financing	100
United Kingdom	De Lage Landen Leasing Limited	Vendor financing	100
United States of America	De Lage Landen Financial Services, Inc.	Vendor financing	100
United States of America	DLL Finance LLC	Vendor financing	100
United States of America	AGCO Finance LLC	Vendor financing	51

Principal subsidiaries in which third parties have non-controlling interest (NCI) are listed below:

in millions of euros		2018*				2017*			
Group entity	Country	%	Dividends paid to NCI	NCI Equity Stake	Profit allocated to NCI	%	Dividends paid to NCI	NCI Equity Stake	Profit allocated to NCI
Individually material for the Group:									
AGCO Finance S.N.C.	France	49%	2	106	8	49%	5	97	7
AGCO Finance LLC	USA	49%	2	50	5	49%	16	47	3
De Lage Landen Participações Limitada	Brazil	22%	1	58	5	25%	3	67	9
AGCO Finance GmbH	Germany	49%	6	47	3	49%	5	49	4
AGCO Finance Canada, Ltd	Canada	49%	2	12	2	49%	29	12	4
Philips Medical Capital, LLC	USA	40%	7	25	8	40%	7	24	8
Cargobull Finance Holding B.V.	The Netherlands	49%	22	60	7	49%	-	75	7
Mahindra Finance USA LLC	USA	49%	-	50	6	49%	-	42	4
Other individually immaterial non-controlling interest			14	65	16		13	57	8
Total			**56**	**473**	**60**		**78**	**470**	**54**

* As on December 31

Summarized financial information of subsidiaries that have material non-controlling interest is provided below:

Summarized statement of financial position for AGCO Finance S.N.C.:

in millions of euros	2018*	2017*
Assets		
Due from customers	1,391	1,270
Other assets	207	192
Total assets	**1,598**	**1,462**
Liabilities		
Borrowings	1,348	1,237
Other liabilities	33	26
Total liabilities	**1,381**	**1,263**
Net assets	**217**	**199**
Non-controlling interest share of net assets	**106**	**97**

* As on December 31

Summarized profit or loss and other comprehensive income for AGCO Finance S.N.C.:

in millions of euros	2018	2017
Interest income from customers	41	43
Profit/(loss) for the year	16	14
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**8**	**7**

Summarized statement of financial position for AGCO Finance LLC:

in millions of euros	2018*	2017*
Assets		
Due from customers	1,243	1,782
Other assets	251	103
Total assets	**1,494**	**1,885**
Liabilities		
Borrowings	1,327	1,746
Other liabilities	64	43
Total liabilities	**1,391**	**1,789**
Net assets	**103**	**96**
Non-controlling interest share of net assets	**50**	**47**

* As on December 31

Summarized profit or loss and other comprehensive income for AGCO Finance LLC:

in millions of euros	2018	2017
Interest income from customers	67	82
Profit/(loss) for the year	10	7
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**5**	**3**

Summarized statement of financial position for DLL Participações Limitada:

in millions of euros	2018*	2017*
Assets		
Due from customers	1,163	1,195
Other assets	66	122
Total assets	**1,229**	**1,317**
Liabilities		
Borrowings	981	1,047
Other liabilities	18	25
Total liabilities	**999**	**1,072**
Net assets	**230**	**245**
Non-controlling interest share of net assets	**58**	**67**

* As on December 31

Summarized profit or loss and other comprehensive income for DLL Participações Limitada:

in millions of euros	2018	2017
Interest income from customers	92	94
Profit/(loss) for the year	19	21
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**5**	**9**

Summarized statement of financial position for AGCO Finance GmbH:

in millions of euros	2018*	2017*
Assets		
Due from customers	532	894
Other assets	89	109
Total assets	**621**	**1,003**
Liabilities		
Borrowings	524	885
Other liabilities	2	17
Total liabilities	**526**	**902**
Net assets	**95**	**101**
Non-controlling interest share of net assets	**47**	**49**

* As on December 31

Summarized profit or loss and other comprehensive income for AGCO Finance GmbH:

in millions of euros	2018	2017
Interest income from customers	23	29
Profit/(loss) for the year	6	8
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**3**	**4**

Summarized statement of financial position for AGCO Finance Canada, Ltd:

in millions of euros	2018*	2017*
Assets		
Due from customers	442	469
Other assets	52	35
Total assets	**494**	**504**
Liabilities		
Borrowings	450	438
Other liabilities	19	43
Total liabilities	**469**	**481**
Net assets	**25**	**23**
Non-controlling interest share of net assets	**12**	**12**

* As on December 31

Summarized profit or loss and other comprehensive income for AGCO Finance Canada, Ltd:

in millions of euros	2018	2017
Interest income from customers	23	22
Profit/(loss) for the year	5	8
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**2**	**4**

Summarized statement of financial position for Philips Medical Capital, LLC:

in millions of euros	2018*	2017*
Assets		
Due from customers	432	394
Other assets	80	78
Total assets	**512**	**472**
Liabilities		
Borrowings	426	397
Other liabilities	23	15
Total liabilities	**449**	**412**
Net assets	**63**	**60**
Non-controlling interest share of net assets	**25**	**24**

* As on December 31

Summarized profit or loss and other comprehensive income for Philips Medical Capital, LLC:

in millions of euros	2018	2017
Interest income from customers	23	23
Profit/(loss) for the year	19	20
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**8**	**8**

Summarized statement of financial position for Cargobull Finance Holding B.V.:

in millions of euros	2018*	2017*
Assets		
Due from customers	655	608
Other assets	191	246
Total assets	**846**	**854**
Liabilities		
Borrowings	700	672
Other liabilities	23	29
Total liabilities	**723**	**701**
Net assets	**123**	**153**
Non-controlling interest share of net assets	**60**	**75**

* As on December 31

Summarized profit or loss and other comprehensive income for Cargobull Finance Holding B.V.:

in millions of euros	2018	2017
Interest income from customers	24	23
Profit/(loss) for the year	14	14
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**7**	**7**

Summarized statement of financial position for Mahindra Finance USA LLC:

in millions of euros	2018*	2017*
Assets		
Due from customers	921	837
Other assets	13	10
Total assets	**934**	**847**
Liabilities		
Borrowings	822	760
Other liabilities	9	2
Total liabilities	**831**	**762**
Net assets	**103**	**85**
Non-controlling interest share of net assets	**50**	**42**

* As on December 31

Summarized profit or loss and other comprehensive income for Mahindra Finance USA LLC:

in millions of euros	2018	2017
Interest income from customers	53	45
Profit/(loss) for the year	12	8
Other comprehensive income	-	-
Profit allocated to non-controlling interest	**6**	**4**

4.9 Country-by-country reporting

DLL is active across over 30 countries, grouped in five main geographical areas. The country of domicile of DLL is the Netherlands. The table below includes specific information for each country, with allocation per country based on the location of the relevant subsidiary from which the transactions are initiated. The activities for all countries are leasing, except for Ireland, where DLL's central Treasury is located. When completing the table, the guidance of and definitions from the OECD/G20 Base Erosion and Profit Shifting Project on country-by-country reporting are applied.

December 31, 2018 (in millions of euros)				
Geographic location				
Country	Revenues	Average number of FTEs	Profit/(loss) before tax	Income taxes
The Netherlands				
The Netherlands	9.4	844	(104.9)	32.6
Rest of Europe				
Germany	90.4	292	35.3	(11.7)
France	62.6	134	27.4	(1.4)
Ireland	95.6	73	81.9	(10.0)
United Kingdom	81.7	219	40.5	(6.8)
Spain	28.8	118	10.2	(3.0)
Italy	59.1	128	29.0	(2.8)
Portugal	4.4	19	1.3	(0.4)
Austria	2.2	3	0.8	(0.2)
Switzerland	3.8	6	2.0	(0.4)
Sweden	32.5	143	9.4	(2.0)
Norway	18.0	39	6.7	(1.6)
Finland	6.1	10	2.3	(0.5)
Denmark	15.4	27	6.2	(1.4)
Russia	23.5	64	20.0	(3.6)
Poland	18.1	86	6.7	(1.7)
Hungary	6.5	41	1.7	(0.2)
Turkey	4.7	23	1.9	(0.2)
Belgium	16.6	56	5.4	(1.6)
Romania	0.3	3	0.1	0.0
North America				
United States	505.1	1,425	211.8	(42.4)
Canada	75.4	195	44.6	(11.8)
Latin America				
Brazil	63.4	212	34.7	(15.4)
Argentina	2.6	19	(1.9)	0.6
Mexico	13.0	64	4.8	(1.4)
Chile	6.3	32	1.2	0.0
Asia Pacific				
Australia	49.6	129	18.7	(5.6)
New Zealand	11.4	5	4.5	(1.3)
China	20.7	69	(0.2)	(5.0)
India	8.4	370	(6.1)	0.0
Singapore	3.2	19	0.7	0.0
South Korea	6.4	22	1.9	(0.4)
United Arab Emirates	0.1	2	(0.4)	0.0

December 31, 2017 (in millions of euros)				
Geographic location				
Country	Revenues	Average number of FTEs	Profit/(loss) before tax	Income taxes
The Netherlands				
The Netherlands	75.0	881	(24.9)	13.5
Rest of Europe				
Germany	83.5	273	35.4	(11.3)
France	62.4	131	34.1	(4.2)
Ireland	86.9	66	122.6	(16.2)
United Kingdom	78.4	214	39.9	(8.1)
Spain	24.0	109	9.9	(2.3)
Italy	55.6	118	30.8	(5.2)
Portugal	3.5	16	1.1	(0.1)
Austria	1.9	2	1.2	(0.3)
Switzerland	3.6	6	1.6	(0.4)
Sweden	30.0	140	2.9	(0.6)
Norway	16.1	34	6.5	(1.5)
Finland	5.0	8	2.4	(0.4)
Denmark	15.0	25	6.5	(1.1)
Russia	20.2	60	4.2	(3.0)
Poland	16.6	89	9.7	(0.4)
Hungary	6.4	37	1.9	(0.1)
Turkey	4.6	26	1.3	0.0
Belgium	15.2	52	7.1	(2.4)
Romania	0.4	3	0.2	0.0
North America				
United States	507.1	1,363	160.6	148.0
Canada	79.4	195	44.8	(11.3)
Latin America				
Brazil	77.6	206	45.5	(16.3)
Argentina	2.6	12	1.0	(0.3)
Mexico	11.5	62	5.2	(1.5)
Chile	5.7	28	1.5	0.0
Asia Pacific				
Australia	52.2	117	22.3	(6.4)
New Zealand	10.3	4	5.3	(1.5)
China	23.1	97	(37.8)	(0.4)
India	6.2	156	(5.2)	0.0
Singapore	3.4	21	1.4	0.0
South Korea	6.9	25	2.1	(0.1)
United Arab Emirates	(0.1)	1	(0.6)	0.0

4.10 Other significant accounting policies

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of DLL is the euro, which is also the presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in profit or loss. They are presented on a net basis within gains/(losses) from financial instruments, except for translation differences on assets and liabilities carried at fair value, which are reported as part of the respective fair value gain or loss.

Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (if this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, then income and expenses are translated at the dates of the transactions), and;
- All resulting exchange differences are recognized in other comprehensive income (within the FCTR).

When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Fair value measurement

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the item, or in case of absence of a principle market, in the most advantageous market for the item.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. The levels are defined as follows, based on the lowest level input significant to the measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is (in) directly observable.
- Level 3 – Valuation techniques for which the lowest level of input that is significant to the fair value is unobservable.

When fair values cannot be measured based on quoted prices in active markets, they are measured using valuation techniques including discounted cash flow models. Inputs to these models are taken from observable markets wherever possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

All fair values disclosed in these financial statements are recurring fair values, except when otherwise indicated.

Financial instruments recognition date

Financial assets and liabilities should be recognized either at trade date (the date that DLL committed itself to buy/sell an asset) or settlement date (the date on which the asset is actually delivered). All instruments that are measured at amortized cost are recognized by DLL at settlement date. Instruments that are measured at fair value are recognized at trade date.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts though the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the EIR, DLL estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the EIR, transaction costs, and all other premiums and discount.

4.11 IFRS standards issued but not yet effective

The below Standards and Amendments have been issued by the International Accounting Standards Board but are yet not effective. DLL has elected not to early-adopt these Standards and Amendments.

	Standard	Issue date	Effective date	Expected effects
New standards	IFRS 16 leases	January 13, 2016	January 1, 2019	Lessees will, in principle, recognize all leases on their balance sheet as right-of-use asset (including operating lease assets) with the corresponding lease liability (for finance lease as well as operating leases). DLL expects that this standard will not have significant impact on the Company's financial position. DLL will implement the standard as per effective date.
	IFRIC 23 Uncertain Tax positions	June 7, 2017	January 1, 2019	This new Standard establishes a comprehensive framework for determining when to recognize uncertainty over income tax treatments. The new Standard will not have a significant impact on the Company's income tax positions. DLL will implement the standard as per effective date.
	IFRS 17 Insurance contracts	May 2017	January 1, 2021*	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The impact of this standard is for DLL to be implemented on January 1, 2021. The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 and IFRS 17 until January 1, 2021. The effect of such a deferral is that the entities concerned may continue to report under IAS 39 Financial Instruments: Recognition and Measurement. DLL RE as consolidated by DLL will make use of the exemption for IFRS 17 until the January 1, 2021.
Amendments	IAS 19 Employee benefits	February 7, 2018	January 1, 2019	The amendments require a company to use the updated assumptions from remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. DLL will implement the standard as per effective date. The impact on profit and equity is not material.

C1 – List of acronyms

AFS	Available-for-sale
AGCO	AGCO Finance
ALCO	Asset and Liability Committee
CC	Corporate Center and other business
CGU	Cash Generating Unit
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CT&I	Construction, Transportation and Industrial segment
DCF	Discounted Cash Flow
DLL	De Lage Landen International B.V.
DNB	De Nederlandsche Bank/Dutch Central Bank
DRN	Deferred Remuneration Note
EAD	Exposure at default
EB	Executive Board
EIR	Effective Interest Rate
F&A	Food and Agriculture segment
FCTR	Foreign Currency Translation Reserve
FTEs	Full-Time Equivalent
GBU	Global Business Unit
GCC	Global Credit Committee
GRC	Global Risk Committee
HC&CT	Health Care & Clean Tech segment
EatR	Earnings at Risk
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
IFRS	International Financial Reporting Standards
LCC	Local Credit Committee
LGD	Loss given default
MTPL	Motor Third Party Liability
NCI	Non-controlling interest
NRV	Net Realizable Value
OT	Office Technology segment
PD	Probability of default
PwC	PricewaterhouseCoopers Accountants N.V.
RC	Rabobank Certificate
RRR	Rabobank Risk Rating
S&P	Standard & Poor's
SPV	Special purpose vehicle
SREP	Supervisory Review and Evaluation Process

Company
financial statements

Contents

Company statement of **financial position**

(before profit appropriation) as on December 31

in millions of euros	Notes	2018	2017
Assets			
Cash	2	264	413
Loans to banks	3	1,549	1,344
Loans to subsidiaries	4	1,321	956
Due from customers	5	3,314	2,431
Derivatives	6	8	12
Investments in subsidiaries	7	4,736	4,449
Investments in associates	8	24	24
Goodwill and other intangible assets	9	11	23
Tangible fixed assets	10	81	71
Other assets	11	1,549	1,412
Total assets		**12,857**	**11,135**
Liabilities			
Borrowings	12	9,074	7,655
Security deposits from customers		4	1
Derivatives	6	4	3
Other liabilities	13	311	298
Provisions	14	6	6
Total liabilities		**9,399**	**7,963**
Equity			
Share capital	18	98	98
Share premium	18	1,135	1,135
Revaluation reserves	18	123	177
Legal and statutory reserves	18	(51)	(80)
Other reserves	18	1,833	1,290
Unappropriated result	18	320	552
Total equity		**3,458**	**3,172**
Total liabilities and equity		**12,857**	**11,135**

Company statement of **profit or loss**

for the year ended December 31

in millions of euros	Notes	2018	2017
Interest revenue	15	112	104
Interest expenses	15	(87)	(75)
Fee income		25	21
Fee expenses		(3)	(9)
Gains/(losses) from financial instruments		-	(24)
Other operating income	16	103	168
Total operating income		**150**	**185**
Result from subsidiaries		**418**	**554**
Staff expenses	17	(127)	(118)
Depreciation, amortization and impairment of fixed and intangible assets	9/10	(29)	(29)
Other operating expenses	18	(101)	(50)
Credit losses ondue from customers		(18)	(6)
Total operating expenses		**(275)**	**(203)**
Profit before tax		**293**	**536**
Tax income		27	16
Profit after tax		**320**	**552**

Notes to the **company financial statements**

1. General

These company financial statements, are prepared for De Lage Landen International B.V. (DLL, KvK 17056223 0000, seated in Eindhoven) for the year ended December 31, 2018, pursuant to the provision in Part 9, Book 2, of the Dutch Civil Code. In these company financial statements DLL applied the accounting policies it used in its consolidated financial statements prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, pursuant to the provisions of Article 362, sub 8, Part 9, Book 2 of the Dutch Civil Code. DLL is a wholly owned subsidiary of Coöperatieve Rabobank U.A. (Rabobank), a Dutch cooperative bank based in Amsterdam, the Netherlands. As such, DLL is part of the Rabobank Group. Included in these Company Financial Statements in the balance sheet and the profit and loss account are the branches in Italy, Germany, Spain and Portugal.

The accounting policies set out in preparing the DLL consolidated financial statements for the year ended December 31, 2018, are also applied in these company financial statements. Accordingly, in certain notes to these company financial statements reference is made to the notes to the consolidated financial statements. The model used for the income statement and the company statement of financial position is not fully in accordance with the 'Besluit modellen jaarrekening'. DLL is of the opinion that the model used provides a better insight.

DLL has a banking license in the Netherlands since 1988 and is regulated by the European Central Bank and the Dutch Central Bank (De Nederlandsche Bank or DNB).

Cross-guarantee system

Under the Dutch Financial Supervision Act various legal entities owned by Rabobank, including DLL and three of its former subsidiaries were jointly and severally liable under an internal intra-group mutual keep well arrangement. Following approval by the Dutch Central Bank, this cross-guarantee system (a remnant of the previous cooperative structure of Rabobank Group) was terminated on December 11, 2018. There are no outstanding, residual and/or contingent liabilities on this arrangement.

Up until the system's termination on December 11, 2018, the remaining participants were:

- Coöperatieve Rabobank U.A.
- De Lage Landen International B.V.
- Rabo Factoring B.V. (previously named De Lage Landen Trade Finance B.V.)
- Rabo Lease B.V. (previously named De Lage Landen Financial Services B.V.)
- Rabo Direct Financiering B.V. (previously named De Lage Landen Financiering B.V.)

Pursuant to Section 403 of Book 2 of the Dutch Civil Code, Coöperatieve Rabobank U.A. has assumed liability for the debts arising from the legal transactions of the following DLL entities:

- De Lage Landen America Holdings B.V.
- De Lage Landen Corporate Finance B.V.
- De Lage Landen Facilities B.V.
- De Lage Landen International B.V.
- De Lage Landen Vendorlease B.V.

Basis of preparation

In these company financial statements DLL applied the accounting policies it used in its consolidated financial statements prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Executive Board considers it appropriate to adopt the going concern basis of accounting in preparing these financial statements based on a forecast analysis which supports the going concern assumption.

The Company financial statements provide comparative information for the year ended December 31, 2017 as required for financial statements prepared in full accordance with IFRS. As on January 1, 2018, IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, the amendments to IFRS 2 Share Based Payments and the amendments to IFRS 4 Insurance Contracts have become effective.

IFRS 9 Financial Instruments replaces IAS 39 Financial instruments: Recognition and Measurement. DLL applies the classification, measurement and impairment requirements retrospectively by adjusting the balance sheet and retained earnings as per January 1, 2018, with no restatement of comparative periods. The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. The new accounting policies are set out in note iii 'Changes in accounting policies and presentation'. The adjusted amounts are set out in note 'Key impacts of the implementation of IFRS 9'. DLL applies IFRS 9 as per January 1, 2018. The comparative figures for 2017 are still based on IAS 39. Besides the aforementioned new IFRS, accounting policies adopted are the same as in previous year.

DLL applies IFRS 15 from January 1, 2018. IFRS 15 replaces IAS 11 and 18, IFRIC 13, 15 and 18 and SIC-31 provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue for obligations as they are satisfied.

The standard does not apply to financial instruments, insurance contracts or lease contracts. DLL's product range is developed to service the finance needs in the distribution channels of vendors. Main products are:
- Finance lease
- Loans
- Commercial finance
- Operating lease

These products are all out of-scope for IFRS 15, as they are within the scope of IFRS 9 (financial instruments) and IFRS 16 (leases). The revenue (interest income) for these products is approximately 80% of DLL's total revenue. Revenue recognition policies for the other products of DLL were re-assessed against IFRS 15 requirements. No changes in existing accounting policies are required based in this assessment. Therefore this new standard has very limited impact on DLL's revenues.

The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 and IFRS 17 until January 1, 2021. The effect of such a deferral is that the entities concerned may continue to report under IAS 39 Financial Instruments: Recognition and Measurement. DLL RE, a subsidiary of DLL, will make use of the exemption for IFRS 17 until January 1, 2021.

The minor amendments to IFRS 2 Share Based Payments did not have any impact on presentation and/or measurement.

The policies adopted are the same as previous financial year with the exception of the policies stated below in 'changes in accounting policies' and under 'Basis of preparation.'

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after January 1, 2019. IFRS 16 replaces IAS 17 and the related interpretations IFRIC 4, SIC-15 and SIC-27 and results in lessees accounting for most leases within the scope of the standard in a manner similar to the way that finance leases are currently accounted for under IAS 17 'Leases.' Lessees should therefore recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability will be measured at amortized cost. The depreciation of the assets and interest expenses of the lease liabilities will be presented in the P&L. Lessor accounting remains substantially the same as under IAS 17. DLL has elected to apply the modified retrospective approach that retains the prior period figures as reported under the previous standard and recognizes the cumulative effect of IFRS 16 as an adjustment to the opening balance sheet as per January 1, 2019. DLL expects that the right of use of assets and liabilities will increase by an estimated amount of EUR 35 million, without any impact on equity or profit.

Changes in accounting policies and presentation

IFRS 9 Financial Instruments

The new accounting policies and presentation are set out in Consolidated Financial Statements paragraph iii 'Changes in accounting policies and presentation', which summarizes the implementation of IFRS 9 in the following way:

In July 2014, the IASB published IFRS 9 Financial Instruments as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. The new standard became effective on January 1, 2018, and was endorsed by the EU in 2016. DLL applied the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening retained earnings as per January 1, 2018, with no restatement of comparative periods.

Classification

From January 1, 2018, DLL classifies its financial assets in the following measurement categories:
- Those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- Those to be measured at amortized cost.

The classification depends on:
1. Business model assessment: assessment of how the business is managed and how the business is seen from a strategic point of view:
   - Hold to collect: where the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or
   - Hold to collect and sell: where the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or
   - Other business model.
2. Contractual cash flow assessment; assessment whether the cash flows of the financial assets are solely payment of principal and interest (SPPI test).

The business model assessment can be made on a portfolio basis, whereas the contractual cash flow assessment is assessed for each individual financial asset. DLL assessed it's portfolios and concluded that it has the following two portfolios: origination of loans covered by collateral for the purpose of hold to collect and investments in government bonds. It is concluded that all businesses and portfolios classify as held to collect.

A debt instrument that is held within a business model 'hold to collect' and meets the SPPI test is measured at amortized cost unless the asset is designated at fair value through profit or loss. A debt instrument that is held within a business model 'hold to collect and sell' and meets the SPPI test is measured at fair value with fair value adjustments recognized in other comprehensive income unless the asset is designated at fair value through profit or loss. All other debt instruments are mandatorily measured at fair value through profit or loss.

Differences between IFRS 9 and IAS 39 methodology applied for comparative figures 2017

The main difference between IFRS 9 and IAS 39 is the impairment of financial assets. The IAS 39 impairment methodology is based on an 'incurred loss' model, meaning that an allowance is determined when an instrument is credit-impaired, that is, when a loss event has occurred that had a detrimental impact on estimated future cash flows. This will generally align with the lifetime ECL – credit-impaired category of IFRS 9. However, within the expected credit loss framework of IFRS 9 the entire portfolio of financial instruments is awarded allowance through the additions of the 12-month ECL category and the lifetime ECL category – non-credit-impaired categories, generally leading to increases in overall allowances.

Impairment methodology reporting year 2017

After DLL enters into a lease contract or grants a loan, it conducts continued credit management, closely monitoring payment behavior, and for larger and/or higher risk exposures, periodically assess new financial and non-financial information. DLL's credit risk management procedures ascertain whether the customer complies with the agreements made and whether this is expected to continue in the future.

If doubts arise, DLL monitors the exposures more frequently, and maintains them on a watch list. When a loss event has occurred, an impairment allowance is calculated and recognized. The total loan impairment allowance consists of three components:

- **Specific allowance for impaired exposures** determined for individually assessed impaired exposures. Thresholds for this allowance for impairment are country-specific and in some countries all defaults are assessed on an individual basis.
- **Collective allowance for impaired exposures** determined for impaired exposures which are not individually significant.
- **Allowance for incurred but not reported (IBNR) credit losses** determined as a collective provision for the portion of the portfolio that is actually impaired at reporting date, but that has not been incurred as yet.

Specific and collective impairments are based on actual portfolio analysis, with considerations of asset/collateral recovery and expected collections to establish the estimated loss on defaulted positions.

Key impacts of the implementation of IFRS 9

The implementation of IFRS 9 resulted in an increase of the impairment allowance of financial assets of EUR 9 million. There was no impact of other movements due to the IFRS 9 implementation. The impact of EUR 9 million is calculated based on the portfolio of De Lage Landen International B.V., including Spain, Germany, Italy and Portugal and partly of its subsidiaries. The following table shows a reconciliation between the consolidated statement of financial position as reported per December 31, 2017, under IAS 39 and the restated amounts per January 1, 2018, under IFRS 9.

in millions of euros	Measurement category IFRS 9*	Measurement category IAS 39*	IAS 39 31-12-2017	Reclassification 2017	Remeasurements (ECL) 2018	Other remeasurements 2017	IFRS 9 1-1-2018
Assets							
Cash and cash equivalents	AC	AC	413	-	-	-	413
Accounts receivables and other short term assets	AC	AC	0	-	-	-	0
Derivatives	FVPL	FVPL	12	-	-	-	12
Loans from banks	AC	AC	1,344	-	-	-	1,344
Due from customers	AC	AC	2,431	-	(9)	-	2,422
Loans to subsidiaries	n/a	n/a	956	-	-	-	956
Goodwill and other intangible assets	n/a	n/a	23	-	-	-	23
Investment in subsidiaries	n/a	n/a	4,449	-	-	-	4,449
Investment in associates	n/a	n/a	24	-	-	-	24
Other assets	n/a	n/a	1,412	-	-	-	1,412
Tangible fixed assets	n/a	n/a	71	-	-	-	71
Total assets			**11,135**	**-**	**(9)**	**-**	**11,126**
Liabilities							
Short-term loans and overdrafts	AC	AC	-	-	-	-	-
Security deposits from customers	AC	AC	1	-	-	-	1
Issued debt securities	AC	AC	-	-	-	-	-
Provisions	n/a	n/a	6	-	-	-	6
Derivatives	FVPL	FVPL	3	-	-	-	3
Borrowings	AC	AC	7,655	-	-	-	7,655
Current tax payables	n/a	n/a	-	-	-	-	-
Deferred tax liabilities	n/a	n/a	-	-	(2)	-	(2)
Other liabilities	n/a	n/a	298	-	-	-	298
Liabilities in disposal group held for distribution or sale	n/a	n/a	-	-	-	-	-
Total liabilities			**7,963**	**-**	**(2)**	**-**	**7,961**
Equity							
Share capital and share premium			1,233	-	-	-	1,233
Retained earnings			1,939	-	(7)	-	1,932
Foreign currency translation reserve			-	-	-	-	-
			3,172	-	(7)	-	3,165
Non-controlling interests			-	-	-	-	-
Total equity			**3,172**	**-**	**(7)**	**-**	**3,165**
Total equity and liabilities			**11,135**	**-**	**(9)**	**-**	**11,126**

* AC = Amortized cost, FVPL = Fair value through profit or loss and FVOCI = Fair value through other comprehensive income.

2. Cash

The following table provides an overview of cash balances at Rabobank and its related entities as well as balances at other banks.

in millions of euros	2018*	2017*
Current account Rabobank and its related entities	72	41
Current account DLL group entities	191	370
Other banks	1	2
Total cash and cash equivalents	**264**	**413**

* As on December 31

3. Loans to banks

The following table provides an overview of loans to banks:

in millions of euros	2018	2017
Opening balance	1,344	1,420
Loans issued	4,621	3,764
Loans repaid	(4,416)	(3,840)
Interest accrued	(2)	(2)
Interest received	2	2
Closing balance	**1,549**	**1,344**

The maturity of these loans is as follows:

in millions of euros	2018*	2017*
Less than 3 months	462	36
More than 3 months, less than 1 year	1,004	221
More than 1, less than 5 years	83	1,087
More than 5 years	-	-
Total loans to banks	**1,549**	**1,344**

* As on December 31

DLL issued EUR denominated loans and deposits to Rabobank entities in the amount of EUR 1,549 million (2017: EUR 1,344 million) that relate to a loan-deposit structure between DLL and Rabobank, which is used to mitigate foreign currency risk of DLL's net investments in foreign operations. These loans and deposits are floating rate transactions, carry interest rates based of 3M LIBOR or EURIBOR plus currency funding spreads, mature between 2019 and 2022, and have a fair value of EUR 1,553 million. As the second leg of this loan-deposit structure, DLL received USD, CAD and GBP denominated long-term borrowings from Rabobank amounting to EUR 1,170 million (2017: EUR 1,123 million), where the issued loans are pledged as collateral for these borrowings. Refer to note 12. The principal amounts and terms of these loans match, however they do not qualify for offsetting and are recorded gross in the statement of financial position.

4. Loans to subsidiaries

The following table provides an overview of loans to subsidiaries.

in millions of euros	2018	2017
Opening balance	956	1,345
Loans issued	1,442	2,757
Loans repaid	(1,079)	(3,145)
Interest accrued	15	3
Interest received	(13)	(4)
Closing balance	**1,321**	**956**

The maturity of these loans is as follows:

in millions of euros	2018*	2017*
Less than 3 months	160	155
More than 3 months, less than 1 year	1	4
More than 1, less than 5 years	1,050	500
More than 5 years	110	297
Total loans to subsidiaries	**1,321**	**956**

* As on December 31

The loans to subsidiaries have a fair value as on December 31, 2018 of EUR 1,328 million.

5. Due from customers

DLL's main portfolio includes finance leases that provide asset-based financing to customers, and loans to customers, that represent commercial, and other financing. These leases and loans are originated in the branches of DLL in Germany, Italy, Portugal and Spain. The balance on December 31 comprises the following:

in millions of euros	2018*	2017*
Finance lease receivables	1,981	1,698
Loans to customers	1,437	815
	3,418	**2,513**
Allowance for impairment**	(104)	(82)
Total due from customers	**3,314**	**2,431**

* As on December 31

** For a description of credit risk management policies and governance as well as policies for the allowance for impairment, refer to note 1.3 in the consolidated financial statements. The allowance for impairment also includes stage 1 and 2 provision of other portfolios.

Unguaranteed residual value

The value of unguaranteed residual values on December 31, 2018 was EUR 196 million (2017: EUR 77 million).

Investment in finance leases

The table below summarizes outstanding gross investment in finance lease receivables as well as unearned finance income:

in millions of euros	2018*	2017*
Less than 1 year	667	623
More than 1, less than 5 years	1,316	1,075
More than 5 years	57	40
Gross investment in leases	**2,040**	**1,738**
Unearned finance income	(126)	(118)
Net investment in leases	**1,914**	**1,620**

* As on December 31

Fair value changes of finance receivable portfolios hedged

As of 2017, DLL applies a macro fair value hedge accounting model for the interest rate risk in the fixed-rate EUR and USD finance receivable portfolios. The fair value changes for assets that have been designated for macro fair value hedge accounting are included in due from customers and amounted to positive EUR 9 million as on December 31, 2018, (2017: EUR (2) million).

6. Derivatives

The following table provides an overview of derivatives.

in millions of euros	2018*	2017*
Derivative assets at fair value through profit or loss		
Foreign exchange forwards (including non-deliverable forwards)	-	-
Interest rate swaps	1	3
Total derivative assets at fair value through profit or loss	**1**	**3**
Derivative assets designated as foreign net investment hedge		
Foreign exchange forwards (including non-deliverable forwards)	7	9
Total derivative assets designated as foreign net investment hedge	**7**	**9**
Total derivative assets	**8**	**12**
Derivative liabilities at fair value through profit or loss		
Foreign exchange forwards (including non-deliverable forwards)	-	-
Interest rate swaps	-	-
Total derivative liabilities at fair value through profit or loss	**-**	**-**
Derivative liabilities designated as foreign net investment hedge		
Foreign exchange forwards (including non-deliverable forwards)	(4)	(3)
Total derivative liabilities designated as foreign net investment hedge	**(4)**	**(3)**
Total derivative liabilities	(4)	(3)
Derivative notional amounts		
Foreign exchange forwards (including non-deliverable forwards)	871	761
Interest rate swaps	296	530
Total derivative notional amounts	**1,167**	**1,291**

* As on December 31

The Company's derivative portfolio is limited to intercompany derivatives with its subsidiary DLL Ireland DAC, which undertakes a group treasury function for DLL. These derivatives are mainly used to hedge the currency translation risk of net investments in foreign operations. As on January 1, 2017, DLL implemented a foreign net investment hedging model, which reduces the volatility of the gains/(losses) reflected in the other comprehensive income. The gains/(losses) from derivatives for the year ended December 31, 2018, were EUR 5 million (2017: EUR 36 million).

For more detailed information on the treatment of derivatives please refer to note 3.4 of the consolidated financial statements.

7. Investments in subsidiaries

Investments in subsidiaries are valued at net asset value. A full list of subsidiaries and associates is presented in note 22. Movements in investments in subsidiaries are as follows:

in millions of euros	2018	2017
Opening balance	4,449	4,258
Investments	336	-
Disposals	(159)	(114)
Dividends	(326)	(21)
Result for the year	418	554
Exchange rate differences	18	(228)
Closing balance	**4,736**	**4,449**

8. Investments in associates

A full list of associates is presented in note 4.8 to the consolidated financial statements. Movements in investments in associates are as follows:

in millions of euros	2018	2017
Opening balance	24	24
Acquisitions and investments	-	-
Closing balance	**24**	**24**

9. Goodwill and other intangible assets

The following table provides a reconciliation of the carrying amount of goodwill and other intangible assets at the beginning and end of the period.

In millions of euros	Goodwill	Other	Total
Cost	2	143	145
Accumulated amortization and impairment	-	(122)	(122)
Net book value as on January 1, 2018	**2**	**21**	**23**
Purchases	-	3	3
Amortization	-	(15)	(15)
Net book value as on December 31, 2018	**2**	**9**	**11**
Cost	2	140	142
Accumulated amortization and impairment	-	(106)	(106)
Net book value as on January 1, 2017	**2**	**34**	**36**
Purchases	-	3	3
Amortization	-	(16)	(16)
Net book value as on December 31, 2017	**2**	**21**	**23**

10. Tangible fixed assets

Tangible fixed assets represent the following three categories: fixed assets under operating lease, land and buildings and equipment. For information on the valuation, depreciation and expected useful lives of fixed assets under operating lease please refer to note 1.2 of the consolidated financial statements. For respective accounting policies for land and buildings and equipment, please refer to note 4.3 of the consolidated financial statements.

The table below presents changes in the carrying amount of total fixed assets for 2017 and 2018:

in millions of euros	2018*	2017*
Fixed assets under operating lease	60	51
Land and buildings	13	13
Equipment	8	7
Total fixed assets	**81**	**71**

* As on December 31

The table below summarizes future minimum lease payments under non-cancellable operating leases:

in millions of euros	2018*	2017*
Less than 1 year	16	12
More than 1, less than 5 years	27	22
More than 5 years	1	-
Total minimum lease payment	**44**	**34**

* As on December 31

in millions of euros	FAOL*	Land and buildings	Equipment	Total
Cost	67	38	20	125
Accumulated depreciation	(16)	(25)	(13)	(54)
Carrying amount as on January 1, 2018	**51**	**13**	**7**	**71**
Additions	28	1	4	33
Disposals	(9)	-	-	(9)
Depreciation charge	(10)	(1)	(3)	(14)
Cost	82	39	24	145
Accumulated depreciation	(22)	(26)	(16)	(64)
Carrying amount as on December 31, 2018	**60**	**13**	**8**	**81**
Cost	54	43	17	114
Accumulated depreciation	(14)	(26)	(10)	(50)
Carrying amount as on January 1, 2017	**40**	**17**	**7**	**64**
Additions	25	-	3	28
Disposals	(5)	(3)	-	(8)
Depreciation charge	(9)	(1)	(3)	(13)
Cost	67	38	20	125
Accumulated depreciation	(16)	(25)	(13)	(54)
Carrying amount as on December 31, 2017	**51**	**13**	**7**	**71**

* Fixed assets under operating lease

11. Other assets

The following table describes the composition of the other assets balance.

in millions of euros	2018*	2017*
Receivables group companies	1,321	1,219
Current tax receivables	23	55
Prepayments	86	50
Transitory assets	27	23
VAT to be claimed	55	41
Deferred tax assets	33	22
Other	4	2
Total other assets	**1,549**	**1,412**

* As on December 31

Deferred tax assets in DLL International B.V. are recognized for deductible temporary differences, unused tax losses and unused tax credits. Recognition takes place, based on budgets and forecasts, to the extent it is probable that taxable profits will be available in that entity against which the deferred tax asset can be utilized in the foreseeable future. Where an entity has a history of tax losses, no deferred tax asset is recognized, until such time that there is certainty about future profitability.

12. Borrowings

The following table provides an overview of borrowings.

in millions of euros	2018*	2017*
Short-term loans and overdrafts		
Short-term loans from Rabobank	1,655	1,555
Other short-term loans	257	170
	1,912	**1,725**
Long-term borrowings		
Long-term borrowings from Rabobank	1,865	2,098
Long-term borrowings from the group companies	4,147	3,062
Other long-term borrowings	1,150	770
	7,162	**5,930**
Total borrowings	**9,074**	**7,655**

* As on December 31

Short-term loans and overdrafts represent primarily balances outstanding under overdraft facilities from Rabobank and other banks, where DLL has current accounts.

Included in the long-term borrowings from Rabobank as on December 31, 2018, are USD, CAD and GBP denominated loans of EUR 1,170 million (2017: EUR 1,123 million). As the second leg of this loan-deposit structure, DLL issued EUR denominated loans to Rabobank in the amount of EUR 1,549 million (2017: EUR 1,344 million), included in due from banks (refer to note 3.2 of consolidated financial statements). This structure relates to a loan-deposit structure between DLL and Rabobank that is used to mitigate DLL's foreign currency risk in respect of net investments in foreign subsidiaries. These loans and deposits are floating rate transactions and carry interest rates based on 3M LIBOR or EURIBOR plus currency funding spreads and mature between 2019 and 2022. These loans are pledged as collateral for the corresponding borrowings. While, the principal amounts and terms of these loans match, they do not qualify for offsetting and are recorded gross in the statement of financial position. Interest rates on these borrowings are between (0.76)% and 8.09% (2017: (0.86)% / 8.09%). The long-term borrowings from Rabobank have a fair value as on December 31, 2018, of EUR 1,875 million.

Long-term borrowings from the group companies include loans received by DLL from its subsidiary DLL Ireland DAC, which undertakes a group treasury function for DLL. Interest rates on these borrowings are between (0.69)% and 5.22% (2017: (0.90)% / 5.36%). The long-term borrowings from group companies have a fair value as on December 31, 2018, of EUR 4,173 million.

Other long-term borrowings are long-term loans received by DLL from third parties and bear an interest rate between 0% and 4.55% (2017: 0% / 0.562%). The other long-term borrowings have a fair value of EUR 1,148 million.

The table below summarizes the aging of the total borrowings:

in millions of euros	2018*	2017*
Less than 1 year	4,417	3,922
More than 1, less than 5 years	1,668	1,717
More than 5 years	2,989	2,016
Total borrowing	**9,074**	**7,655**

* As on December 31

13. Other liabilities

The following table provides an overview of the items comprising other liabilities.

in millions of euros	2018*	2017*
Payables to group companies	141	155
Accounts payable to suppliers	104	76
Accrued expenses	20	24
Personnel related expenses	20	21
Current tax liabilities	8	2
Deferred income	6	-
Other	12	20
Total other liabilities	**311**	**298**

* As on December 31

14. Provisions

The following table presents the composition of the balance for provisions as on December 31. For a detailed description of accounting policies regarding the relevant provisions, please refer to note 4.5 of the consolidated financial statements.

in millions of euros	2018*	2017*
Provision for restructuring	4	4
Provision for tax claims	2	2
Total provisions	**6**	**6**

* As on December 31

Changes in provisions were as follows:

in millions of euros	Restructuring	Tax claims	Other provisions	Total
As on January 1, 2018	**4**	**2**	**-**	**6**
Additions	2	2	-	4
Released	(2)	(2)	-	(4)
As on December 31, 2018	**4**	**2**	**-**	**6**
As on January 1, 2017	**10**	**10**	**5**	**25**
Additions	4	-	-	4
Released	(5)	(8)	(5)	(18)
Utilized	(5)	-	-	(5)
As on December 31, 2017	**4**	**2**	**-**	**6**

15. Interest revenue and expense

The following table provides an overview of interest revenue and expenses.

in millions of euros	2018	2017
Interest revenue		
Interest income from finance leases	89	81
Interest income from loans to customers	15	10
Interest income from loans to banks	2	2
Interest income from subsidiaries	6	8
Other interest income	-	3
	112	**104**
Interest expenses		
Interest expense on borrowings from Rabobank	(43)	(32)
Interest expense on other borrowings	(38)	(23)
Interest expense on subsidiaries	(6)	(20)
	(87)	**(75)**
Net interest income	**25**	**29**

16. Other operating income

The following table provides an overview of other operating income.

in millions of euros	2018	2017
Administrative income from subsidiaries	72	130
Other operating income	31	38
Total other operating income	**103**	**168**

Administrative income from subsidiaries includes the central overhead and other costs that are recharged to DLL subsidiaries in accordance with the DLL transfer pricing policy. Other operating income is portfolio related income.

17. Staff expenses

The following table provides an overview of staff expenses.

In millions of euros	2018	2017
Short-term employee benefits	86	77
Wages and salaries	52	50
Social Security costs	8	7
Temporary staff	26	20
Other short-term benefits	33	34
Pension-defined contribution plan expenses	8	7
Total staff expenses	**127**	**118**

The average number of staff (FTEs) of employees at DLL was 933 (2017: 903) of whom 640 (2017: 651) were employed in the Netherlands.

Key management personnel of DLL comprise members of the Executive Board and members of the Supervisory Board. For compensation of the Executive Board and the Supervisory Board please refer to the note 2.4 in the consolidated financial statements.

Neither DLL nor any of its group companies has granted any loans, guarantees, or advances to the members of the Executive Board or Supervisory Board.

18. Other operating expenses

The following table provides an overview of other operating expenses.

in millions of euros	2018	2017
Administrative expenses	41	(1)
IT related cost	38	31
Administrative charges Rabobank	22	20
Total other operating expenses	**101**	**50**

19. Independent auditor remuneration

Included in other operating expenses are amounts that DLL paid to its independent auditor PricewaterhouseCoopers Accountants N.V. For details on these fees and their composition, please refer to note 2.5 in the consolidated financial statements.

20. Commitments and contingencies

Legal claims

DLL operates in a regulatory and legal environment that has an element of litigation risk inherent in its operations. As a result, DLL is involved in various litigation, arbitration, and regulatory proceedings, both in the Netherlands and in other jurisdictions in the ordinary course of its business. DLL has formal controls and policies for managing legal claims. Based on professional legal advice, DLL provides and/or discloses amounts in accordance with its accounting policies described below.

On December 31, 2018, DLL had no material unresolved legal claims (2017: none), where a negative outcome and a respective cash outflow was possible (the probability is higher than 'remote' but lower than 'probable'). Legal claims contain provisions related to legal claims against DLL. This provision is based on the best possible estimates of the outcomes that take into account legal advice received where available. The timing of the cash outflow of these provisions is uncertain because the outcome of the disputes and the time involved are complex to reasonably predict.
Fines and interest charged by tax authorities are included in the provision. For legal claims with a probable negative outcome leading to a probable cash outflow in the future, DLL recognized provisions on the statement of financial position; refer to note 14.

Undrawn irrevocable credit facilities
To meet the financial needs of customers, DLL enters into various revocable and irrevocable commitments in the ordinary course of conducting its business. These commitments include commitments to provide financing to customers. Even though these obligations are not recognized on the statement of financial position, DLL is exposed to credit risk on these instruments and therefore includes them in its credit risk management process (refer to note 1.3 of consolidated financial statements). Given that these instruments can lead to a cash outflow, they are included in the liquidity management purposes framework of DLL (refer to note 3.7 of the consolidated financial statements). The irrevocable facilities as per December 31, 2018, amount to EUR 30 million for De Lage Landen International B.V. (2017: EUR 7 million).

Master Guarantee Agreement
In 2016, DLL and Rabobank signed a master guarantee agreement (Master Guarantee Agreement) under which DLL may agree to guarantee specific obligations of any Group entity owed towards Rabobank. The only obligations presently subject to the Master Guarantee Agreement are the obligations of the Group's treasury function, DLL Ireland DAC, under a loan facility agreement with Rabobank. The maximum amount of the loan facility agreement of De Lage Landen International B.V. at year end 2018 is EUR 23,500 million.

21. Shareholders' Equity

Share capital and share premium
At December 31, 2018, DLL's authorized capital was EUR 454 million (2017: EUR 454 million), divided into 950 ordinary A shares and 50 ordinary B shares (2017: 950 A and 50 B).

The nominal value of each share is EUR 454,000. EUR 98 million (2017: EUR 98 million) is issued and paid up, consisting of 215 ordinary shares A (A1-A215) and 2 ordinary shares B (B1 and B2). Additional paid-in capital (share premium) on the outstanding shares amounts to EUR 1,135 million (2017: EUR 1,135 million). For the years 2018 and 2017 there is no difference in shareholders' rights related to the class A and class B shares.

The share premium includes the amount paid in excess of the nominal value of the share capital.

Legal reserves are non-distributable reserves relating to requirements to establish reserves for specific purposes either by the Articles of Association of the Company, Part 9, Book 2, of the Dutch Civil Code, and/or by local law. The legal reserves relate to minimum reserves to be maintained for the non-distributable share in cumulated profits of subsidiaries and investments accounted for using the net asset value method.

Since the results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency, all resulting exchange difference are recognized in legal and statutory reserves, which is the sole item comprising the legal reserve.

There are no statutory reserves prescribed in the Articles of Association of the Company.

As on January 1, 2017, DLL implemented a Foreign Net Investment hedging model. The hedge effectiveness is tested by comparing the changes in fair value of the hedged items against the changes in fair value of the hedge instruments, both prospectively and retrospectively. The model runs the tests on a monthly basis and is effective if the results are within the effectiveness range as defined. In 2018, the hedge relations were highly effective within the effectiveness range set based on IFRS 9 regulations. In 2018, an amount of EUR 53 million after taxation in the revaluation reserves was accounted for due to changes in the fair value of derivatives in net investment hedges.

The Company appropriates prior-year profits into other reserves if no resolution is adopted on the distribution. On a proposal by the Executive Board, the General Meeting of Shareholders allocates the profits of the year and declares distributions from the profits or distributions from the reserves to the shareholders, subject to the Executive Boards approval.

The table on the next page presents the composition of shareholder's equity and a reconciliation of opening and closing balances for the years ended December 31, 2018, and 2017.

in millions of euros	Share capital	Share premium	Revaluation Reserves	Legal and statutory reserves	Other reserves	Unappropriated results	Total Equity
Balance on January 1, 2017	**98**	**1,135**	**(9)**	**147**	**1,779**	**711**	**3,861**
Appropriation of results	-	-	-	-	711	(711)	-
Profit/(loss) for the year	-	-	-	-	-	552	552
Remeasurement of post-employment benefit reserve, net of tax	-	-	(2)	-	-	-	(2)
Fair value changes of derivatives designated for net investment hedging, net of tax	-	-	188	-	-	-	188
Exchange differences on translation of foreign operations, net of tax	-	-	-	(227)	-	-	(227)
Total amount recognized directly in equity	**-**	**-**	**186**	**(227)**	**-**	**552**	**511**
Dividends	-	-	-	-	(1,200)	-	(1,200)
Balance on December 31, 2017	**98**	**1,135**	**177**	**(80)**	**1,290**	**552**	**3,172**
Change in accounting policy based on IFRS 9	-	-	-	-	(7)	-	(7)
Restated balance on January 1, 2018	**98**	**1,135**	**177**	**(80)**	**1,283**	**552**	**3,165**
Appropriation of results	-	-	-	-	552	(552)	-
Profit/(loss) for the year	-	-	-	-	-	320	320
Remeasurement of post-employment benefit reserve, net of tax	-	-	(1)	-	-	-	(1)
Fair value changes of derivatives designated for net investment hedging, net of tax	-	-	(53)	-	-	-	(53)
Exchange differences on translation of foreign operations, net of tax	-	-	-	29	-	-	29
Total amount recognized directly in equity	**-**	**-**	**(54)**	**29**	**-**	**320**	**295**
Other movements	-	-	-	-	(2)	-	(2)
Balance on December 31, 2018	**98**	**1,135**	**123**	**(51)**	**1,833**	**320**	**3,458**

22. List of subsidiaries

The below list contains the names, registered office and (in)direct capital interest of all subsidiaries of De Lage Landen International B.V.

Name	Registered office	% Capital
AGCO Capital Argentina S.A.	Buenos Aires, Argentina	51
AGCO Finance AG	Schlieren, Switzerland	51
AGCO Finance B.V.	Eindhoven, The Netherlands	51
AGCO Finance Canada, Ltd	Regina, Canada	51
AGCO Finance GmbH	Isernhagen, Germany	51
AGCO Finance GmbH, Landmaschinenleasing	Vienna, Austria	51
AGCO Finance Limited	Kenilworth, United Kingdom	51
AGCO Finance Designated Activity Company	Dublin, Ireland	51
AGCO Finance Limited	Auckland, New Zealand	51
AGCO Finance LLC	Moscow, Russia	51
AGCO Finance LLC	Duluth, United States of America	51
AGCO Finance N.V.	Machelen, Belgium	51
AGCO Finance Pty Limited	Sydney, Australia	51
AGCO Finance S.N.C.	Beauvais, France	51
AGCO Finance Sp. z o.o.	Warsaw, Poland	51
ALLCO-DLL Solar Trust	Wilmington, United States of America	100
AM-DLL Solar Trust	Wilmington, United States of America	100
Banco De Lage Landen Brasil S.A.	Porto Alegre, Brazil	77.5
BBT 2014-1 Trust	New York, United States of America	100
BBT 2016-1 Trust	New York, United States of America	100
BSE-DLL Solar Trust	Wilmington, United States of America	100
Cargobull Commercial Solutions, S.L.U.	Madrid, Spain	51
Cargobull Finance A/S	Padborg, Denmark	51
Cargobull Finance AB	Stockholm, Sweden	51
Cargobull Finance Financial and Servicing Kft.	Bicske, Hungary	51
Cargobull Finance GmbH	Wals bei Salzburg, Austria	51
Cargobull Finance GmbH	Düsseldorf, Germany	51
Cargobull Finance Holding B.V.	Eindhoven, The Netherlands	51
Cargobull Finance Limited	Watford, United Kingdom	51
Cargobull Finance S.A.S.	Le Bourget, France	51
Cargobull Finance S.p.A. con Socio Unico in liquidazione	Milan, Italy	51
Cargobull Finance S.R.L.	Ciorogarla, Romania	51
Cargobull Finance Sp. z o.o.	Warsaw, Poland	51
Cargobull Insurance Broker GmbH	Düsseldorf, Germany	51
CBSC Capital Inc.	Mississauga, Canada	51
De Lage Landen (China) Co., Ltd.	Shanghai, China	100
De Lage Landen (China) Factoring Co., Ltd.	Shanghai, China	100
De Lage Landen AB	Stockholm, Sweden	100
De Lage Landen America Holdings B.V.	Eindhoven, The Netherlands	100
De Lage Landen Asia Participations B.V.	Eindhoven, The Netherlands	100
De Lage Landen Austria GmbH	Vienna, Austria	100
De Lage Landen Chile S.A.	Santiago, Chile	100
De Lage Landen China Participations B.V.	Eindhoven, The Netherlands	100
De Lage Landen Co., Ltd	Seoul, Republic of Korea	100
De Lage Landen Commercial Finance Inc.	Oakville, Canada	100
De Lage Landen Corporate Finance B.V.	Eindhoven, The Netherlands	100
De Lage Landen Cross-Border Finance, LLC	Wayne, United States of America	100
De Lage Landen Erste Vorratsgesellschaft mbH	Düsseldorf, Germany	100
De Lage Landen Europe Participations B.V.	Eindhoven, The Netherlands	100
De Lage Landen Facilities B.V.	Eindhoven, The Netherlands	100
De Lage Landen Finance Limited Liability Company	Seoul, Republic of Korea	100
De Lage Landen Finance Zrt.	Budapest, Hungary	100

Name	Registered office	% Capital
De Lage Landen Finance, LLC	Wilmington, United States of America	100
De Lage Landen Financial Services Canada Inc.	Oakville, Canada	100
De Lage Landen Financial Services India Private Limited	Mumbai, India	100
De Lage Landen Financial Services, Inc.	Wayne, United States of America	100
De Lage Landen Finans AB	Stockholm, Sweden	100
De Lage Landen Finansal Kiralama Anonim Şirketi	Istanbul, Turkey	100
De Lage Landen France S.A.S.	Le Bourget, France	100
DLL Ireland Designated Activity Company	Dublin, Ireland	100
De Lage Landen Leasing AG	Schlieren, Switzerland	100
DLL Leasing Designated Activity Company	Dublin, Ireland	100
De Lage Landen Leasing GmbH	Düsseldorf, Germany	100
De Lage Landen Leasing Kft.	Budapest, Hungary	100
De Lage Landen Leasing Limited	Watford, United Kingdom	100
De Lage Landen Leasing N.V.	Machelen, Belgium	100
De Lage Landen Leasing Polska S.A.	Warsaw, Poland	100
De Lage Landen Leasing S.A.S.	Le Bourget, France	100
De Lage Landen Limited	Watford, United Kingdom	100
De Lage Landen Limited	Auckland, New Zealand	100
De Lage Landen Materials Handling B.V.	Eindhoven, The Netherlands	100
De Lage Landen Materials Handling Ltd.	Watford, United Kingdom	100
De Lage Landen Participações Limitada	Porto Alegre, Brazil	77.5
De Lage Landen Pte. Limited	Singapore, Singapore	100
De Lage Landen Pty Limited	Sydney, Australia	100
De Lage Landen Public Finance LLC	Wayne, United States of America	100
DLL Re Designated Activity Company	Dublin, Ireland	100
De Lage Landen Remarketing Solutions B.V.	Eindhoven, The Netherlands	100
De Lage Landen Renting Solutions, S.L.U.	Madrid, Spain	100
De Lage Landen Renting Solutions S.r.l.	Milan, Italy	100
De Lage Landen South Africa (Proprietary) Limited	Tokai, South Africa	100
De Lage Landen Vendorlease B.V.	Eindhoven, The Netherlands	100
De Lage Landen, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad no Regulada	Huixquilucan, Mexico	100
DLL Corretora de Seguros Ltda.	Barueri, Brazil	100
DLL Equipment Trading Middle East and Africa FZE	Jebel Ali Free Zone	100
DLL Finance LLC	Johnston, United States of America	100
DLL Leasing S.A. de C.V.	Huixquilucan, Mexico	100
DLL Polska Participations Sp. z o.o.	Warsaw, Poland	100
DLL Polska Corporate Sp. z o.o.	Warsaw, Poland	100
DLL Polska Participations Sp. z o.o. Sp. K.	Warsaw, Poland	100
DLL Securitization Trust 2017-A	Wilmington, United States of America	100
DLL U.S. Holding Company, Inc.	Wilmington, United States of America	100
Komatsu Financial France S.A.S.	Le Bourget, France	95
Komatsu Financial Germany GmbH	Düsseldorf, Germany	95
Komatsu Financial Italy S.p.A.	Milan, Italy	97
LEAP Warehouse Trust No. 1	Sydney, Australia	100
Limited Liability Company Cargobull Finance	Moscow, Russia	100
Limited Liability Company De Lage Landen Leasing	Moscow, Russia	100
Mahindra Finance USA LLC	Johnston, United States of America	51
MP2-DLL Solar Trust	Wilmington, United States of America	100
NSE-DLL Solar Trust	Wilmington, United States of America	100
OOO DLL Finance	Moscow, Russia	100
Philips Medical Capital, LLC	Wayne, United States of America	60
RABO Ireland Group Pension Trustee Limited	Dublin, Ireland	49
SE DLL Solar Trust	Wilmington, United States of America	100
TE-DLL Solar Trust	Wilmington, United States of America	100
Truckland Lease B.V.	Eindhoven, The Netherlands	51
Vestdijk Truck Finance Beheer B.V.	Eindhoven, The Netherlands	100

23. Profit appropriation 2018

The proposal to the general meeting of shareholders is to add the profit for the period ended December 31, 2018, to the other reserves. This proposal is not reflected in the statement of financial position.

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

On behalf of the Supervisory Board
B.J. Marttin, *Chairman*
P.C. van Hoeken, *member*
A.E. Bouma, *member*
R. de Feo, *member*

Eindhoven, April 17, 2019

20,000 unique client systems – The strength and scale of our office technology makes us market leader among independent financial service companies

The depth and breadth of our services for the office equipment sector allow us to deliver total financial solutions to our partners

Nearly 700,000 copiers – Makes DLL the document imaging & printing industry's #1 non-manufacturer owned end-user finance source

Financing **the office of the future**

Other information

Independent **auditor's report**

To: the general meeting and supervisory board of De Lage Landen International B.V.

Report on the financial statements 2018

Our opinion

In our opinion:
- De Lage Landen International B.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- De Lage Landen International B.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of De Lage Landen International B.V., Eindhoven ('the Company'). The financial statements include the consolidated financial statements of De Lage Landen International B.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:
- The consolidated statement of financial position as at 31 December 2018;
- The following statements for 2018: the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- The notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:
- The company statement of financial position as at 31 December 2018;
- The company statement of profit or loss for the year then ended; and
- The notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of De Lage Landen International B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

De Lage Landen International B.V. is a wholly owned subsidiary of Coöperatieve Rabobank U.A. ('Rabobank') and offers clients asset based financial products, primarily leasing and lending in nine distinct equipment markets. The Group has operations in more than 30 countries. The Group comprises of several components for which we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

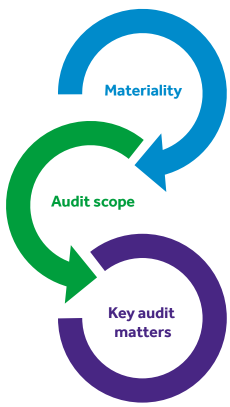
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the executive board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph V 'Key judgements and estimates' of the consolidated financial statements, the executive board describes the main areas of judgement and key estimates in applying accounting policies. We particularly identified the classification of client contracts as operating lease, finance lease or loans as a key audit matter in view of the magnitude of these balances and the inherent significant level of management judgement in relation to the assessment of the terms and conditions of client contracts based on the respective requirements and guidance of IAS 17 and IFRS 9. Given the significant estimation uncertainty, the considerable level of management judgement and the related higher inherent risk of material misstatement, we considered the measurement of balances due from customers and the measurement of assets under operating lease a key audit matter. We have also identified the application of macro fair value hedge accounting and the measurement of the derivatives as a key audit matter in view of the complexity of hedge accounting, the magnitude of the notional amounts and the estimation uncertainty.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the executive board that may represent a risk of material misstatement due to fraud.

In view of the importance of the IT environment on our audit of the financial statements, we, with the support of our IT specialists, assessed the IT environment. We addressed information technology general controls ('ITGCs') which are the policies and procedures used by the Company to ensure information technology ('IT') operates as intended and provides reliable data for financial reporting purposes. The IT environment of the Company and its components has been assessed in the context of and only where relevant for the audit of the financial statements.

We ensured that audit teams, both at group and at component levels, had the appropriate skills and competences, needed for the audit of a financial services company, offering leasing and lending services, holding banking licenses in several jurisdictions (including in the Netherlands) and an insurance license in Ireland. We therefore included experts and specialists in the areas of leasing, banking, insurance, financial instruments, IT, credit risk provisioning, tax, employee benefits and regulatory reporting in our team.

The outline of our audit approach was as follows:



Materiality
- Overall materiality: € 23.0 million.

Audit scope
- We performed audit work on the 20 individually significant components in 13 countries.
- Besides the audit of the Dutch holding entity, the consolidation and various accounting areas centralised on group level, we performed the audit of the Dutch component in scope.
- We conducted site visits to the operations in Canada, France, Sweden and the United States.
- Audit coverage: 88% of consolidated total net income, 88% of consolidated total assets and 90% of consolidated profit before tax.

Key audit matters
- Classification of client contracts as operational leases, finance leases or loans to customers.
- Measurement of balances due from customers.
- Measurement of assets under operating lease.
- Application of macro fair value hedge accounting and measurement of derivatives.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'. Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statements line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€ 23.0 million (2017: € 27.8 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 5% of the profit before taxes from continued operations 2018, excluding the reversal of an impairment loss in relation to subsidiaries previously classified as 'held for sale' (in accordance with IFRS 5) and relating expenses.
Rationale for benchmark applied	We have applied this benchmark based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax from continued operations is an important metric for the financial performance of the Group. Due to the non-recurring nature of the reversed impairment and relating expenses in relation to the subsidiaries previously classified as 'held for sale' (in accordance with IFRS 5), we excluded this one-off result from our materiality benchmark 2018. We note that the impairment loss, as recorded in the consolidated statement of profit or loss 2017, was also excluded from our materiality benchmark 2017.
Component materiality	To each component in our audit scope, we, based on our judgement, allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between € 2 million and € 20 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons. We agreed with the supervisory board that we would report to them misstatements identified during our audit affecting profit or loss or equity with more than € 1 million (2017: € 1 million), reclassifying misstatements above € 1 million (2017: € 1 million) and exceeding 1% of the respective financial position or profit or loss financial statement line item and as well as misstatements below that amount, that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

De Lage Landen International B.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of De Lage Landen International B.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component audit team.

Twenty components in thirteen countries were subject to audits of their complete financial information for consolidation purposes, as we considered those components individually financially significant to the Group. In total, in performing these procedures, we achieved the following coverage on the consolidated financial statements line items:

Total net income	88%
Total assets	88%
Profit before tax	90%

None of the remaining components represented more than 1% of total group net income, group profit before tax or total group assets. For the remaining components we performed, among other procedures, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

For the individually financially significant Dutch components, the group engagement team performed the audit work. In the locations where component auditors performed the work, we determined the level of involvement we required to be able to conclude whether we obtained sufficient and appropriate audit evidence as a basis for our opinion on the group financial statements as a whole. In this respect we performed, amongst others, the following procedures:

- We issued detailed audit instructions to the component auditors prescribing the scope of work to be performed, the risk assessment, other areas of audit focus, materiality to be applied and the reporting requirements to the group engagement team regarding the financial information;
- We discussed with the component auditors developments affecting the component, their risk assessment and their audit approach;
- We assessed the component auditors' reports and observations were discussed with the component auditors and with group management;
- We closely collaborated during the years 2018 and 2019 to date with our component teams and had multiple interactions with them, regarding amongst others, our audit instructions, their audit findings regarding the control environment, accounting and other matters; and
- We performed site visits on a rotational basis. This year the group engagement team visited the United States, Canada, France and Sweden. During these visits, we met with the component audit teams and local management to further understand and discuss the local business and control environment including financial results.

The group engagement team performed audit procedures on the consolidation, financial statements disclosures and various complex items at the Group's head office in Eindhoven where central functions, such as IT, reporting, control, risk, tax, legal, compliance and internal audit are located. Items included in the audit procedures by the group engagement team, amongst others, were:

- Entity level controls;
- Residual value reassessment of fixed assets under operating leases and finance leases;
- Impairment testing of goodwill;
- Measurement of derivatives and the application of macro fair value hedge accounting;
- Measurement of the provisions for uncertain tax exposures; and
- Credit risk provisioning.

The internal audit department performed on a rotational basis audits at group and component level. Whilst we did not rely on the work performed by the internal audit department, we assessed the impact on our audit and we shared the relevant findings with the component auditors.

By performing the procedures above at the components, combined with the additional procedures at group level, we have obtained sufficient and appropriate audit evidence on the Group's financial information as a whole to provide a basis for our opinion on the (consolidated) financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we describe the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

With regards to the key audit matters in our auditor's report 2018 compared to 2017, we divided the 2017 key audit matter regarding classification and measurement of balances due from customers into two key audit matters to provide more insight in the procedures performed and findings noted. As such, we have now distinguished two separate key audit matters, one related to the classification of client contracts, and one related to the measurement of balances due from customers.

The financial statements 2017 included the IAS 8 disclosure of the estimated impact of IFRS 9 on the shareholders equity as at 1 January 2018. The Group applies IFRS 9 as from 1 January 2018. We outlined the procedures performed regarding credit provisioning based on IFRS 9 in the key audit matter 'Measurement of balances due from customers' and regarding the classification in the key audit matter 'Classification of client contracts as operational leases, finance leases or loans to customers. Therefore, we have not included the impact of IFRS 9 as a separate key audit matter in our auditor's report 2018.

Key audit matter	Our audit work and observations
Classification of client contracts as operational leases, finance leases or loans to customers *[reference to notes 1.1 and 1.2 in the annual report]* Balances due from customers, including finance leases and loans, amounting to € 31,239 million and fixed assets under operating lease amounting to € 2,603 million are included in the consolidated statement of financial position. When DLL enters into a contract with a client, an assessment is made whether the contract qualifies as a lease in accordance with IAS 17 'leases' or a loan in accordance with IFRS 9 'financial instruments'. Appropriately classifying client contracts is crucial, as the classification determines the measurement and as such the revenue recognition. IAS 17 requires a distinction between operating leases and finance leases. Finance leases are measured at the discounted value of contractual lease payments and any unguaranteed residual value. Fixed assets under operating lease contracts are measured at cost less any accumulated depreciation and less impairment losses. Loans are measured at amortised cost less impairment allowances. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Determination of the transfer of substantially all the risks and rewards of incidental ownership is subjective in nature and requires significant judgement. Contractual elements, such as whether the lease term is covering the majority of the economic life of the leased asset, the present value of the minimum lease payments at inception date amounts to at least the substantial part of the fair value of the leased asset and the impact of purchase options require managements' judgements. When ownership of the asset is directly transferred at inception date, the contract qualifies as a loan instead of a lease. In view of the magnitude of these balances, the potential impact on measurement and revenue recognition as well as the significant level of management judgement, we considered the classification of client contracts a key audit matter.	*Internal controls* We evaluated the design of the internal controls and subsequently tested the operating effectiveness of controls regarding client contract classification, primarily regarding the internal control measures around the assessment of transfer of risks and rewards and/ or ownership to classify a lease contract as either a finance lease, an operational lease or a loan to a customer. In addition, we tested the IT environment and relevant IT applications that support data and reports utilised to determine and record the lease classification. We found that we could rely on the internal controls for the majority of our audit procedures and we determined substantive audit procedures necessary to obtain sufficient and appropriate audit evidence, as further outlined below. *Substantive audit procedures* We evaluated management's classification assessment against the requirements of IAS 17 and IFRS 9. We tested on a sample basis the classification of client contracts as a finance lease or operating lease and focussed on the key contractual elements such as whether the lease term represents the major part of the leased asset, whether the present value of the minimum lease payments at inception date of the lease contract represents at least substantially the fair value of the leased asset and the impact of purchase options for the lessee or vendor. We tested, on a sample basis, the classification of contracts as a finance lease or as a loan based on the transfer of legal ownership at inception, as determined in the client contract. Reconciliations made by management between contract management systems and general ledgers were tested. Furthermore, we tested the manual journal entries made by management to appropriately classify contracts as an operating lease, finance lease or loan. Based on our substantive audit procedures we identified a finding in one location that affected the classification of client contracts and resulted in extending our audit procedures on this theme in that location.In response to this management adjusted the presentation in the financial statements.
Measurement of balances due from customers *[reference to notes 1.1 and 1.3 in the annual report]* Balances due from customers amounting to € 31,239 million are included in the consolidated statement of financial position. This line item consists of finance lease receivables and loans to customers. The Group is exposed to credit risk in relation to these balances. To account for the expected credit losses, loan loss provisions are recognized. In accordance with IFRS 9, management distinguishes the following provisions: – Performing finance leases and loans (stage 1) – € 67 million as at year-end 2018 – Underperforming finance leases and loans (stage 2) – € 46 million as at year-end 2018 – Credit-impaired finance leases and loans (stage 3) – € 164 million as at year-end 2018 The stage 1, 2 and small ticket stage 3 (exposures below € 250,000) provisions are based on quantitative models. The large ticket stage 3 provision is based on individual expert judgement. Determining loan loss provisions requires a significant degree of management judgement based on an assessment of credit risks, including a significant increase of credit risk, in the portfolios, such as for example: – Key parameters for the model based provisions (e.g. probability of default, loss given default) – Expectations with respect to macro-economic scenarios – Expert judgement applied in the credit risk models – Expert judgement of the large ticket stage 3 provision In view of the significance of these balances, the significant level of management judgement and inherent estimation uncertainty, we considered the measurement of balances due from customers a key audit matter.	*Internal controls* We evaluated the design of the internal controls and subsequently tested the operating effectiveness of controls regarding the development and validation of the credit loss models, primarily regarding the internal control measures around the key model parameters (e.g. probability of default, loss given default) and the application of expectations with respect to macro-economic scenarios. In addition, we tested the IT environment and relevant IT applications that supported data and reports utilised to determine the measurement. We focussed on the data lineage of contract- and default data used in the development of key model parameters and the allocation to stage 1, 2 or 3 of client exposures. We found that we could rely on the internal controls for the majority of our audit procedures and we determined substantive audit procedures necessary to obtain sufficient and appropriate audit evidence, as further outlined below. *Substantive audit procedures* With the assistance of our credit risk-provisioning specialists, we evaluated model methodology, tested input variables (including expected cash flows contractual as well as from collateral recovery) and challenged management's rationales supporting the key model parameters, expectations with respect to macro-economic scenarios and the expert judgement applied in the credit risk models. We assessed whether these key model parameters are in line with market and industry practices. For a sample of large ticket stage 3 balances, we assessed whether management's key judgements were reasonable. Reconciliations made by management between contract management systems and general ledgers were tested. Our substantive audit procedures did not result in material findings that would affect the measurement of balances due to customers.

Key audit matter	Our audit work and observations
Measurement of assets under operating lease *[reference to note 1.2 in the annual report]* In the consolidated statement of financial position, the carrying value of fixed assets under operating lease amounts to € 2,603 million. The fixed assets under operating lease contracts are measured at cost less any accumulated depreciation and any impairment losses. Management has a process in place in which it evaluates the residual values on an annual basis, typically during the fourth quarter. The carrying value of the fixed assets leased out under operating lease is affected by their economic life and residual value. The residual value can be affected by market price developments and is therefore subject to management judgement and estimation uncertainty. Applied assumptions regarding the estimated residual value, at inception date of the lease and during the contract period, are sensitive to (local) economic developments. IAS 16 'Property, Plant and Equipment', requires a review of the residual value and the useful life of an asset at least at each financial year-end. When expectations differ from previous estimates, the change(s) shall be accounted for as 'changes of an accounting estimate'. A change in the estimated residual value results in a prospective depreciation adjustment and consequently affects the carrying value and depreciation expense of the assets over the remaining lease period. Furthermore, IAS 36 'Impairment of assets' requires a periodical assessment of the carrying value of the fixed assets under operating leases for impairment triggers. Due to the significance of these balances, the large variety of asset classes and the number of regions in which the Group operates and the significant level of management judgement involved in determining expected residual values and impairments we considered the measurement of fixed assets under operating lease a key audit matter.	*Internal controls* We evaluated the design of the internal controls and subsequently tested the operating effectiveness of controls regarding the residual value setting at inception date of the lease contracts. Furthermore, we focussed on the annual process to reassess the recoverability of estimated residual values and the identification of impairment triggers as per IAS 36. In addition, we evaluated the IT environment and relevant IT applications that support data and reports utilised in the annual process to reassess the recoverability of estimated residual values and the identification of impairment triggers. We focussed on the data lineage of contract and asset data used in the residual value setting process and annual impairment trigger assessment. We concluded that we could rely on the internal controls for the majority of our audit procedures and we determined substantive audit procedures necessary to obtain sufficient and appropriate audit evidence, as further outlined below. *Substantive audit procedures* We tested the annual residual value assessment, performed by management, consisting of quantitative (such as an evaluation of residual value results recognized during the year to assess the proper residual value setting) and qualitative (such as testing management's expectations regarding market trends and external outlook for asset classes) factors. This to determine the expected residual value at expiration date, and where applicable to determine the impact on future deprecation during the remaining life of the asset. For a sample of adjustments to residual values, we tested the adjustments recorded to underlying data (i.e. residual value realizations) and assessed management's assessments about market developments. Reconciliations made by management between contract management systems and general ledgers were tested. Our substantive audit procedures did not indicate material findings that would affect the measurement of fixed assets under operating lease.
Application of macro fair value hedge accounting and measurement of derivatives *[reference to note 3.4 in the annual report]* Management used interest rate derivatives to manage the interest rate risk linked to the floating rate loans used to fund an essentially fixed rate portfolio of finance leases and loans to customers. In the macro fair value hedges the Group recognized the results of the hedged items and hedging instruments in the profit or loss account simultaneously, to the extent the hedge relationship is effective. The €- and $-models to determine the change in fair value of the hedged items and hedging instruments and the amount of (in)effectiveness are complex in nature. In view of the magnitude of the interest rate derivatives' notional amounts and the hedged items, the complexity of macro fair value hedge accounting, the potential significant impact on recognizing ineffectiveness in the consolidated statement of profit or loss and the valuation uncertainty of the derivatives, we considered the application of macro fair value hedge accounting and the measurement of derivatives to be a key audit matter.	*Internal controls* We evaluated the design of the internal controls and subsequently tested the operating effectiveness of controls regarding the macro fair value hedge accounting and the measurement of interest rate derivatives. We focused on the adequacy of hedge documentation, the monthly effectiveness testing in line with IAS 39, the controls in place to ensure proper recording of the derivative transactions, and the valuation techniques, models and assumptions applied to ensure compliance with IAS 39. We concluded that we could rely on these internal controls for the purpose of our audit and we determined substantive audit procedures necessary to obtain sufficient and appropriate audit evidence, as further outlined below. *Substantive audit procedures* We, assisted by our hedge accounting specialists, tested methodologies and models used by the Group for determining hedge effectiveness on the basis of the IAS 39 requirements; and evaluated the results of the hedge effectiveness tests for macro fair value hedging for the €- and $-models. In addition, we tested on a sample basis the accuracy and completeness of the contract information included in the models with the associated finance lease / loan contracts and respective derivatives. Key elements covered in our substantive testing were the notional amounts, maturities and underlying interest and currency rates. We noted no differences. We also validated the hedge documentation and the effectiveness testing conducted throughout the year. Next to that, we tested whether the hedge effectiveness is within the bandwidth as defined in IAS 39 during the year. We tested the results on the hedge relationships in the consolidated statement of profit or loss by reconciling these to the hedge accounting model output. Finally, we tested the measurement of derivatives by assessing the models used supplemented with substantive testing on a sample basis. Our substantive audit procedures did not indicate material findings that would affect the measurement of derivatives, the effectiveness of hedges or the application of macro fair value hedge accounting.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management report;
- The supervisory report; and
- The other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements; and
- Contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the management report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of the Company on 9 December 2016 by the supervisory board of De Lage Landen International B.V. following the passing of a resolution at the general meeting of the shareholder held on 18 June 2015. This was our third year as auditors of De Lage Landen International B.V.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 2.5 to the consolidated financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the executive board and the supervisory board for the financial statements

The executive board is responsible for:

- The preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- Such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 17 April 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by C.C.J. Segers RA

Appendix to our auditor's report on the financial statements 2018 of De Lage Landen International B.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

– Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
– Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
– Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
– Concluding on the appropriateness of the executive board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
– Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

We support the sale of equipment by making it readily available at thousands of dealer locations

Currently 70% of the water available worldwide is used in Agriculture. The continued optimization of the use of this scarce resource is critical. That's why we support many irrigation projects across the world

The rural population continues to diminish. That's why we support the financing of the agricultural equipment farmers need to be more efficient. We finance advanced precision farming solutions and traditional implements too

Grow stronger partnerships **in agriculture**

Articles of association regulation concerning **profit appropriation**

Articles 11 of the articles of association determines profit, loss and distribution on shares. On a proposal by the executive board, the General Meeting allocates the profits determined by the adoption of the annual accounts, determines how a shortfall will be accounted for and declares interim distributions from the profits or distributions from the reserves. Profit or reserves may only be distributed to the extent that the Company's equity exceeds the total amount of the reserves referred to in article 2:216 (1) BW.

Notwithstanding the provisions of article 2:216 (1) BW, a resolution to distribute profits or reserves is subject to the executive's board's approval. If at the time when the profits are allocated, no resolution is adopted on the distribution or the addition to the reserves of these profits, the profits will be added to the reserves.

Colophon

Published by
DLL

About the Annual Report 2018
DLL has integrated both the financial information and the management report information in the Annual Report 2018.

The Annual Report 2018 is based on, among other things, the financial statements and other information about DLL as required under Title 9 of Book 2 of the Dutch Civil Code and other applicable laws and regulations.

The Annual Report 2018 has been filed at the offices of the Trade Registry at the Chamber of Commerce under number 17056223 after the adoption of DLL's financial statements by Coöperatieve Rabobank U.A.

An independent auditor's report has been issued for the financial statements, as required under Article 2:393, Paragraph 1 of the Dutch Civil Code. This report takes the form of an unqualified opinion. The section 'Report of the Supervisory Board' does not form part of the statutory management report.

The Annual Report 2018 is available on our website:
www.dllgroup.com

Contact
DLL has exercised the utmost care in the preparation of the Annual Report 2018. If you have questions or suggestions on how we can improve our reporting, please send them by email to communication@dllgroup.com

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