DLL **Capital Adequacy and Risk Management** report

financial solutions partner

Contents

1. Introduction

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

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

Under the CRR, DLL is a significant subsidiary of an EU parent institution and therefore has to comply to the disclosure requirements in article 13(1) of the CRR on a subconsolidated basis. The information in Pillar 3 has not been audited by DLL's independent external auditors. However, the Pillar 3 disclosures are subject to DLL's internal controls and validation mechanisms, to provide assurance over the information disclosed in this report as well as with regards to compliance with laws and regulations.

2. Capital management

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

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

2.1 Qualified capital

DLL has a very solid capital position. Table 1 provides an overview of the different qualifying capital components as of December 31, 2019, including a full reconciliation with the IFRS balance sheet. The main differences between qualifying capital and IFRS capital are regulatory adjustments in qualifying capital following CRR, such as intangibles, deferred tax assets and the Internal Ratings Based (IRB) shortfall.

Table 1

Reconciliation of qualifying capital with IFRS capital

on December 31, 2019

in millions of euros	Qualifying capital	IFRS capital
Retained earnings	2,141	2,150
Shares + share premium	1,233	1,233
Non-controlling interests		
Accumulated other comprehensive income	82	72
Regulatory adjustments	(154)	
Common Equity Tier 1 capital	**3,302**	
Non-controlling interests		
Tier 1-capital	**3,302**	
Non-controlling interests		
Regulatory adjustments	4	
Total IFRS equity/qualifying capital	**3,306**	**3,455**

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

Table 2 provides an overview of changes in qualifying capital during 2019. On December 31, 2019, qualifying capital increased by EUR 334 million compared to December 31, 2018, to EUR 3,306 million. The increase in qualified capital was mainly due to the addition of the profit for the year 2018 to the retained earnings.

Table 2

Overview of changes in qualifying capital	
in millions of euros	
Common equity Tier 1 on December 31, 2018	**2,966**
Shares & share premium	-
Retained earnings	319
Dividend	
Non-controlling interests	
Accumulated other comprehensive income	-
Regulatory adjustments	17
Closing common equity Tier 1 capital on December 31, 2019	**3,302**
Additional Tier 1 capital on December 31, 2018	-
Non-controlling interests	
Closing additional Tier 1 capital on December 31, 2019	**-**
Tier 2 capital on December 31, 2018	6
Non-controlling interests	
Regulatory adjustments	(2)
Closing tier 2 capital on December 31, 2019	**4**
Qualifying capital on December 31, 2019	**3,306**

2.2 Risk weighted assets and required capital

The CRR provides a set of rules to calculate the minimum capital requirements for credit, market, and operational risks. Table 3 presents an overview of the Risk Weighted Assets (RWA) and the capital requirements on December 31, 2019, for the different risk types. Based upon a capital requirement that equals 8% of RWA, the total capital requirement for DLL was EUR 1.7 billion on December 31, 2019.

Credit risk

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

Market risk

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

Operational risk

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

Table 3

Template 4: EU OV1 - Overview of RWA		
on December 31, 2019		
in millions of euros	RWA	Minimum capital requirements
Credit risk (excluding CCR)	**17,754**	**1,420**
Of which the standardised approach	5,150	412
Of which the foundation IRB (FIRB) approach		
Of which the advanced IRB (AIRB) approach	12,604	1,008
Of which equity IRB under the simple risk-weighted approach or the IMA		
CCR	**99**	**8**
Of which mark to market	99	8
Of which original exposure		
Of which the standardised approach		
Of which internal model method (IMM)		
Of which risk exposure amount for contributions to the default fund of a CCP		
Of which CVA		
Settlement risk	**-**	**-**
Securitization exposures in the banking book (after the cap)	**-**	**-**
Of which IRB approach		
Of which IRB supervisory formula approach (SFA)		
Of which internal assessment approach (IAA)		
Of which standardised approach		
Market risk	**198**	**16**
Of which the standardised approach	198	16
Of which IMA		
Large exposures	**-**	**-**
Operational risk	**2,550**	**204**
Of which basic indicator approach	2,550	204
Of which standardised approach		
Of which advanced measurement approach		
Amounts below the thresholds for deduction (subject to 250% risk weight) - SA	**275**	**22**
Amounts below the thresholds for deduction (subject to 250% risk weight) - AIRB	**61**	**5**
Floor adjustment	**-**	**-**
Total	**20,937**	**1,675**

Table 4 shows the flow statements of the credit risk exposures under the A-IRB approach. The increase in total capital requirement by EUR 77 million is mainly due to growth of the portfolio. In 2019, DLL did not engage in major acquisitions or disposals.

Table 4

Template 23: EU CR8 - RWA flow statements of credit risk exposures under the IRB approach		
in millions of euros	RWA amounts	Capital requirements
RWA on December 31, 2018	**11,634**	**931**
Acquisitions and disposals		
Other	970	77
RWA on December 31, 2019	**12,604**	**1,008**

2.3 Pillar 2 framework

Regulatory capital (RC) is the minimum amount of capital required by the supervisor. In addition to RC, institutions should set up a framework to calculate an internal estimate on capital required to absorb unexpected losses. Within Rabobank, the Pillar 2 framework covers all areas where Rabobank is of the opinion that the regulatory framework does not address the risk, or does not adequately address the risk. On December 31, 2019, the total Pillar 2 requirement of DLL was EUR 1,710 million:

– EUR 1,675 million regulatory capital requirements;
– EUR 35 million capital requirement for interest rate risk.

The available qualifying capital of EUR 3,306 million, that DLL retains to compensate for potential losses, was above the level of the total external and internal capital requirements. This buffer underlines the financial solidity of DLL.

2.4 Capital ratios

Table 5 provides an overview of the capital ratios per December 31, 2019, and table 6 provides an overview of the minimal capital requirements ratios per December 31, 2019. The Common Equity Tier 1 ratio (15.77%), the Tier 1 ratio (15.77%) and the Total Capital ratio (15.79%) are all above the minimum capital requirements of respectively 7.16%, 8.66% respectively 10.66%.

Capital conservation buffer is phased in from 0.625% in 2016 to the full buffer requirement of 2.5% in 2019. The countercyclical capital buffer requirement of up to max 2.5% may be imposed by the local supervisors. For DLL the average countercyclical capital buffer requirement was 0.16% per December 31, 2019. A geographical breakdown of the exposures relevant for the calculation of the countercyclical capital buffer is available in Annex B.

Based on the outcome of the SREP, an additional Pillar 2 own funds requirement and Pillar 2 own funds guidance can be imposed by the European Central Bank (ECB). For 2019, The ECB did not impose a Pillar 2 own funds requirement/ guidance for DLL.

2.5 Leverage ratio

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

Table 5

Capital ratios

on December 31, 2019

in millions of euros	
Risk Weighted Assets	**20,937**
Total Common Equity Tier 1 capital	3,302
Total Tier 1 capital	3,302
Total qualifying capital	**3,306**
Common Equity Tier 1 ratio	15.77%
Tier 1 ratio	15.77%
Total Capital ratio	**15.79%**

Table 6

Minimum capital requirements

on December 31, 2019

in millions of euros	Total SREP capital requirements		Combined buffer requirements			
	Pillar 1 (CRR)	Pillar 2 (SREP)	Capital conservation buffer	Countercyclical capital buffer	Pillar 2 guidance	Total capital requirements
Common Equity Tier 1 ratio	4.50%	0.00%	2.50%	0.16%	0.00%	7.16%
Tier 1 ratio	6.00%	0.00%	2.50%	0.16%	-	8.66%
Total Capital ratio	8.00%	0.00%	2.50%	0.16%	-	10.66%

3. Credit risk

3.1 Credit risk portfolio

For the majority of DLL's portfolio, DLL is using the most advanced calculation methods for calculating the RWA for credit risk, which is A-IRB. For a minor part the SA is applied. The following four templates show different breakdowns of the credit risk portfolio[1]. The total credit risk portfolio includes intercompany positions with Rabobank (EUR 2,717 million) and off-balance credit facilities (EUR 5,088 million).

Breakdown per exposure class

Table 7

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

Net values of exposures *in millions of euros*	Net value of exposures on December 31, 2019	Average net exposures over 2019
Central governments or central banks	89	106
Institutions	2,944	2,796
Corporates	8,763	8,314
Of which: Specialised lending		
Of which: SMEs	2,248	1,957
Retail	22,318	21,745
Secured by real estate property		
Of which: SMEs		
Of which: Non-SMEs		
Qualifying revolving		
Other retail	22,318	21,745
Of which: SMEs	21,590	21,063
Of which: Non-SMEs	728	682
Equity		
Total IRB approach	**34,114**	**32,961**
Central governments or central banks	490	451
Regional governments or local authorities		
Public sector entities		
Multilateral development banks		
International organisations		
Institutions	139	160
Corporates	7,542	7,036
Of which: SMEs	596	515
Retail	2,672	2,658
Of which: SMEs	2,672	2,658
Secured by mortgages on immovable property		
Of which: SMEs		
Exposures in default	146	134
Items associated with particularly high risk		
Covered bonds		
Claims on institutions and corporates with a short-term credit assessment		
Collective investments undertakings		
Equity exposures		
Other exposures		
Total standardised approach	**10,989**	**10,439**
Total	**45,103**	**43,400**

1 In the remainder of this document, the risk types mentioned in Table 3 "Template 4 EU: OV1 - Overview of RWA" are leading. This implies, unless stated otherwise, that the credit risk portfolio (row 1 of template 4) does not take into account:
- CCR (gross amount EUR 201 million and RWA amount EUR 99 million); and
- Amounts below the threshold for deduction:
  - DTA (gross amount EUR 110 million and RWA amount EUR 275 million)
  - Significant Investments in Financial Sector Entities (gross amount EUR 24 million and RWA amount EUR 61 million)

Furthermore, other non-credit-obligation (ONCO) assets are, unless stated otherwise, excluded from credit risk portfolio because these exposures are not assigned to exposure classes (gross amount EUR 507 million and RWA amount EUR 2,592 million).

Geographical breakdown of exposures

Table 8

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

on December 31, 2019

Net values of exposures *in millions of euros*	The Netherlands	Other EU	North America	Latin America	Asia	Australia	Other	Total
Central governments or central banks		16	63			10		89
Institutions	2,665	149	95	13	22	-		2,944
Corporates	433	2,573	4,778	197		782		8,763
Retail	1,258	9,170	9,932	1,035	-	923	-	22,318
Equity								
Total IRB approach	**4,356**	**11,908**	**14,868**	**1,245**	**22**	**1,715**	**-**	**34,114**
Central governments or central banks	127	99	228	22	2	12	-	490
Regional governments or local authorities								
Public sector entities								
Multilateral development banks								
International organizations								
Institutions		55	50	17	13	4	-	139
Corporates	185	3,435	3,112	237	219	354		7,542
Retail	38	1,595	11	271	394	363		2,672
Secured by mortgages on immovable property								
Exposures in default	2	44	-	26	35	39		146
Items associated with particularly high risk								
Covered bonds								
Claims on institutions and corporates with a short term credit assessment								
Collective investments undertakings								
Equity exposures								
Other exposures								
Total standardized approach	**352**	**5,228**	**3,401**	**573**	**663**	**772**	**-**	**10,989**
Total	**4,708**	**17,136**	**18,269**	**1,818**	**685**	**2,487**	**-**	**45,103**

Industry breakdown of exposures

Table 9

Template 9: EU CRB-D – Concentration of exposures by industry or counterparty types on December 31, 2019 Net values of exposures *in millions of euros*	Food (animal)	Food (vegetable)	Industry	Other F&A	Services	Central Government or Central Banks	Banks	Households	Trade	Total
Central governments or central banks	-	-	-	-	-	89	-	-	-	89
Institutions	-	-	-	-	2,875	-	69	-	-	2,944
Corporates	174	338	1,312	1,030	3,941	-	-	-	1,968	8,763
Retail	1,953	4,194	2,730	2,129	8,487	207	25	728	1,865	22,318
Equity										-
Total IRB approach	**2,127**	**4,532**	**4,042**	**3,159**	**15,303**	**296**	**94**	**728**	**3,833**	**34,114**
Central governments or central banks	-	-	-	-	-	490	-	-	-	490
Regional governments or local authorities										-
Public sector entities										-
Multilateral development banks										-
International organizations										-
Institutions	-	-	-	-	8	-	131	-	-	139
Corporates	22	5,409	159	227	498	-	-	-	1,227	7,542
Retail	414	328	229	575	726	3	1	-	396	2,672
Secured by mortgages on immovable property										-
Exposures in default	4	16	22	18	48	-	-	-	38	146
Items associated with particularly high risk										-
Covered bonds										-
Claims on institutions and corporates with a short-term credit assessment										-
Collective investments undertakings										-
Equity exposures										-
Other exposures										-
Total standardized approach	**440**	**5,753**	**410**	**820**	**1,280**	**493**	**132**	**-**	**1,661**	**10,989**
Total	**2,567**	**10,285**	**4,452**	**3,979**	**16,583**	**789**	**226**	**728**	**5,494**	**45,103**

Maturity breakdown of exposures[2]

Table 10

Template 10: EU CRB-E – Maturity of exposures on December 31, 2019 Net values of exposures *in millions of euros*	On demand[3]	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Central governments or central banks		8	71	10		89
Institutions		26	144	58	2,698	2,926
Corporates		1,818	5,669	1,276		8,763
Retail		1,803	16,837	3,685	(7)	22,318
Equity						
Total IRB approach		**3,655**	**22,721**	**5,029**	**2,691**	**34,096**
Central governments or central banks		1	4		485	490
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organizations						
Institutions		-	8		131	139
Corporates		844	1,197	108	305	2,454
Retail		625	1,919	128		2,672
Secured by mortgages on immovable property						
Exposures in default		30	105	6	5	146
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures						
Other exposures						
Total standardized approach		**1,500**	**3,233**	**242**	**926**	**5,901**
Total		**5,155**	**25,954**	**5,271**	**3,617**	**39,997**

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

3 On demand exposures are reported in the ≤ 1 year bucket

3.2 Insurance activities

DLL has an insurance undertaking in Ireland. The net equity value of the insurance undertaking is EUR 36 million on December 31, 2019. Given the relative small size of the Irish insurance undertaking, the entity is not excluded from the prudential consolidation. Total RWA is EUR 19 million on December 31, 2019.

Table 11

Template 6: EU INS1 – Non-deducted participations in insurance undertakings On December 31, 2019 *in millions of euros*	Value
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	36
Total RWA	19

3.3 Quantitative information credit risk mitigation techniques

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

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

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

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

Table 12 provides an overview of all credit risk exposures. On December 31, 2019, the total amount of exposures net of allowances and impairments was EUR 45,103 million of which EUR 743 million defaulted.

Table 12

Template 18: EU CR3 – CRM techniques – Overview

on December 31, 2019

Exposure net of allowances and impairments *in millions of euros*	Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans (including operating lease)	3,368	36,629	36,629		
Total debt securities					
Off-balance-sheet exposures	5,106	-	-		
Total	**8,474**	**36,629**	**36,629**		
Of which defaulted		743	743		

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

Table 13

Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects

On December 31, 2019

in millions of euros	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central governments or central banks	490		490		32	6.46%
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	139		139		55	39.59%
Corporates	2,454	5,088	2,454	556	2,993	99.43%
Retail	2,672		2,672		1,924	72.00%
Secured by mortgages on immovable property						
Exposures in default	146		146		146	100.00%
Higher-risk categories						
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity						
Other items						
Total	**5,901**	**5,088**	**5,901**	**556**	**5,150**	**79.75%**

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

Table 14

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

on December 31, 2019

in millions of euros	Pre-credit derivatives RWA	Actual RWA
Central governments or central banks	8	8
Institutions	275	275
Corporates – SMEs	1,080	1,080
Corporates – Specialised lending		
Corporates – Other	3,075	3,075
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs		
Retail – Qualifying revolving		
Retail – Other SMEs	160	160
Retail – Other non-SMEs	5,414	5,414
Equity IRB		
Other non credit obligation assets	2,592	2,592
Total[4]	**12,604**	**12,604**

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

3.4 Troubled debt

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

For regulatory purposes, DLL started the implementation of the new default definition explained in the (final) European Banking Authority (EBA) Regulatory Technical Standard (RTS) on Materiality Threshold of Credit Obligation Past Due and the (final) EBA Guidelines on the Application of the Definition of Default in 2018. By the end of 2019, all portfolios treated under IRB meet this new definition, while all SA portfolios are expected to meet this new definition in 2020.

Under this new definition default status is assigned to an obligor once one or both of the following conditions are met:
– 90 Days past due: the obligor has 90 consecutive days of arrears that are above predefined materiality thresholds.
– DLL considers that the obligor is unlikely to repay its credit obligations.

Especially the 90 days past due condition does not fit to DLL's business model, since most DLL customers perceive DLL as a provider of equipment and treat DLL as a trade creditor with accompanying payment behavior that cannot be compared with payment behavior to a regular bank.

As a result, portion of DLL's portfolio contain obligors that pay structurally late however, once comparing reporting date with current date, never exceed the 90 days past due threshold. However, at the same time they may have 90 consecutive days of arrears. Although under the new definition of default these obligors are assigned default status, DLL does not suffer from losses since in the end these obligors pay all credit obligations. For this reason, DLL is of the opinion that, taking into account the new definition of default, DLL's December 2019 defaulted portfolio (explained in the tables below) is overestimated and in fact does not reflect the portfolio of obligors that suffer from a deterioration in creditworthiness.

DLL applies the IFRS 9 methodology of assigning credit risk adjustments to exposures (stage I – II – III credit risk adjustments). Non-defaulted exposures are assigned stage I and II credit risk adjustments, defaulted exposures are assigned stage III credit risk adjustments. Stage I and II credit risk adjustments are based on a macro-economic forecasting model. For stage III credit risk adjustments two different approaches are applied:
1. Individual: this approach is applicable for large exposure obligors. Every obligor is assessed manually and proper credit risk adjustments are set.
2. Collective: this approach is applicable for relatively small exposure obligors. Every defaulted exposure is automatically assigned a credit risk adjustment based upon the Expected Loss concept.

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

The following three templates show different breakdowns of DLL's defaulted portfolio.

Breakdown per exposure class

Table 15

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

on December 31, 2019

in millions of euros	Gross carrying values of					Net values
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs[5]	(a + b - c - d)
	(a)	(b)	(c)	(d)		
Central governments or central banks		89	-			89
Institutions	9	2,936	(1)			2,944
Corporates	187	8,616	(40)		(40)	8,763
Of which: Specialised lending						
Of which: SMEs	27	2,232	(11)			2,248
Retail	582	22,000	(264)		(118)	22,318
Secured by real estate property						
Of which: SMEs						
Of which: Non-SMEs						
Qualifying revolving						
Other retail	582	22,000	(264)			22,318
Of which: SMEs	573	21,277	(260)			21,590
Of which: Non-SMEs	9	723	(4)			728
Equity						
Total IRB approach	**778**	**33,641**	**(305)**		**(158)**	**34,114**
Central governments or central banks		490	-			490
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions		139	-			139
Corporates	80	7,549	(11)			7,618
Of which: SMEs	4	597	(3)			598
Retail	101	2,687	(46)			2,742
Of which: SMEs	101	2,687	(46)			2,742
Secured by mortgages on immovable property						
Of which: SMEs						
Exposures in default	181		(35)			146
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures						
Other exposures						
Total standardised approach[6]	**181**	**10,865**	**(57)**			**10,989**
Total	**959**	**44,506**	**(362)**		**(158)**	**45,103**
Of which: Loans	959	39,400	(362)		(158)	39,997
Of which: Debt securities						
Of which: Off-balance-sheet		5,106				5,106

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

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

Geographical breakdown of exposures

Table 16

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

on December 31, 2019

in millions of euros	Gross carrying values of					Net values
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	(a + b - c - d)
	(a)	(b)	(c)	(d)		
The Netherlands	45	4,686	(23)		(6)	4,708
Other EU	426	16,877	(167)		(43)	17,136
North America	299	18,068	(98)		(70)	18,269
Latin America	74	1,782	(38)		(23)	1,818
Asia	51	658	(24)		(8)	685
Australia	64	2,435	(12)		(8)	2,487
Other Countries		-	-			-
Total	**959**	**44,506**	**(362)**		**(158)**	**45,103**

Industry breakdown of exposures

Table 17

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

on December 31, 2019

in millions of euros	Gross carrying values of					Net values
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	(a + b - c - d)
	(a)	(b)	(c)	(d)		
Food (animal)	50	2,544	(27)			2,567
Food (vegetable)	125	10,217	(57)			10,285
Industry	144	4,364	(56)			4,452
Other F&A	89	3,927	(37)			3,979
Services	412	16,312	(141)		(158)	16,583
Central Governments or Central Banks	8	783	(2)			789
Banks	-	226	-			226
Households	9	723	(4)			728
Trade	122	5,410	(38)			5,494
Total	**959**	**44,506**	**(362)**		**(158)**	**45,103**

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

Table 18

Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments

in millions of euros	Accumulated specific credit risk adjustment
Balance on December 31, 2018	**268**
Increases due to amounts set aside for estimated loan losses during the period	389
Decreases due to amounts reversed for estimated loan losses during the period	(136)
Decreases due to amounts taken against accumulated credit risk adjustments	(158)
Transfers between credit risk adjustments	
Impact of exchange rate differences	(1)
Business combinations, including acquisitions and disposals of subsidiaries	
Other adjustments	
Closing balance on December 31, 2019	**362**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	39
Specific credit risk adjustments directly recorded to the statement of profit or loss	-

Table 19 provides the total amount of defaulted exposures per December 31, 2019. EUR 778 million (81%) relates to A-IRB credit risk and EUR 181 million (19%) relates to SA credit risk.

Table 19

Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

in millions of euros	Gross carrying value defaulted exposures
Closing balance on December 31, 2019	**959**

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

Table 20

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

on December 31, 2019 Gross carrying values *in millions of euros*	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Total loans (including operational lease)	1,531	461	153	275	177	137	2,734
Total debt securities							
Total exposures	**1,531**	**461**	**153**	**275**	**177**	**137**	**2,734**

3.5 Forbearance

DLL's forbearance definition is: the repayment obligations of a contract are restructured since the ability of the obligor to meet the current repayment obligations under current contract conditions are in question due to financial difficulties of the obligor. After restructuring, it is expected that the obligor is able to meet repayment obligations according to adjusted contractual conditions again. The restructuring of the repayment obligations result in a decrease of contract yield (i.e. a decrease in economic value) since the net present value of the future cash flow is lower that the net present value of the cash flow before restructuring.

Classifying a forborne status to a contract is a trigger to assign default status to the contract's obligor under the new definition of default explained in section 3.4.

Table 21

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

on December 31, 2019

in millions of euros	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received
		Of which performing but past due >30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	
Total debt securities												
Total loans (including operational lease)	40,359	517	76	959	959	959	96	146	-	216	22	16
Off-balance-sheet exposures	5,106											

4. Remuneration

4.1 General principles for remuneration

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

4.2 Group Remuneration Policy

4.2.1 Scope

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

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

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

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

4.2.2 Governance

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

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

4.2.3 Content

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

Remuneration rules for all employees

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

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

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

Remuneration rules for monitoring functions

The remuneration of employees that are identified as Identified Staff and that are in a control role, referred to as monitoring functions (HR, Control, Risk Management, Compliance, Legal and Internal Audit), is bound by strict conditions. This ensures their independence with regard to their monitoring role. For monitoring functions, the following requirements are applicable:
– The amount of the fixed pay of employees in a monitoring function will be sufficient to guarantee that DLL can attract qualified and experienced employees;
– In the allocation between fixed and variable pay, fixed pay is preferred and variable pay, if any, is always less than 50% of fixed pay;
– Objectives for awarding variable pay are predominantly function related. Financial criteria are not based on the financial results of the entity being monitored by the employee in the monitoring function;
– Variable pay is only paid to employees in monitoring functions when at least 50% of the specific job-related targets are met, so as to emphasize the appropriate performance of the functional role.

Remuneration rules for Identified Staff

Employees that may have a material influence on DLL's risk profile are designated as "Identified Staff." 49 employees (including 4 Supervisory Board Members) within DLL are classified as such.

Most of these employees are not eligible for variable remuneration. In case they are eligible, their incentive is governed by the principles laid down in the Rabobank Remuneration Policy. The most important of these risk-mitigating measures are discussed below:
1. As is the case for all other employees, Identified Staff must meet a proper balance of performance objectives. Variable remuneration is typically awarded based on a balanced mix of qualitative and quantitative objectives and the adherence to our core values is taken into account as well. Identified Staff are specifically subject to performance measurements at the Group, business unit and individual levels.
2. A minimum of 40 percent of the variable remuneration for eligible Identified Staff is awarded conditionally and is paid on a deferred basis after a period of at least three years. Half of the variable remuneration is awarded in the form of Deferred Remuneration Notes (DRNs), which is linked directly to the price of Rabobank Certificates, registered at NYSE Euronext. A retention period of one year applies to DRNs awarded unconditionally. This means that payments are made on DRNs one year after they have vested. Based on the applicable legislation and regulations, the Managing Board of Rabobank, as far as relevant after approval by the Supervisory Board of Rabobank, can withdraw or reclaim this variable remuneration.

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

Table 22 discloses the remuneration awarded to Identified Staff relating to 2019.

Table 22

Remuneration Identified Staff 2019

in thousands of euros	Direct	Deferred and conditional
Fixed Remuneration		
Cash based	19,699	-
Instruments	-	-
Variable remuneration		
Cash based	50	33
Instruments	50	33

In 2019, no retention bonuses, no buy outs and no severance payments were awarded to Identified Staff of DLL.

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

Table 23 discloses the actual payments to Identified Staff. Distinction is made between the direct payments of the cash based direct variable pay relating to performance year 2019, and the amounts that are payable from former years.

Table 23

Actual payments to Identified Staff 2019		
in thousands of euros	from 2019	from former years
Cash based	50	371
Instruments	-	522

Malus and claw back

No malus (withdrawal of conditional amounts) nor claw back (withdrawal of unconditional and/or already paid out amounts) were applied to Identified Staff members in 2019.

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

Table 24

Total amount of outstanding deferred compensation for Identified Staff 2019		
in thousands of euros	Vested	Unvested
Cash based	-	470
Instruments	858	150

Exceptions to the Group Remuneration Policy

In 2019, no exceptions to the Group Remuneration Policy were applied to Identified Staff member of DLL.

5. Declaration Executive Board

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

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

Annex A: Main features capital instruments

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

Annex B: Institution-specific countercyclical buffer rate and breakdown of countercyclical buffer by country

Amount of institution-specific countercyclical capital buffer

on December 31, 2019

in millions of euros	
Total risk exposure amount	20,937
Institution specific countercyclical buffer rate	0.16%
Institution specific countercyclical buffer requirement	34

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

on December 31, 2019

in millions of euros	*General credit exposures*[7]		*Trading book exposure*		*Securitization exposure*		*Own funds requirements*				*Own funds requirement weights*	*Counter-cyclical capital buffer rate*	*Counter-cyclical capital buffer requirement*
	Exposure value for SA	*Exposure value for IRB*	*Sum of long and short position of trading book*	*Value of trading book exposure for internal models*	*Exposure value for SA*	*Exposure value for IRB*	*Of which: General credit exposures*	*Of which: Trading book exposures*	*Of which: Securitization exposures Total*	*Total*	*(a)*	*(b)*	*(a)*(b)*
Argentina	60	-					4			4	0.25%	0.00%	0.00%
Australia	297	1,455					77			77	5.51%	0.00%	0.00%
Austria	13	100					4			4	0.32%	0.00%	0.00%
Bahamas		-					-			-	0.00%	0.00%	0.00%
Bahrain		-					-			-	0.00%	0.00%	0.00%
Bangladesh		-					-			-	0.00%	0.00%	0.00%
Belgium	18	348					13			13	0.96%	0.00%	0.00%
Bermuda		-								-	0.00%	0.00%	0.00%
Brazil	40	1,258					42			42	3.04%	0.00%	0.00%
Bulgaria		-					-			-	0.00%	0.50%	0.00%
Canada	45	1,841					41			41	2.93%	0.00%	0.00%
Cayman Islands		-					-			-	0.00%	0.00%	0.00%
Chile	136						9			9	0.67%	0.00%	0.00%
China	147	-					10			10	0.70%	0.00%	0.00%
Colombia	2						-			-	0.01%	0.00%	0.00%
Costa Rica		-					-			-	0.00%	0.00%	0.00%
Croatia		-					-			-	0.00%	0.00%	0.00%
Czech Republic		-					-			-	0.00%	1.50%	0.00%
Denmark	90	372					17			17	1.19%	1.00%	0.01%
Ecuador		-					-			-	0.00%	0.00%	0.00%
Egypt		-					-			-	0.00%	0.00%	0.00%
El Salvador		-					-			-	0.00%	0.00%	0.00%
Estonia		-					-			-	0.00%	0.00%	0.00%
Finland	8	120					4			4	0.27%	0.00%	0.00%
France	346	1,792					67			67	4.83%	0.25%	0.01%
Germany	772	2,589					108			108	7.72%	0.00%	0.00%
Guadeloupe		-					-			-	0.00%	0.00%	0.00%
Guatemala		-					-			-	0.00%	0.00%	0.00%
Guyana		-					-			-	0.00%	0.00%	0.00%
Hong Kong	8						1			1	0.04%	2.00%	0.00%

7 Relevant credit exposures shall include all those exposure classes, other than those referred to in points (a) to (f) of Article 112 of Regulation (EU) No 575/2013, that are subject to:
(g) exposures to corporates;
(h) retail exposures;
(i) exposures secured by mortgages on immovable property;
(j) exposures in default; EN L 176/74 Official Journal of the European Union 27.6.2013
(k) exposures associated with particularly high risk;
(l) exposures in the form of covered bonds;
(m) items representing securitization positions;
(n) exposures to institutions and corporates with a short-term credit assessment;
(o) exposures in the form of units or shares in collective investment undertakings ("CIUs");
(p) equity exposures;
(q) other items.

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

on December 31, 2019

in millions of euros	General credit exposures[7]		Trading book exposure		Securitization exposure		Own funds requirements				Own funds requirement weights	Counter-cyclical capital buffer rate	Counter-cyclical capital buffer requirement
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures Total	Total	(a)	(b)	(a)*(b)
Hungary	214	-					15			15	1.09%	0.00%	0.00%
India	189	-					12			12	0.86%	0.00%	0.00%
Ireland	408	60					28			28	2.03%	1.00%	0.02%
Israel		-					-			-	0.00%	0.00%	0.00%
Italy	148	1,451					74			74	5.30%	0.00%	0.00%
Jamaica		-					-			-	0.00%	0.00%	0.00%
Japan		-					-			-	0.00%	0.00%	0.00%
Kenya		-					-			-	0.00%	0.00%	0.00%
Luxembourg		7					-			-	0.02%	0.00%	0.00%
Malaysia		-					-			-	0.00%	0.00%	0.00%
Malta		-					-			-	0.00%	0.00%	0.00%
Martinique		-					-			-	0.00%	0.00%	0.00%
Mexico	264	-					18			18	1.28%	0.00%	0.00%
Monaco		-					-			-	0.00%	0.00%	0.00%
Netherlands	193	5,713					263			263	18.87%	0.00%	0.00%
New Zealand	355	62					25			25	1.80%	0.00%	0.00%
Niger		-					-			-	0.00%	0.00%	0.00%
Nigeria		-					-			-	0.00%	0.00%	0.00%
Norway	84	462					17			17	1.19%	2.50%	0.03%
Pakistan		-					-			-	0.00%	0.00%	0.00%
Panama		-					-			-	0.00%	0.00%	0.00%
Peru	4						-			-	0.02%	0.00%	0.00%
Philippines		-					-			-	0.00%	0.00%	0.00%
Poland	510	-					34			34	2.40%	0.00%	0.00%
Portugal	5	109					6			6	0.43%	0.00%	0.00%
Réunion		-					-			-	0.00%	0.00%	0.00%
Romania		-					-			-	0.00%	0.00%	0.00%
Russian Fed.	296						19			19	1.36%	0.00%	0.00%
San Marino		-					-			-	0.00%	0.00%	0.00%
Singapore	94	-					7			7	0.49%	0.00%	0.00%
Slovakia		-					-			-	0.00%	1.50%	0.00%
South Africa		-					-			-	0.00%	0.00%	0.00%
South Korea	210	-					15			15	1.06%	0.00%	0.00%
Spain	64	821					33			33	2.37%	0.00%	0.00%
St Kitts&Nevis		-					-			-	0.00%	0.00%	0.00%
Suriname		-					-			-	0.00%	0.00%	0.00%
Sweden	68	694					23			23	1.63%	2.50%	0.04%
Switzerland	118	-					7			7	0.52%	0.00%	0.00%
Taiwan		-					-			-	0.00%	0.00%	0.00%
Togo		-					-			-	0.00%	0.00%	0.00%
Turkey	53						4			4	0.29%	0.00%	0.00%
United Kingdom	352	1,850					63			63	4.54%	1.00%	0.05%
USA	216	11,384					335			335	24.03%	0.00%	0.00%
Total	**5,827**	**32,488**	**-**	**-**	**-**	**-**	**1,395**	**-**	**-**	**1,395**	**100.00%**		**0.16%**

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