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 DLL where the pass porting rights of DLL are leveraged. DLL holds 100% of the shares of its subsidiaries, except for 'joint ventures', where DLL still controls the entities by having a majority in voting rights and economic interest.

DLL is a subsidiary institution that holds financial institutions in third countries. According to CRR article 22 DLL has to comply with solvency requirements on sub-consolidated basis. DLL classifies as significant subsidiary of an EU parent institution and therefore has to comply with the disclosure requirements explained in article 13(1) paragraph 2 of the CRR on a sub consolidated basis. The information in Pillar 3 has not been audited by DLL's independent external auditors. However, the Pillar 3 disclosures are subject to DLL's internal controls and validation mechanisms, to provide assurance over the information disclosed in this report as well as with regards to compliance with laws and regulations.

2. Capital Management

The Executive Board of DLL is responsible for DLL's capital management within the framework as set by it's parent, Rabobank. It is the responsibility of the Executive Board to manage physical capital levels to ensure sufficient capital is held to meet (regulated) requirements and to assure mid- and long term continuity. 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, 2020, including a full reconciliation with the balance sheet. The main differences between qualifying capital and IFRS capital are regulatory adjustments in qualifying capital following CRR, such as intangibles (including goodwill), deferred tax assets that rely on future profitability and the Internal Ratings Based (IRB) shortfall.

Table 1

Reconciliation of qualifying capital with IFRS capital on December 31, 2020 *in millions of euros*	Qualifying capital	IFRS capital
Retained earnings	2,405	2,535
Shares and share premium	1,233	1,233
Non-controlling interests		
Accumulated other comprehensive income	(71)	(60)
Regulatory adjustments	(15)	
Common Equity Tier 1 capital	**3,552**	
Non-controlling interests		
Tier 1-capital	**3,552**	
Non-controlling interests		
Regulatory adjustments	61	
Tier 2-capital	**61**	
Total IFRS equity/qualifying capital	**3,613**	**3,708**

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 Appendix 6.1.

Table 2 provides an overview of changes in qualifying capital during 2020. Compared to December 31, 2019, qualifying capital increased by EUR 307 million to EUR 3,613 million. DLL does not apply the provisions as referred to in article 26 of the CRR to include income for the current year into qualifying capital. As such, the qualifying capital for 2020, does not include the net income for the year 2020.

Table 2

Overview of changes in qualifying capital	
in millions of euros	
Common equity Tier 1 on December 31, 2019	**3,302**
Shares and share premium	-
Retained earnings	264
Dividend	
Non-controlling interests	
Accumulated other comprehensive income	(153)
Regulatory adjustments	139
Closing common equity Tier 1 capital on December 31, 2020	**3,552**
Additional Tier 1 capital on December 31, 2019	-
Non-controlling interests	
Closing additional Tier 1 capital on December 31, 2020	**-**
Tier 2 capital on December 31, 2019	4
Non-controlling interests	
Regulatory adjustments	57
Closing tier 2 capital on December 31, 2020	**61**
Qualifying capital on December 31, 2020	**3,613**

2.2. Risk weighted assets and regulatory 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, 2020 for the different risk types. Based upon a capital requirement that equals 8% of RWA (which is the Total Capital ratio requirement), the total capital requirement for DLL was EUR 1.6 billion on December 31, 2020.

Credit risk

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

Market Risk

The only market risk that is applicable for DLL concerns FX risk.

As of January 1, 2020, DLL has changed its hedging strategy approach from absolute CET1 (equity) hedging to ratio hedging. To support this, DLL deliberately takes open FX positions. DLL has been granted permission on December 17, 2020, to exclude these structural open positions from Pillar 1 RWA calculations.

The remaining overall net foreign exchange position (after excluding the open positions deliberately taken to hedge the CET1 ratio) does not exceed 2% of DLL's Total Capital. Therefore, the RWA for FX risk is 0.

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, 2020		
in millions of euros	**RWA**	**Minimum capital requirements**
Credit risk (excluding CCR)	**16,590**	**1,327**
Of which the standardised approach	4,080	326
Of which the foundation IRB (FIRB) approach		
Of which the advanced IRB (AIRB) approach	12,510	1,001
Of which equity IRB under the simple risk-weighted approach or the IMA		
CCR	**49**	**4**
Of which mark to market	49	4
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	**-**	**-**
Securitisation exposures in the banking book (after the cap)	**-**	**-**
Of which IRB approach		
Of which IRB supervisory formula approach (SFA)		
Of which internal assessment approach (IAA)		
Of which standardised approach		
Market risk	**-**	**-**
Of which the standardised approach	-	-
Of which IMA		
Large exposures	**-**	**-**
Operational risk	**2,659**	**213**
Of which basic indicator approach	2,659	213
Of which standardised approach		
Of which advanced measurement approach		
Amounts below the thresholds for deduction (subject to 250% risk weight) - SA	**426**	**34**
Amounts below the thresholds for deduction (subject to 250% risk weight) - AIRB	**61**	**5**
Floor adjustment	**-**	**-**
Total	**19,785**	**1,583**

Table 4 shows the RWA flow statements for credit risk exposures that are treated under the A-IRB approach. The decrease in RWA by EUR 94 million is due to a combination of factors such as movements in asset size, asset quality, model updates and foreign exchange movements. In 2020, DLL did not engage in major acquisitions or disposals and there were no major changes in methodologies and/or policies.

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, 2019	**12,604**	**1,008**
Asset size	424	34
Asset quality	(75)	(6)
Model updates	123	10
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	(566)	(45)
Other	-	-
RWA on December 31, 2020	**12,510**	**1,001**

2.3. Pillar 2 Capital 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, 2020, the total Pillar 2 requirement of DLL was EUR 1,983 million:

- EUR 1,583 million regulatory capital requirements;
- EUR 58 million capital requirement for interest rate risk in the banking book;
- EUR 342 million capital requirement for market foreign exchange risk (related to the open FX positions that are deliberately taken to support ratio hedging and that are not included in the Pillar 1 requirements).

The available qualifying capital of EUR 3,613 million, that DLL retains to compensate for potential losses, was well above the Pillar 2 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, 2020. The CET1 ratio equals 17.95% (2019: 15.77%), the Tier 1 ratio equals 17.95% (2019: 15.77%) and the Total Capital ratio equals 18.26% (2019: 15.79%). The CET1 ratio increased by 2.22 percentage points. The main reason for this increase relates to the reduction in RWA for risk.

Table 5

Capital ratios	
on December 31, 2020	
in millions of euros	
Risk Weighted Assets	**19,785**
Total Common Equity Tier 1 capital	3,552
Total Tier 1 capital	3,552
Total qualifying capital	**3,613**
Common Equity Tier 1 ratio	17.95%
Tier 1 ratio	17.95%
Total capital ratio	**18.26%**

DLL must comply with the minimum capital ratios as stipulated under CRR. Effective January 1, 2014, the minimum required percentages are determined on the basis of CRD IV/CRR. Table 6 provides an overview of the minimum capital requirements ratios per December 31, 2020.

Table 6

Minimum capital requirements						
on December 31, 2020						
	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%	0.01%	0.00%	7.01%
Tier 1 ratio	6.00%	0.00%	2.50%	0.01%	0.00%	8.51%
Total capital ratio	8.00%	0.00%	2.50%	0.01%	0.00%	10.51%

The capital conservation buffer has reached the full buffer requirement of 2.5% since 2019. The countercyclical buffer requirement of up to maximum 2.5% may be imposed by the local competent authorities. For DLL the average countercyclical capital buffer requirement was 0.01% per December 31, 2020. A geographical breakdown of the exposures relevant for the calculation of the countercyclical capital buffer is available in Appendix 6.2.

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 2020, the ECB did not impose a Pillar 2 own funds requirement/ guidance for DLL.

The actual ratios of DLL exceed the minimum required capital ratios, thereby underlining again the financial solidity of DLL. Additionally, this indicates that DLL remains well positioned to absorb the possible impact of Basel III reforms.

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 comply with leverage ratio requirements on a sub-consolidated level.

3. Credit risk

3.1. Credit risk portfolio

For the majority of its portfolio, DLL applies the A-IRB approach to calculate its regulatory capital requirements according to CRR (CRD IV). For credit risk the IRB approach is the most advanced and risk-sensitive approach within the CRR, allowing DLL to make use of its internal rating methodologies and models. For a minor part of the DLL portfolio the standardized approach 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 2,643 million) and (the notional value of) off-balance credit facilities (EUR 5,467 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, 2020	Average net exposures over 2020
Central governments or central banks	74	80
Institutions	2,825	2,301
Corporates	8,262	8,286
Of which: Specialised lending		
Of which: SMEs	1,857	1,907
Retail	22,378	22,252
Secured by real estate property		
Of which: SMEs		
Of which: Non-SMEs		
Qualifying revolving		
Other retail	22,378	22,252
Of which: SMEs	21,507	21,416
Of which: Non-SMEs	871	836
Equity		
Total IRB approach	**33,539**	**32,919**
Central governments or central banks	396	401
Regional governments or local authorities		
Public sector entities		
Multilateral development banks		
International organisations		
Institutions	139	129
Corporates	7,165	7,244
Of which: SMEs	334	425
Retail	2,332	2,435
Of which: SMEs	2,332	2,435
Secured by mortgages on immovable property		
Of which: SMEs		
Exposures in default	93	132
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	**10,125**	**10,341**
Total	**43,664**	**43,260**

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:
- Counterparty Credit Risk CR (gross amount EUR 103 million and RWA amount EUR 49 million); and
- Amounts below the threshold for deduction and therefore risk weighted:
  - Deferred Tax Assets (DTA) (gross amount EUR 170 million and RWA amount EUR 426 million)
  - Significant Investments in Financial Sector Entities (gross amount EUR 24 million and RWA amount EUR 61 million)

Furthermore, other non credit-obligation (ONCO) assets are, unless stated otherwise, excluded from the credit risk portfolio because these exposures are not assigned to exposure classes (gross amount EUR 493 million and RWA amount EUR 2,294 million).

Geographical breakdown of exposures

Table 8

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

on December 31, 2020

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		11	53			10		74
Institutions	2,513	121	99	36	56	-		2,825
Corporates	413	2,841	4,012	147		849		8,262
Retail	1,165	9,583	9,743	865	-	1,022	-	22,378
Equity								
Total IRB approach	**4,091**	**12,556**	**13,907**	**1,048**	**56**	**1,881**	**-**	**33,539**
Central governments or central banks	145	91	137	15	3	5	-	396
Regional governments or local authorities								
Public sector entities								
Multilateral development banks								
International organisations								
Institutions		51	41	18	22	7	-	139
Corporates	137	2,820	3,428	239	125	416		7,165
Retail	35	1,333	11	217	343	393		2,332
Secured by mortgages on immovable property								
Exposures in default	-	34	2	21	29	7		93
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	**317**	**4,329**	**3,619**	**510**	**522**	**828**	**-**	**10,125**
Total	**4,408**	**16,885**	**17,526**	**1,558**	**578**	**2,709**	**-**	**43,664**

Industry breakdown of exposures

Table 9

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

on December 31, 2020

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	-	-	-	-	-	74	-	-	-	74
Institutions	-	-	-	-	2,756	-	69	-	-	2,825
Corporates	194	330	1,215	1,245	3,594	-	-	-	1,684	8,262
Retail	2,164	4,367	2,666	2,105	8,183	198	29	871	1,795	22,378
Equity										-
Total IRB approach	**2,358**	**4,697**	**3,881**	**3,350**	**14,533**	**272**	**98**	**871**	**3,479**	**33,539**
Central governments or central banks	-	-	-	-	-	396	-	-	-	396
Regional governments or local authorities										-
Public sector entities										-
Multilateral development banks										-
International organisations										-
Institutions	-	-	-	-	4	-	135	-	-	139
Corporates	92	687	293	1,902	1,223	3	8	-	2,957	7,165
Retail	428	237	185	572	616	2	1	-	291	2,332
Secured by mortgages on immovable property										-
Exposures in default	5	13	9	10	47	-	-	-	9	93
Items associated with particularly high risk										-
Covered bonds										-
Claims on institutions and corporates with a shortterm credit assessment										-
Collective investments undertakings										-
Equity exposures										-
Other exposures										-
Total standardized approach	**525**	**937**	**487**	**2,484**	**1,890**	**401**	**144**	**-**	**3,257**	**10,125**
Total	**2,883**	**5,634**	**4,368**	**5,834**	**16,423**	**673**	**242**	**871**	**6,736**	**43,664**

Maturity breakdown of exposures[2]

Table 10

Template 10: EU CRB-E – Maturity of exposures						
on December 31, 2020						
Net values of exposures *in millions of euros*	On demand*	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Central governments or central banks		6	55	13		74
Institutions		9	104	69	2,627	2,809
Corporates		1,724	5,278	1,260		8,262
Retail		1,782	16,415	4,195	(14)	22,378
Equity						
Total IRB approach		**3,521**	**21,852**	**5,537**	**2,613**	**33,523**
Central governments or central banks		-	-		396	396
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions		-	5		134	139
Corporates		557	795	83	279	1,714
Retail		569	1,644	119	-	2,332
Secured by mortgages on immovable property						
Exposures in default		22	56	9	6	93
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a shortterm credit assessment						
Collective investments undertakings						
Equity exposures						
Other exposures						
Total standardized approach		**1,148**	**2,500**	**211**	**815**	**4,674**
Total		**4,669**	**24,352**	**5,748**	**3,428**	**38,197**

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

3.2. Quantitative information on 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 estimations are taken into account during underwriting new business. Value lines are available for every relevant asset, reflecting the value of the asset during the economic 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.

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

Table 11 provides an overview of all credit risk exposures. On December 31, 2020, the total amount of exposures net of allowances and impairments was EUR 43,664 million of which EUR 807 million concerns defaulted exposures..

Table 11

Template 18: EU CR3 – CRM techniques – Overview

on December 31, 2020

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)	3,210	34,987	34,987		
Total debt securities					
Off-balance-sheet exposures	5,467	-	-		
Total	**8,677**	**34,987**	**34,987**		
Of which defaulted		807	807		

Table 12 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 not taken into account, which is a prudent approach.

Table 12

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

On December 31, 2020

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	396		396		28	6.96%
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	139		139		63	45.56%
Corporates	1,714	5,451	1,714	512	2,212	99.39%
Retail	2,332		2,332		1,684	72.21%
Secured by mortgages on immovable property						
Exposures in default	93		93		93	100.00%
Higher-risk categories						
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity						
Other items						
Total	**4,674**	**5,451**	**4,674**	**512**	**4,080**	**78.67%**

For the A-IRB portfolio, internally developed Loss Given Default (LGD) models are available. During the LGD model development recoveries of all credit risk mitigation techniques are taken into account. DLL does not make use of credit derivatives.

Table 13

Template 22: EU CR7 – IRB approach – Effect on the RWA of credit derivatives used as CRM techniques		
on December 31, 2020		
in millions of euros	Pre-credit derivatives RWA	Actual RWA
Central governments or central banks	9	9
Institutions	262	262
Corporates – SMEs	916	916
Corporates – Specialised lending		
Corporates – Other	3,132	3,132
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs		
Retail – Qualifying revolving		
Retail – Other SMEs	184	184
Retail – Other non-SMEs	5,703	5,703
Equity IRB		
Other non credit obligation assets	2,304	2,304
Total*	**12,510**	**12,510**

* Please note that ONCO assets are excluded from table 11 but the RWA associated with the ONCO assets are included in table 13.

3.3. Troubled debt

Within DLL's retail business model, monitoring past due (i.e. delinquent) exposures is very important. Delinquency is an indicator of a debtor's payment moral and the most important indicator that 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 2020, all portfolios treated under IRB meet this new definition, as well as the majority of the SA portfolios. The remaining SA portfolios[3] are expected to meet this new definition in 2021.

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 and once the obligor has reached a value of 90 consecutive days in arrears the obligor has at least one obligation that is past due for more than 90 days by comparing assessment date with due date of the open obligation.
- DLL considers that the obligor is unlikely to repay its credit obligations.

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 calculated based on expected credit losses and the impact of macroeconomic developments on these. For stage III credit risk adjustments two different approaches are applied:
1. Individual: this approach is applicable for large exposure obligors. Every obligor is assessed manually and proper credit risk adjustments are set.
2. Collective: this approach is applicable for relatively small exposure obligors. Every defaulted exposure is automatically assigned a credit risk adjustment based upon the Expected Loss concept.

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

Table 14 provides the total amount of defaulted exposures per December 31, 2020. EUR 953 million (88%) relates to A-IRB credit risk and EUR 131 million (12%) relates to SA credit risk.

Table 14

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, 2020	1,084

3 With the exception of the leasing portfolio in China which is a run off portfolio.

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, 2020

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)		
Central governments or central banks		74	-			74
Institutions	4	2,823	(2)			2,825
Corporates	268	8,076	(82)		(48)	8,262
Of which: Specialised lending						
Of which: SMEs	34	1,843	(20)			1,857
Retail	681	22,149	(452)		(139)	22,378
Secured by real estate property						
SMEs						
Non-SMEs						
Qualifying revolving						
Other retail	681	22,149	(452)			22,378
SMEs	669	21,283	(445)			21,507
Non-SMEs	12	866	(7)			871
Equity						
Total IRB approach	**953**	**33,122**	**(536)**		**(187)**	**33,539**
Central governments or central banks		396	-			396
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions		139	-			139
Corporates	40	7,174	(15)			7,199
Of which: SMEs	5	336	(4)			337
Retail	91	2,359	(59)			2,391
Of which: SMEs	91	2,359	(59)			2,391
Secured by mortgages on immovable property						
Of which: SMEs						
Exposures in default	131	-	(38)			93
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**	**131**	**10,068**	**(74)**			**10,125**
Total	**1,084**	**43,190**	**(610)**		**(187)**	**43,664**
Of which: Loans	1,084	37,723	(610)		(187)	38,197
Of which: Debt securities						
Of which: Off-balance-sheet		5,467				5,467

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

** 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, 2020

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	53	4,399	(44)		(5)	4,408
Other EU	491	16,668	(274)		(64)	16,885
North America	391	17,310	(175)		(80)	17,526
Latin America	58	1,569	(69)		(23)	1,558
Asia	47	560	(29)		(8)	578
Australia	44	2,684	(19)		(7)	2,709
Other Countries		-	-			-
Total	**1,084**	**43,190**	**(610)**		**(187)**	**43,664**

Industry breakdown of exposures

Table 17

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

on December 31, 2020

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)	59	2,872	(48)			2,883
Food (vegetable)	126	5,600	(92)			5,634
Industry	137	4,311	(80)			4,368
Other F&A	96	5,810	(72)			5,834
Services	555	16,110	(242)		(187)	16,423
Central Governments or Central Banks	6	670	(3)			673
Banks	1	242	(1)			242
Households	12	866	(7)			871
Trade	92	6,709	(65)			6,736
Total	**1,084**	**43,190**	**(610)**		**(187)**	**43,664**

Table 17 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, 2019	**362**
Increases due to amounts set aside for estimated loan losses during the period	715
Decreases due to amounts reversed for estimated loan losses during the period	(248)
Decreases due to amounts taken against accumulated credit risk adjustments	(204)
Transfers between credit risk adjustments	
Impact of exchange rate differences	(16)
Business combinations, including acquisitions and disposals of subsidiaries	
Other adjustments	
Closing balance on December 31, 2020	**609**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	
Specific credit risk adjustments directly recorded to the statement of profit or loss	

Table 19 provides an overview of the past due exposures including a breakdown per aging bucket[4].

Table 19

Template 14: EU CR1-D – Ageing of past-due exposures							
on December 31, 2020							
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)	1,331	411	135	221	205	165	2,468
Total debt securities							
Total exposures	**1,331**	**411**	**135**	**221**	**205**	**165**	**2,468**

3.4. Forbearance

Sometimes an obligor's contract are restructured when the obligor has problems meeting its current payment requirements. When this happens the contract must be assigned forborne status.

In most cases the forborne classification also triggers a default (i.e. non performing) status of the obligor however it can happen that a forborne contract belongs to a non-defaulted (i.e. performing obligor):

- The forborne measure was taken for an obligor that has a viable business model and the diminished financial obligation due to the restructuring of the contract (i.e. the decrease of the net present value of the contract due to the restructuring of the contract) is immaterial.
- The obligor has cured from the default status however the contract is still in its 730 days forbearance probation period.

4 The aging bucket is determined by comparing the assessment date with the due date of the oldest payment obligation on a contract.

The following table explains amongst others details about DLL's portfolio from a forbearance perspective.

Table 20

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

on December 31, 2020

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)	38,807	571	224	1,084	1,084	1,084	253	334	5	276	47	10
Off-balance-sheet exposures	5,467											

* Note that due to the introduction of the new definition of default (see section 3.3) it is possible that an exposure is past due for more than 90 days by comparing the assessment date with the due date of the oldest open payment obligation of the exposure, however at the same time the obligor (and therefore the exposure) is not classified as defaulted (i.e. the exposure is classified as performing) since the obligor has not 90 consecutive days of arrears that are above predefined materiality thresholds. Exposures that fall in this bucket are reported in the bucket 'Gross carrying amount of performing and non performing exposures – Of which performing but past due >= 30 days and <= 90 days) which does not reflect reality.

4. Remuneration

4.1. General principles for remuneration

DLL seeks to hire the best talent in each local market and therefore aims 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 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.

Wherever variable remuneration applies, a maximum is imposed. In the Netherlands, variable remuneration is capped to 20 percent of an employee's fixed income on average. Outside of the Netherlands, the level of the fixed income, variable pay and benefits are based on the local market of the respective country. Variable remuneration is typically awarded based on a balanced mix of qualitative and quantitative objectives and cannot be higher than 100 percent of an employee's fixed salary. 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 targets that encourage behavior that is not in the best interest of our vendor partners and/or their end-user customers.
The variable remuneration is capped for all roles in all countries and DLL does not guarantee variable remuneration. The annual performance appraisal and remuneration cycle supports acting in the interest of the long-term continuity and financial strength of DLL.

4.2.2. Governance

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 Monitoring Committee of Rabobank Group.

4.2.3. Content

The Rabobank 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.
The following general prohibitions below 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 or is otherwise required by legislation.

Remuneration rules for monitoring functions

The remuneration of employees that are designated 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'. In 2020, 47 employees (including 4 Supervisory Board Members) within DLL are classified as such.

In principle, 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 21 discloses the remuneration awarded to Identified Staff relating to 2020.

Table 21

Remuneration Identified Staff 2020		
in thousands of euros	Direct	Deferred and conditional
Fixed remuneration		
Cash based	19,699	-
Instruments	-	-
Variable remuneration		
Cash based	-	-
Instruments	-	-

In 2020, 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 and 1.5 million.

Table 22 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 2020, and the amounts that are payable from former years.

Table 22

Actual payments to Identified Staff 2020		
in thousands of euros	from 2020	from former years
Cash based	-	421
Instruments	-	574

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 2020.

Table 23 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 23

Total amount of outstanding deferred compensation for Identified Staff 2020		
in thousands of euros	Vested	Unvested
Cash based	-	49
Instruments	383	51

Exceptions to the Group Remuneration Policy

In 2020, 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.J. Janse, *COO*
Y.E. Hoefsmit, *CRO*

6. Appendices

6.1. 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 and (sub) consolidated	Subconsolidated
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	

6.2. Countercyclical buffer by country and institution-specific countercyclical buffer rate

Amount of institution-specific countercyclical capital buffer

on December 31, 2020

in millions of euros	
Total risk exposure amount	19,785
Institution specific countercyclical buffer rate	0.01%
Institution specific countercyclical buffer requirement	2

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

on December 31, 2020

in millions of euros	*General credit exposures**		*Trading book exposure*		*Securitisation 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: Securitisation exposures*	*Total*	*(a)*	*(b)*	*(a)*(b)*
Argentina	39						2			2	0.17%	0.00%	0.00%
Australia	311	1,577					85			85	6.56%	0.00%	0.00%
Austria	13	104					5			5	0.39%	0.00%	0.00%
Bahamas		-					-			-	0.00%	0.00%	0.00%
Bahrain		-					-			-	0.00%	0.00%	0.00%
Belgium	23	308					13			13	0.96%	0.00%	0.00%
Bermuda		-					-			-	0.00%	0.00%	0.00%
Brazil	26	1,068					40			40	3.08%	0.00%	0.00%
Canada	45	1,761					40			40	3.11%	0.00%	0.00%
Cayman Islands		-					-			-	0.00%	0.00%	0.00%
Chile	145						10			10	0.77%	0.00%	0.00%
China	59	-					4			4	0.30%	0.00%	0.00%
Colombia	1						-			-	0.00%	0.00%	0.00%
Costa Rica		-					-			-	0.00%	0.00%	0.00%
Croatia		-					-			-	0.00%	0.00%	0.00%
Czech Republic		-					-			-	0.00%	0.50%	0.00%
Denmark	73	347					15			15	1.16%	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	6	102					3			3	0.25%	0.00%	0.00%
France	211	2,055					65			65	4.98%	0.00%	0.00%
Germany	480	2,967					98			98	7.49%	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	6						-			-	0.03%	1.00%	0.00%
Hungary	177	-					12			12	0.95%	0.00%	0.00%
India	157	-					10			10	0.76%	0.00%	0.00%
Ireland	383	79					27			27	2.04%	0.00%	0.00%
Israel		-					-			-	0.00%	0.00%	0.00%
Italy	107	1,582					79			79	6.05%	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		5					-			-	0.02%	0.25%	0.00%
Malaysia		-					-			-	0.00%	0.00%	0.00%
Martinique		-					-			-	0.00%	0.00%	0.00%
Mexico	201	-					14			14	1.06%	0.00%	0.00%
Monaco		-					-			-	0.00%	0.00%	0.00%

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

on December 31, 2020

in millions of euros	*General credit exposures **		*Trading book exposure*		*Securitisation 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: Securitisation exposures*	*Total*	*(a)*	*(b)*	*(a)*(b)*
Netherlands	118	5,292					238			238	18.24%	0.00%	0.00%
New Zealand	366	67					26			26	1.97%	0.00%	0.00%
Nigeria		-					-			-	0.00%	0.00%	0.00%
Norway	72	482					16			16	1.22%	1.00%	0.01%
Panama		-					-			-	0.00%	0.00%	0.00%
Peru	3						-			-	0.02%	0.00%	0.00%
Philippines		-					-			-	0.00%	0.00%	0.00%
Poland	441	-					29			29	2.25%	0.00%	0.00%
Portugal	5	112					7			7	0.53%	0.00%	0.00%
Réunion		-					-			-	0.00%	0.00%	0.00%
Romania							-			-	0.00%	0.00%	0.00%
Russian Fed.	225						14			14	1.10%	0.00%	0.00%
San Marino		-					-			-	0.00%	0.00%	0.00%
Singapore	77	-					6			6	0.43%	0.00%	0.00%
South Africa		-					-			-	0.00%	0.00%	0.00%
South Korea	198	-					13			13	1.00%	0.00%	0.00%
Spain	48	806					29			29	2.24%	0.00%	0.00%
St Kitts&Nevis		-					-			-	0.00%	0.00%	0.00%
Suriname		-					-			-	0.00%	0.00%	0.00%
Sweden	57	723					23			23	1.75%	0.00%	0.00%
Switzerland	112	1					7			7	0.54%	0.00%	0.00%
Taiwan	-	-					-			-	0.00%	0.00%	0.00%
Togo		-					-			-	0.00%	0.00%	0.00%
Turkey	40						3			3	0.24%	0.00%	0.00%
United Kingdom	202	1,842					54			54	4.13%	0.00%	0.00%
USA	223	10,765					316			316	24.22%	0.00%	0.00%
Total	**4,650**	**32,045**	**-**	**-**	**-**	**-**	**1,303**	**-**	**-**	**1,303**	**100.00%**		**0.01%**

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

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