

2006

Annual Report



bouwfonds

Property Development
Property Finance
Asset Management
Public Fund Management

ANNUAL REPORT 2006

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FOREWORD

In 2006, Bouwfonds changed shareholders following its sale by ABN AMRO to Rabobank and SNS REAAL.

In December 2005, ABN AMRO announced its intention to divest its interest in Bouwfonds. On 31 July 2006, an agreement was signed to transfer ownership of Bouwfonds Property Development, Bouwfonds Asset Management, Bouwfonds Public Fund Management, Bouwfonds Holding and Rijnlandse Bank to Rabobank. An agreement was also concluded with SNS REAAL, which acquired Bouwfonds Property Finance.

The sale was completed on 1 December 2006. On that date, Bouwfonds (excluding Bouwfonds Property Finance) became part of Rabo Bouwfonds, the property division of Rabobank. This transfer of ownership led to the appointment of a new Board of Directors on 1 December 2006. CEO Henk Rutgers resigned, as did CFO Pieter van der Harst. A new Supervisory Board was also appointed.

The sale process has placed heavy demands on the Bouwfonds organisation. Despite this, 2006 was a very good year for the company, in which again excellent results were achieved.

The Board of Directors would like to take this opportunity to thank all employees for their contribution and extensive efforts in 2006. Thanks to their commitment, Bouwfonds has once again delivered an impressive performance, despite the prevailing uncertain situation.

Hoevelaken, 8 March 2007

Tjalling Halbertsma
Chairman

REPORT OF THE SUPERVISORY BOARD

We are pleased to present our shareholder with the 2006 annual report of Rabo Bouwfonds N.V. The annual accounts were prepared by the Board of Directors of Rabo Bouwfonds and audited by Ernst & Young Accountants. We recommend that you approve the 2006 annual accounts.

On 1 December 2006, the company amended its articles of association, changing its name to Rabo Bouwfonds N.V. The shares were transferred to Rabo Bouwfonds Holding N.V., a wholly owned subsidiary of Rabobank Nederland, as per the same date.

In connection with the sale of the company to Rabobank, Messrs Kuiper, Wiegel, Collee and Kooistra resigned from the Board on 1 December, while Messrs Ten Cate, Schat and Van Schijndel commenced their positions on the same date. Mr Ten Cate was appointed chairman.

In 2006, the Board met five times in the presence of the Board of Directors. In addition to recurring topics such as trends in the results of the various business units and the related financial reports, members also discussed the internal organisation. In addition, considerable attention was given to the sale of the company to Rabobank and SNS REAAL. The Board agreed to the introduction of a new organisational structure on 1 April 2006 and to the related appointment of Messrs Klijnen and Van Zandvoort to the Board of Directors. The amendments to the rules and regulations for the Supervisory Board and the Board of Directors were approved.

The decisions of the Board of Directors with regard to the payment of the (interim) dividend and the legal divestment of Rijnlandse Bank were also approved.

The Audit Committee, in which the Supervisory Board was represented by Messrs Collee and Wiegel, met twice in 2006 to discuss the audit reports.

The previous Supervisory Board met for the last time in November 2006. The Board expressed its immense appreciation for the continued dedication shown by the Board of Directors and staff during the year under review, and for the excellent financial results that have been achieved.

Messrs Rutgers and Van der Harst resigned as CEO and CFO respectively on 1 December. On the same date, Messrs Halbertsma (chairman), Van Lange (CFRO) and Keur (chairman Finance Division) took up their posts on the Board of Directors of Rabo Bouwfonds N.V., alongside the existing members, Messrs Klijnen (chairman Investment Management Division) and Van Zandvoort (chairman Development Division).

Hoevelaken, 8 March 2007

Supervisory Board

J.C. ten Cate,
Chairman

S.N. Schat

P.J.A. van Schijndel

KEY FIGURES

		2006	2005
Income and result			
Total net income	€ mln	574	871
Net profit	€ mln	189	314
Financial position			
Shareholders' equity	€ mln	523	1,907
Subordinated loans	€ mln	–	1,151
Group capital	€ mln	543	3,080
Ratios			
Return on shareholders' equity *	%	14.8	16.9
BIS Tier 1 capital ratio	%	15.5	8.4
BIS total capital ratio	%	15.5	12.0
Efficiency ratio	%	54.5	43.3
Change in total net income	%	(34.1)	25.5
Change in operating expenses	%	(21.2)	25.3
Production			
Homes sold (incl. third-party projects)	number	11,382	11,982
Commercial property starts (BPD)	m ²	96,286	107,413
Residential mortgage loans	€ mln	186	8,330
Investment finance	€ mln	1,124	1,210
Project loans	€ mln	1,806	2,171
Leases	€ mln	27	91
Portfolio **			
Residential mortgage loans	€ mln	–	31,262
Investment mortgage loans	€ mln	–	4,499
Project loans (incl. share of third parties)	€ mln	–	4,058
Leases	€ mln	–	861
Assets under management	€ mln	4,027	3,606
Employees			
Employees at year-end	number	1,487	2,195
FTEs at year-end	number	1,372	2,010

* Calculated on average equity excluding unrealised gains or losses.

** Including unused portions of credit facilities and construction depots.

FINANCIAL REVIEW 2006

General

Events in 2006 were dominated by ABN AMRO's decision to divest its interest in Bouwfonds, and by the sale itself. On 1 December 2006, following the transfer of Bouwfonds Hypotheken to ABN AMRO at the beginning of the year, ABN AMRO sold Bouwfonds to Rabobank. The sale did not include the operating company Bouwfonds Property Finance (BPF). BPF was sold to SNS REAAL on the same date. The results of BPF are thus included in the financial statements up to 30 November 2006 as a discontinued business activity. On 29 December 2006, Rijnlandse Bank was legally transferred to FGH Bank. The transfer was completed on 1 December 2006. The results of Rijnlandse Bank for this period were included in the financial statements of Bouwfonds as a discontinued business activity. Finally, Bouwfonds also intends to divest Hopman Interheem Groep. The assets and liabilities of this business unit were therefore included in the balance sheet as held for sale.

As part of the integration of the various property activities of Rabobank Groep into Rabo Bouwfonds, the Dutch Central Bank (De Nederlandsche Bank) was asked to withdraw the banking license effective 31 December 2006.

Results

2006 was another excellent year for Bouwfonds. Net profits rose to € 189.4 million from € 134.4⁽¹⁾ million in 2005. The profit from continuing operations (Development and Management) came out at € 103.6 million (€ 48.3 million in 2005).

2006 was a good year for the development operations, both in the Netherlands and abroad. Profits were sharply higher, especially in commercial property. Bouwfonds sold 11,382 homes, of which 3,279 were sold abroad (2005: 11,982 and 3,523 respectively). Commercial property totalling 715,000 m² was under construction by year-end.

Investment management activities continued to build on the successful launch of the Germany Residential Fund CV, which focuses on a German property portfolio with a diverse spread. Another two funds were also launched: Bouwfonds Germany Residential Fund CV II and III. A fund that targets the US housing market was introduced for institutional investors. Two institutional funds are being prepared for which the property is still recognized in the balance sheet. Total assets under management at the year-end came to € 4.0 billion, compared with € 3.6 billion at the end of 2005, resulting in a higher structural income in 2006.

Balance sheet

During the year total assets decreased by more than € 39 billion to € 4.3 billion. This significant decline was due to the transfer of Bouwfonds Hypotheken to ABN AMRO, the divestment of BPF to SNS REAAL and the transfer of Rijnlandse Bank to FGH Bank.

⁽¹⁾ This does not include the result (€ 179.7 million) of the mortgage company which was sold to ABN AMRO in January 2006.

Risk management

Within Bouwfonds, risk is defined as 'the possibility that the achievement of strategic, tactical or operational objectives may be adversely affected by uncertain events or their consequences'. To manage this key aspect of the business, all possible risks that may occur in our business operations, such as credit risk, interest rate and liquidity risk, currency risk, market risk, operational risk and reputation risk, are catalogued and analysed.

The operating companies take primary responsibility for managing the risks in their own business processes, but are assisted by a central risk management function. For further information on the policies relating to risk management, see the notes to the financial statements 'Financial risks management and use of financial instruments'.

Personnel

On 31 December 2006, Bouwfonds employed a total of 1,487 staff, compared with 2,195 at the end of 2005. This decline was due to the legal transfer of employees of various business units to ABN AMRO Bank, SNS REAAL and FGH Bank. In terms of full-time equivalents (FTEs), the number of staff decreased to 1,372 (2005: 2,010). The number of employees in Bouwfonds' foreign branches increased from 457 in 2005 to 489 in 2006.

The integration and coordination of employment terms and conditions will be a key priority in 2007.

Financing

Bouwfonds is now almost fully financed by Rabobank Nederland, whereas in 2005 several external parties were involved. The Bouwfonds financing programmes, such as the European Commercial Paper programme and the European Medium Term Notes programme, have not been continued. As a result, Bouwfonds itself no longer uses a wide range of instruments to finance its activities.

Outlook for 2007

There is a trend in the market towards more multi-functional projects that combine residential, work and leisure activities. This trend continued in 2006 and is likely to develop further in 2007. Projects are also tending to become larger and more complex as a result. Indirect investment in real estate is also becoming more popular.

These trends provide Bouwfonds with good opportunities to adapt its knowledge of property and structuring. Bouwfonds is able to use this knowledge to devise innovative, creative solutions in response to market developments.

In 2007, Bouwfonds and Rabobank Nederland will combine their activities in a series of divisions embodying specific knowledge and skills relating to property development, financing and investment management. Bouwfonds, FGH Bank and Rabo Vastgoed together constitute the property division of Rabobank. The organisational structure of this property division, Rabo Bouwfonds, will be developed further in 2007. Considerable attention will be given to the ongoing integration of the various activities so that anticipated synergy benefits can be exploited to the full. Investments will be used primarily to support this integration process.

The aim of the new property company Rabo Bouwfonds will be to use all its activities to acquire a leading position in the Netherlands and other European countries, such as France and Germany. The Dutch development operations of Bouwfonds will work closely with Rabo Vastgoed and the local Rabobank branches. Over the coming year, the distribution network and sales strength of the local Rabobank branches will also be used to fuel further growth in assets managed through the investment management activities. Hopman Interheem Groep is likely to be sold in 2007.

Hoevelaken, 8 March 2007

T.B. Halbertsma
J.H.P.M. van Lange
H.J.M. van Zandvoort
P.C. Keur
J.L.M.J. Klijnen

CONSOLIDATED INCOME STATEMENT for 2006

in € x 1,000.–

(Numbers stated against items refer to the notes)

	2006	2005
Continuing operations		
Interest income	75,099	44,185
Interest expense	120,901	82,932
Net interest income (4)	(45,802)	(38,747)
Project income	2,437,936	2,097,165
Project expense	2,085,148	1,832,642
Net project income (5)	352,788	264,523
Results from financial transactions (6)	86	1,296
Share of result in equity accounted investments (7)	3,771	11,626
Other operating income (8)	67,016	61,149
Operating income	377,859	299,847
Staff costs (9)	147,887	134,054
General and administrative expenses (10)	83,468	84,623
Depreciation and amortization (11)	9,834	7,846
Operating expenses	241,189	226,523
Loan impairment charges and other credit risk provisions (12)	485	(179)
Total expenses	241,674	226,344
Operating profit before taxes	136,185	73,503
Income tax expense (13)	(32,624)	(25,164)
Profit from continuing operations	103,561	48,339
Profit from discontinued operations – net of tax (14)	88,472	270,450
Profit for the year	192,033	318,789
Attributable to:		
– Shareholders of the parent company	189,408	314,105
– Minority interest	2,625	4,684

CONSOLIDATED BALANCE SHEET at 31 December 2006

in € x 1,000.–

(Numbers stated against items refer to the notes)

	2006	2005
ASSETS		
Cash (15)	28	23
Financial assets at fair value through income statement (16)	543	13,825
Derivative assets used for hedging (17)	17,194	27,175
Loans and receivables – banks (18)	354,830	164,034
Loans and receivables – customers (19)	741,507	9,309,336
Property (21)	2,616,804	2,868,751
Interest-earning securities (22)	50,000	–
Equity accounted investments (23)	32,410	42,308
Buildings and equipment (24)	22,135	25,792
Intangible assets (25)	20	2,327
Current tax assets (26)	47,564	34,436
Prepayments and accrued income (27)	80,991	86,893
Other assets (28)	194,434	8,770
Total assets of continuing operations	4,158,460	12,583,670
Assets of disposal group classified as held for sale (14)	160,620	30,911,003
Total assets	4,319,080	43,494,673
LIABILITIES		
Financial liabilities at fair value through income statement (16)	–	66,248
Derivative liabilities used for hedging (17)	33,539	60,245
Due to banks (29)	2,715,063	4,316,161
Funds entrusted (30)	369,762	1,109,146
Debt securities (31)	95,048	3,902,650
Provisions (32)	57,422	58,311
Deferred tax (34)	74,131	68,801
Accruals and deferred income (35)	81,295	204,303
Other liabilities (36)	191,559	186,652
Current tax liabilities (37)	41,013	40,495
Subordinated debt (38)	–	559,329
Total liabilities continuing operations	3,658,832	10,572,341
Liabilities directly associated with the assets classified as held for sale (14)	117,099	30,993,872
Total liabilities	3,775,931	41,566,213
Shareholders' equity		
Share capital	10,071	10,071
Share premium account	360,115	365,115
Retained earnings	165,405	1,645,069
Net gains/(losses) not recognised in the income statement	(12,548)	(113,233)
Equity attributable to shareholders of the parent company (39)	523,043	1,907,022
Equity attributable to minority interests	20,106	21,438
Total equity	543,149	1,928,460
Total equity and liabilities	4,319,080	43,494,673
Continued contingent liabilities (40)	426,736	483,122
Discontinued contingent liabilities	–	242
Continued committed facilities (40)	–	2,912,498
Discontinued committed facilities (14)	–	2,124,116

CONSOLIDATED STATEMENT of changes in equity in 2006

in € x 1,000.–

Issued and paid up share capital

Balance at 1 January
Transfer preference shares to ordinary shares

Balance at 31 December

Share premium account

Balance at 1 January
Reduction share premium related to divestment
Bouwfonds Hypotheken B.V.

Balance at 31 December

Retained earnings

Balance at 1 January
Profit attributable to the shareholders
of the parent company
Dividend distribution related to divestment
Bouwfonds Property Finance B.V.
and Bouwfonds Hypotheken B.V.
Transfer Rijnlandse Bank N.V.
Other movements

Balance at 31 December

Subtotal (Transport)

	2006	2005
	10,071	5,036
	–	5,035
	10,071	10,071
	365,115	365,115
	(5,000)	–
	360,115	365,115
	1,645,069	1,332,301
	189,408	314,105
	(1,588,638)	–
	(81,714)	–
	1,280	(1,337)
	165,405	1,645,069
	535,591	2,020,255

	2006	2005
Subtotal (Continued)	535,591	2,020,255
Net gains/(losses) not recognized in the income statement		
Currency translation account		
Balance at 1 January	(1,026)	(865)
Additions	(7)	(161)
Balance at 31 December	(1,033)	(1,026)
Cash flow hedging reserve		
Balance at 1 January	(112,207)	(61,723)
Net unrealised gains/(losses) on cash flow hedges	63,853	(47,869)
Net losses/(gains) reclassified to the income statement	36,839	(2,615)
Balance at 31 December	(11,515)	(112,207)
Total net gains/(losses) not recognized in the income statement at 31 December	(12,548)	(113,233)
Equity attributable to shareholders of the parent company at 31 December	523,043	1,907,022
Equity attributable to minority interest at 1 January	21,438	11,139
Additions	–	5,642
Reductions	(4,954)	–
Acquisitions/disposals	(85)	–
Profit attributable to minority interests	2,625	4,684
Other movements	1,082	(27)
Equity attributable to minority interest at 31 December	20,106	21,438
Total equity at 31 December	543,149	1,928,460

CONSOLIDATED CASH FLOW STATEMENT for 2006

in € x 1,000.–

(Numbers stated against items refer to the notes)

	2006	2005
Operating activities		
Profit from continuing activities excluding minority interest	100,929	43,694
Adjustments for significant non-cash items included in income and movements in operating assets and liabilities		
Depreciation and amortization	9,834	7,846
Movement in provisions	4,258	107,804
Other movements in accruals and deferred income	(129,677)	59,631
Movement in banks	158,043	5,301
Movement in loans	145,429	(439,466)
Movement in property	(371,468)	(247,843)
Other movement from operating activities	(445,613)	(248,551)
Dividends received from equity accounted investments	(454)	(44)
	(629,648)	(755,322)
Cash flow from operating activities	(528,719)	(711,628)
Investing activities		
Additions and acquisitions		
Interest-earning securities	(50,000)	16,700
Equity accounted investments	(37,947)	(13,143)
Buildings and equipment	(9,265)	(7,018)
Intangible assets	–	(33)
	(97,212)	(3,494)
Disposals, repayments and sales		
Equity accounted investments	27,688	7,773
Buildings and equipment	1,054	1,347
	28,742	9,120
Cash flow from investing activities	(68,470)	5,626

	2006	2005
Financing activities		
Increase in equity	103,730	223,464
Movement in banks	2,543,708	1,063,684
Movement in loans	(626,842)	(307,483)
Movement of debt securities	95,048	–
Dividends paid	(1,588,638)	–
Cash flow from financing activities	527,006	979,665
Cash flow from continuing operations	(70,183)	273,663
Cash flow from discontinued operations (14)	(20,769)	(175,901)
Movement in cash and cash equivalents	(90,952)	97,762
Cash and cash equivalents at 1 January	258,810	161,048
Cash and cash equivalents at 31 December (42)	167,858	258,810

NOTES TO THE FINANCIAL STATEMENTS

in € x 1,000.–

1. GENERAL INFORMATION

Rabo Bouwfonds N.V. (formerly ABN AMRO Bouwfonds N.V.) is domiciled in the Netherlands. The consolidated financial statements for the financial year 2006 incorporate the financial figures of Rabo Bouwfonds N.V. and its subsidiaries ('Bouwfonds') as well as Bouwfonds' shareholdings in equity accounted investments. Since 1 December 2006, De Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ('Rabobank Nederland', having its registered office in Amsterdam) has held all shares in Rabo Bouwfonds N.V. through Rabo Bouwfonds Holding N.V.. Rabobank Nederland is therefore referred to as the ultimate owner of Bouwfonds. Until 30 November 2006, ABN AMRO Holding N.V. ('ABN AMRO') held all shares in Bouwfonds and was consequently referred to as the owner of Bouwfonds.

In January 2006, Bouwfonds Hypotheken B.V. was sold to ABN AMRO. In December 2006, Bouwfonds Property Finance B.V. was sold to ABN AMRO as part of the (ultimate) transfer of ownership to SNS REAAL. As from 1 December 2006, the shareholding in Rijnlandse Bank N.V. and the savings operations of Rabo Bouwfonds N.V. were spun off to FGH Bank, another subsidiary of Rabobank.

The Board of Directors of Rabo Bouwfonds plans to sell Hopman Interheem Groep in 2007. Bouwfonds' operations focus on the development, financing and management of property. The financial statements were released by the Board of Directors for publication on 8 March 2007.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

The financial statements are presented in euro, which is the presentation currency of Bouwfonds, rounded to the nearest thousand.

The financial statements are prepared on a mixed model valuation basis. Fair value is used for derivative financial instruments, financial assets and liabilities held for trading or designated as held at fair value through income and available-for-sale assets. The carrying value of assets and liabilities included in a fair value hedge relationship is adjusted with respect to fair value movements in relation to the hedged risk. Other financial assets (including the category 'Loans and Receivables') and liabilities are valued at amortized cost. Non-financial assets and liabilities are generally stated at historical cost.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the recognition and valuation of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the actual results may differ ultimately from these estimates.

Key areas requiring judgement include the assessment and estimation of risk and rewards and other relevant criteria when determining whether or not to derecognise a financial asset or when to consolidate a special purpose entity and the identification of results on projects in the activity property development. This also includes assessing the fair value of certain assets and liabilities, the amount and timing of future cash flows on impaired loans, the outcome of any litigation and guarantees, and the assumptions underlying the determination of long term employee benefit liabilities and other provisions.

The group has applied the accounting policies set out herein since adopting IFRS on 1 January 2004.

The standards and interpretations set out below must be implemented as of 1 January 2007. Bouwfonds has not availed itself of the opportunity to adopt these accounting policies early.

- IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 – Scope of IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 10 – Interim Financial Reporting and Impairment
- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions
- IFRS 7 – Financial Instruments: Disclosures
- IFRS 8 – Operating Segments
- IAS 1 – Presentation of Financial Statements

Bouwfonds has assessed the above standards and amendments; the new standards have no impact on the financial statements themselves. It is noted that the application of IFRS 7 as of 1 January 2007 may affect the explanatory notes to the financial instruments as well as Bouwfonds' risk management policy.

2.3 Basis of consolidation

Subsidiaries and acquisitions

Subsidiaries are defined as those enterprises controlled by Bouwfonds. Control is deemed to exist when Bouwfonds has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. These enterprises are consolidated in Bouwfonds' Financial Statements when the substance of the relationship between Bouwfonds and the company indicate that the company is controlled by Bouwfonds. The existence and effect of potential voting rights that are presently exercisable or convertible are also taken into account when assessing whether Bouwfonds is able to exercise control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The share of minority interests in equity and net profit respectively are shown separately in the consolidated balance sheet and income statement.

IFRS 3 business combinations were adopted for all business combinations that took place after 1 January 2004. Goodwill on acquisitions prior to this date was charged against equity. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over Bouwfonds' share of the fair value of the identifiable net assets (including certain contingent liabilities) acquired is recorded as goodwill. As an exception businesses and entities acquired that are held for sale and comply with the requirement of IFRS 5 non-current assets held for sale and discontinued operations are accounted for under IFRS 5.

In a step acquisition, where control is obtained in stages, all assets and liabilities of the acquired subsidiary, excluding goodwill, are remeasured to fair value as of the date of the latest share acquisition transaction. Fair value differences relating to existing ownership interests are recorded directly in shareholders' equity. As a consequence of measuring all the subsidiary's assets and liabilities at fair value, minority interests are calculated by reference to these fair values.

Investments held with significant influence

Associates are those enterprises in which Bouwfonds has significant influence (this is generally demonstrated when Bouwfonds holds between 20% and 50% of the voting rights), but not control over the operating and financial policies. Investments in which significant influence is held are accounted for using the 'Net equity method'. Under this method the investment is initially recorded at cost and subsequently increased (or decreased) for post acquisition net income (or loss), other movements impacting the equity of the investment and any adjustments required for impairment. When Bouwfonds' share of losses exceeds the carrying amount of the investment, the carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that Bouwfonds has incurred obligations or made payments on behalf of the investment.

Jointly controlled entity

Jointly controlled entities are those enterprises over whose activities Bouwfonds has joint control, established by contractual agreement. The consolidated financial statements include Bouwfonds' proportionate share of these enterprises' assets, liabilities, income and expenses with items of a similar nature on a line by line basis, from the date on which joint control commences until the date on which joint control ceases.

Non-current assets held for sale and discontinued operations

Non-current assets and/or businesses are classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Further, the asset must be ready for sale and the sale must be planned to occur within 12 months. If these criteria are met the assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are classified separately from other assets in the balance sheet. Netting of assets and liabilities of a business held for sale is not permitted.

The results of discontinued operations (if material and distinct) are presented on the face of the income statement as a single amount comprising the net profit or loss of the discontinued operation and the after tax gain or loss realised on disposal or the measurement to fair value less costs to sell of the net assets constituting the discontinued operations. This requires separate inclusion of net profit from continuing operations and net profit from discontinued operations. The comparative income statement data is re-presented if in the current period activities qualify as discontinuing.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any related unrealised gains, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of Bouwfonds' interest in the enterprise. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

2.4 Segment reporting

Business segments are the primary reporting segments. These segments are grouped by the nature of risks and rewards assessed by reference to product and service characteristics. Geographical segments are grouped based on the different economic environments. Geographical data is presented according to the location of its customers.

2.5 Currency translation differences

The financial performance of the group's foreign operations, as conducted by branches, subsidiaries, associates and joint ventures, is reported using the currency ('functional currency') that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

Transactions in a currency other than the functional currency of the transacting entity are translated into the functional currency at the foreign exchange rate prevailing on the transaction date. Accruals and deferrals are translated at the exchange rate prevailing on the last day of the month to which the results relate. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are shown at the foreign exchange rate prevailing at the date of first recognition.

Translation differences on monetary financial assets and liabilities, whether measured at amortized cost or fair value, are included in foreign exchange gains and losses. Translation differences on non-monetary items held at fair value are also reported as exchange rate gains/losses through income. Translation differences on non-monetary items classified as available for sale are reported via equity through 'Net unrealised gains and losses on available for sale assets'.

The assets and liabilities of foreign operations, including goodwill and purchase accounting adjustments are translated to euro at foreign exchange rate ruling at the balance sheet date. The income and expenses of foreign operations are translated to euro at the rates prevailing at the end of the month. Currency translation differences arising on these translations are recognized directly in equity ('currency translation account'). Such exchange differences, arising after 1 January 2004, are included in the income statement on disposal or partial disposal of the operations.

2.6 Interest income and expense

Interest income and expense are recognized in the income statement using the effective interest rate method. The application of this method includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income and expense also includes interest earned or paid in relation to trading balances.

2.7 Project income and expense

Project income is first recognized after a project has been sold and as soon as the outcome of a construction contract can be estimated reliably. Contract income and expenses are subsequently recognized in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to the phases of work performed. An expected loss on a contract is recognized immediately in the income statement.

2.8 Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognized on an accruals basis when the service has been provided. Fees contingent upon performance are only recognized when the performance criteria have been met.

Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction with a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognized as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment.

2.9 Results from financial transactions

This includes gains and losses on the sale of non-trading financial assets and liabilities, the ineffectiveness of certain fair value hedging programs and the fair value changes of assets and liabilities designated at fair value through income.

2.10 Other operating income

Other operating income includes income from property in respect of which Bouwfonds acts as the lessor (landlord).

Other income includes all items that cannot be classified in one of the previous categories and in itself is not material to the operations of the company.

Other income is recognized when the corresponding services are provided.

2.11 Financial assets and liabilities

Classification

Bouwfonds classifies its financial assets and liabilities in the following valuation categories:

Financial instruments held for trading are those that Bouwfonds holds primarily for the purpose of short term profit taking. These include shares, interest bearing securities, certain loans (where the intention is to sell in the near term), derivative contracts that are not designated as hedging instruments, and liabilities from short sales of financial instruments.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets held for trading. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities held for trading.

Loans and receivables are non-derivative financial assets with fixed and determinable payments which are not quoted on an active market. They arise when Bouwfonds provides money or services directly to a customer with no intention of trading or selling the loan. Loans originated with the intention to sell are classified within other assets and designated at fair value through income.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments (i.e. 'debt instruments') and a fixed maturity that Bouwfonds has the intention and ability to hold to maturity.

Designated at fair value through income are financial assets and liabilities that Bouwfonds upon initial recognition (or on transition to IFRS on 1 January 2004) designates to be measured at fair value with changes reported in income. Such a designation is done if:

- the host instrument includes an embedded derivative that would otherwise require separation;
- the designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring those assets or liabilities on a different basis;
- It relates to a portfolio of financial assets and/or liabilities that is managed and evaluated on a fair value basis in accordance with Bouwfonds' risk management or investment strategy.

Derivatives are financial instruments that require little or no initial net investment, with future settlements dependent on an underlying benchmark, such as interest rates. Expected future cash flow changes in response to changes in the underlying benchmark impact the fair value of derivatives. All derivatives are recorded in the balance sheet at fair value. Changes in the fair value of derivative instruments are taken to income, except where a designation as a cash flow hedge is made (see hedging below).

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases the derivative component is termed an embedded derivative. When the economic characteristics of the embedded derivative are not closely related to those of the host contract, the embedded derivatives are separated from the host contract, unless the host contract is at fair value with changes through income and accounted for in a way consistent with stand-alone derivatives. Instruments that include separable embedded derivatives are typically in the trading portfolio or an election is typically made to hold the combined instrument at fair value through income.

Available-for-sale assets are financial assets that are designated as available for sale and not categorised into any of the other categories described above.

Non-trading financial liabilities that are not designated at fair value through income are measured at amortized cost.

Recognition and derecognition

Financial asset are generally derecognized when Bouwfonds loses control or the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. If a servicing function is retained, which is profitable, a servicing asset is retained. A financial liability is derecognized when the obligations specified in the contract are discharged, cancelled or expire.

Purchases and sales of investments and traded instruments are recognized on trade date, being the date Bouwfonds commits to purchase or sell the underlying instrument.

Loans and receivables and deposits are recognized when they are acquired or funded by Bouwfonds and derecognized when settled. Issued debt is recognized as at the date of issuance; funds entrusted are recognized when the cash is deposited with Bouwfonds.

Other financial assets and liabilities, including derivatives, are recognized in the balance sheet when Bouwfonds becomes party to the contractual provisions of the asset or liability.

Measurement

All trading instruments and financial assets and liabilities designated at fair value are valued at fair value, with transaction costs taken to income directly.

All derivatives are recorded in the balance sheet at fair value with changes recorded through income unless the derivative qualifies for cash flow hedging accounting.

Available-for-sale assets are held at fair value with unrealised gains and losses recognized directly in equity, net of applicable taxes. When available for sales assets are sold, collected or impaired the cumulative gain or loss recognized in equity is transferred to results on financial transaction in the income statement.

All other financial assets and liabilities are initially measured at cost including directly attributable transaction costs. They are subsequently valued at amortized cost using the effective interest rate method. Through use of the effective interest rate method premiums and discounts, including qualifying transaction costs, are included in the carrying amount of the related instrument and amortized over the period to maturity or expected prepayment on the basis of the instrument's effective interest rate.

When available, fair values are obtained from quoted market prices in liquid markets. If a quoted market price is not available, the fair value of the instrument is estimated using dealer price quotations, pricing models and/or discounted cash flow models. Inputs used in pricing models are generally market observable or can be derived from market observable data. If relevant market observable data is not available, the initial increase in fair value indicated by the valuation techniques based on unobservable inputs is amortized to income over the life of the transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate applied is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

Irrespective of the balance sheet classification of assets and liabilities interest accrued is classified as interest income or interest expense in the income statement. Similarly dividend income is recorded within Results from Financial Transactions.

2.12 Netting

In the case Bouwfonds has the right on the grounds of either legal or contractual provisions and the intention to settle financial assets and liabilities net or simultaneously, these are offset and the net amount is reported in the balance sheet. Due to differences in the timing of actual cash flows, derivatives with positive and negative fair values are generally not netted, even if they are held with the same counter-party.

2.13 Hedge accounting

Bouwfonds uses derivative instruments as a part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. Bouwfonds applies either fair value or cash flow hedge accounting when transactions meet the specified criteria to qualify for hedge accounting.

A hedging relationship qualifies for hedge accounting if:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be measured reliably;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

The hedged item can be an asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged.

The risk being hedged (the 'hedged risk') is typically changes in interest rates or foreign currency rates. Credit risk derivatives (sometimes referred to as 'credit default swaps') are not included in hedge accounting relationships.

In accordance with this, Bouwfonds formally assesses both at the inception of the hedge and on an ongoing basis whether the derivatives used in its hedging transactions are or have been highly effective in offsetting changes in the fair value or cash flows of the hedged item.

A hedge is normally regarded as highly effective if, at inception and throughout its life, Bouwfonds can expect, and actual results indicate, that changes in the fair value or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedging instrument, within the range 80% to 125%.

A highly effective hedging relationship is one in which Bouwfonds achieves offsetting changes in fair value or cash flows for the risk being hedged. Hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative differ from changes in the fair value of the hedged item or where changes in the expected cash flow of the derivative differ from expected changes in the cash flow of the hedged item) and gains and losses on components of a derivative that are excluded from assessing hedge effectiveness are recorded directly in income.

Bouwfonds discontinues hedge accounting when:

- a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- b) the derivative expires, or is sold, terminated, or exercised;
- c) the hedged item matures or is sold or repaid; or
- d) a forecast transaction is no longer deemed highly probable and
- e) when in certain circumstances, Bouwfonds decides to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Subsequently, any related derivatives will be accounted for as trading financial instruments unless re-designated in a new hedging relationship.

Fair value hedges

Where a derivative financial instrument hedges the exposure to changes in the fair value of recognized assets or liabilities, the hedged item is adjusted in relation to the risk being hedged. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognized in the income statement, typically within results from financial transactions.

When a fair value hedging instrument or hedge relationship is terminated, any fair value adjustment to the carrying amount of an interest-bearing financial asset or liability is amortized to the income statement over the remaining maturity of the original hedged item.

Cash flow hedges

When a derivative financial instrument hedges the exposure to variability in the cash flows from recognized assets, liabilities, anticipated transactions or firm commitments, the effective part of any gain or loss on remeasurement of the hedging instrument is recognized directly in equity. When a cash flow hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognized in equity remains in equity.

The cumulative gain or loss recognized in equity is transferred to the income statement at the time when the hedged transaction affects net profit or loss and included in the same line item as the hedged transaction. In the exceptional case that the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is recognized in the income statement immediately.

2.14 Impairment of financial assets

Bouwfonds assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events impacts estimated future cash flows of the financial asset or the portfolio.

Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of Bouwfonds about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 1. adverse changes in the payment status of borrowers in the portfolio;
 2. national or local economic conditions that correlate with defaults on the assets in the portfolio.

Bouwfonds first assesses whether objective evidence of impairment exists for financial assets (including any related facilities and guarantees) that are individually significant, and individually or collectively for financial assets that are not individually significant. If Bouwfonds determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment.

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account and the amount of the loss is included in the income statement line 'loan impairment and other credit risk provision'.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflect the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loan portfolio and historical loss experience for loans with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the historical data and to remove the effects of conditions in the historical data that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The impact of changes in estimates and recoveries is recorded in the income statement line 'loan impairment and other credit risk provisions'.

Following impairment, interest income is recognized using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement line 'loan impairment and other credit risk provisions'.

Assets acquired in exchange for loans and receivables in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of an asset. Where control is obtained over an entity as a result of the transaction, the entity is consolidated.

In the case of debt and equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognized directly in equity is removed from equity and recognized in the income statement within results on financial transactions.

Reversals of impairment of debt securities, including those classified as available for sale are recognized in the income statement. Reversals of impairment of equity shares are not recognized in the income statement, increases in the fair value of equity shares after impairment are recognized directly in equity.

2.15 Buildings and equipment

Property and equipment is stated at cost less accumulated depreciation and any amount for impairment.

Where an item of property and equipment is comprised of major components with different useful lives, they are accounted for as separate items of property and equipment. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. Expenditure incurred to replace a component of an asset is separately capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property and equipment. All other expenditure is recognized in the income statement as incurred.

When an item of property and equipment is retired or disposed, the difference between the disposal proceeds net of costs and the carrying amount is recognized in the income statement.

Investments in rented buildings (long-term improvements or alternations to rented buildings) are carried at cost (acquisition price) and depreciated over their useful economic life (usually equal to the remaining lease term of the rented property) using the straight-line method.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. Land is not depreciated.

Bouwfonds generally uses the following estimated useful lives:

- Buildings for own use 5 – 40 years
- Equipment 1 – 5 years

Depreciation rates, methods and residual values of property and equipment are reviewed periodically to take into account any change in circumstances. Capitalized leasehold improvements are depreciated in a manner that considers the term of the related lease.

2.16 Property

This item includes all assets relating to property activities (development and operation).

Property balances are classified as follows:

- building sites and equalization funds;
- work-in-progress;
- trade debtors property;
- finished goods;
- investment property.

Building sites and equalization funds

Building sites are carried at cost including allocated interest and additional expenses for purchasing the sites and making them ready for buildings. No interest is allocated to land which has not been zoned for a particular purpose if there is no certainty that the land will be built on. An impairment for expected losses on sale is deducted from the carrying value of the sites.

The equalisation funds relates to capitalized building rights purchased from third parties, as well as building rights which arose on the sale of building sites to municipalities or other parties as the balance of the cost of the sites and the sale proceeds. These amounts are to be recovered from future building projects. The amounts are stated net of provision as required.

Work-in-progress

Work-in-progress relates to sold and unsold commercial property projects, as well as to sold and unsold residential property under construction or preparation. Work-in-progress is carried at the costs incurred plus allocated interest and profit, net of any provisions, as required. Progress instalments invoiced to buyers and principals are deducted from work-in-progress. When the balance is negative (progress instalments invoiced are greater than capitalised costs) on a project basis, the balance of that project is reclassified to other liabilities. Profits are recognized in accordance with the percentage of completion method.

Finished goods

Unsold commercial and residential properties are carried at their cost of production, net of provisions as required.

Investment property

Investment property is carried at fair value. Fair value is measured as the most probable price reasonably obtainable in the market at balance sheet date (not as of either a past or a future date). Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognized in profit and loss. Rental income from investment property is recognized in the income statement.

2.17 Intangible assets

Costs that are directly associated with identifiable and unique software products controlled by Bouwfonds and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs also include staff costs of the software development team. Expenditure that enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Software is amortized over 3 years.

Other intangible assets that are acquired by Bouwfonds are stated at cost less accumulated amortization and any adjustment for impairment losses. Other intangible assets are comprised of separately identifiable items arising from acquisition of subsidiaries, such as client relationships acquired. Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible asset.

Acquired licences are also recognized as intangible assets.

Software maintenance costs are recognized (as an expense item) in the period in which they were incurred.

2.18 Pension and other long term benefit arrangements

For employees in the Netherlands and the majority of staff employed outside the Netherlands, pension or other retirement plans have been established in accordance with the regulations and practices of the countries in question. Separate pension funds or third parties administer most of these plans. Within this context, a clear distinction is made between defined contribution plans and defined benefit plans.

Defined contribution plans

In the case of defined contribution plans, contributions are charged directly to the income statement in the year to which they relate.

Defined benefit plans

The resulting commitments are regarded as Bouwfonds' own commitments regardless of whether these are administered by a pension fund or in some other manner. Defined benefit plan pension commitments are calculated in accordance with the projected unit credit method of actuarial cost allocation. Under this method, the present value of pension and other employee benefit commitments is determined on the basis of the number of active years of service up to balance sheet date, the estimated salary scale at the time of the expected retirement date and the market rate of interest on high-quality corporate bonds.

To determine pension costs, the expected return on the plan assets is included in the calculation. Differences between the expected and actual return on the plan assets, as well as actuarial gains and losses, are only accounted for in the income statement if the undrawn net accumulated actuarial gains or losses at the end of the previous reporting period exceeds (a) a bandwidth of 10% of the commitments under the pension plan or (b) the market value of the related plan assets, should this be higher. The part that exceeds this bandwidth is taken to the income statement over the members' remaining years of service. Differences between the pension costs arrived at in this way and the contributions payable are accounted for as provision or prepayments. Commitments relating to early retirement of employees are treated in this context as pension commitments.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

Other long term service benefits

Bouwfonds' net obligation in respect of long term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method. It is then discounted to its present value and the fair value of any related assets is deducted.

Other post-retirement benefits, which include health insurance contributions, anniversary allowances, mortgage interest discounts and payments to non-active employees, are also computed on the basis of actuarial assumptions.

2.19 Provisions

A provision is recognized in the balance sheet when Bouwfonds has a legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

Pensions

The provisions for pension relates to (supplementary) pension rights. Provisions are only required for those pension plans where the company has a legal commitment to future pension payments. In such cases provisions are created and recognized on a straight-line basis over the average period until the benefits become vested. Should the benefits become vested immediately, the expense is recognized in the profit and loss immediately.

Bouwfonds' main pension scheme is a multi-employer plan and is regarded as a defined benefit plan. Because insufficient information is available, it has been treated as a defined contribution plan.

Guarantee fund

This fund refers to guarantee commitments relating to sold and delivered residential properties. Owners of Bouwfonds residential properties are issued with a guarantee certificate for 10 years from purchase. The resulting financial liabilities are paid from this fund.

Restructuring

A provision for restructuring is recognized when an obligation exists. An obligation exists when Bouwfonds has approved a detailed plan and has raised a valid expectation in those affected by the plan by starting to implement the plan or by announcing its main features. Future operating costs are not provided for.

Other

Other provisions mainly include other guarantees and claims.

2.20 Other liabilities, current tax and deferred tax

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognized as an expense in the period in which profits arise. The future tax benefit of income tax losses available for carry forward is recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and liability simultaneously.

Deferred tax is recognized for timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from property development activities, the fair value of derivative contracts, provisions for pensions and purchase accounting adjustments in relation to acquisitions. The following timing differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries and associates to the extent that they will probably not be reversed in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be realized.

2.21 Debt securities

Issued debt securities are recorded on an amortized cost basis using the effective interest rate method, unless of a hybrid nature and designated to be held at fair value through income.

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in Bouwfonds having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Issued financial instruments, or their components, are classified as equity when they do not qualify as a liability and represent a residual interest in the assets of Bouwfonds. The components of issued financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

2.22 Share capital

Incremental external costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary at the option of the Managing Board. Preference shares, which carry a non-discretionary coupon, or are redeemable on a specific date or at the option of the holder, are classified as financial liabilities and are presented in subordinated debt. The dividends and fees on these preference shares are recognized in the income statement as interest expense.

Dividends on ordinary shares and preference shares classified as equity are recognized as a deduction from equity in the period in which they are approved by the shareholders. Dividends on preference shares classified as liabilities are recognized on an accrual basis within interest expense.

2.23 Net gains/(losses) not recognized in the income statement**Currency translation account**

The currency translation reserve is comprised of all currency differences arising from the translation of the financial statements of foreign subsidiaries or associates net of the translation impact on liabilities or foreign exchange derivatives held to hedge Bouwfonds' net investment in subsidiaries or associates. These differences are included in income on disposal or partial disposal of the operation.

Cash flow hedging reserve

This item includes the effective portion of the cumulative changes in the fair value of cash flow hedging activities.

2.24 Cash flow

Cash and cash equivalents for the purpose of the cash flow statement include cash in hand and net credit balances on current accounts with other banks.

The cash flow statement, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operating activities, investment activities and financing activities. Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in and sales of associates, property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures.

INCOME STATEMENT

in € x 1,000.–

3. Segment reporting

Segment information is presented in respect of Bouwfonds' business and geographical segments. The primary format, business segments, is based on Bouwfonds' management, internal reporting structure and risks and returns.

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes. Segment income, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Transactions between segments are conducted at arm's length. Capital expenditure represents expenditures during the period to acquire segment assets that are expected to be used for a period exceeding one year, such as own-use property and equipment and software.

Business segments

Bouwfonds comprises the following main business segments:

Development (DEV): this business segment includes Bouwfonds Property Development and Hopman Interheem Groep, which primarily focus on residential property, rail and multifunctional projects.

Management (MGT): this segment includes Bouwfonds Assets Management and Bouwfonds Fondsenbeheer. Bouwfonds Assets Management focuses on the development, structuring and management of property portfolios. These are unlisted funds for both private and institutional investors in the Netherlands and abroad. Bouwfonds Fondsenbeheer is the management organisation for non-profit making funds.

The financing activities that have been discontinued relate to Bouwfonds Property Finance B.V. and Rijnlandse Bank N.V. (2005: Bouwfonds Property Finance B.V., Rijnlandse Bank N.V. and Bouwfonds Hypotheken B.V.). The activities of Bouwfonds Property Finance B.V. include property finance, investment finance, leasing and the holding of equity interests. Rijnlandse Bank N.V. is a mortgage lender and specialises in small-scale commercial property. The mortgage products of Rijnlandse Bank N.V. are sold direct and via intermediaries.

Business segment information 2006

Interest income
Interest expense

Net interest income

Project income
Project expense

Net project income

Net fee and commission income
Results from financial transactions
Share of results in equity accounted investments
Other operating income

Operating income

Staff costs
General and administrative expenses
Depreciation and amortization

Operating expenses

Loan impairment charges and other credit risk provisions

Total expenses**Operating profit before taxes**

Income tax expense

Profit for the year**Other information at 31 December 2006**

Total assets*
Total liabilities*
Capital expenditure*
Additions in equity accounted investments

	DEV	MGT	CONTINUED	DISCONTINUED	TOTAL
Interest income	50,006	25,093	75,099	465,538	540,637
Interest expense	89,546	31,355	120,901	276,397	397,298
Net interest income	(39,540)	(6,262)	(45,802)	189,141	143,339
Project income	2,426,136	11,800	2,437,936	115,269	2,553,205
Project expense	2,079,339	5,809	2,085,148	113,193	2,198,341
Net project income	346,797	5,991	352,788	2,076	354,864
Net fee and commission income	–	–	–	–	–
Results from financial transactions	–	86	86	–	86
Share of results in equity accounted investments	(65)	3,836	3,771	3,587	7,358
Other operating income	8,638	58,378	67,016	1,344	68,360
Operating income	315,830	62,029	377,859	196,148	574,007
Staff costs	123,158	24,729	147,887	28,400	176,287
General and administrative expenses	62,220	21,248	83,468	25,293	108,761
Depreciation and amortization	8,201	1,633	9,834	2,450	12,284
Operating expenses	193,579	47,610	241,189	56,143	297,332
Loan impairment charges and other credit risk provisions	485	–	485	14,929	15,414
Total expenses	194,064	47,610	241,674	71,072	312,746
Operating profit before taxes	121,766	14,419	136,185	125,076	261,261
Income tax expense	(29,788)	(2,836)	(32,624)	(36,604)	(69,228)
Profit for the year	91,978	11,583	103,561	88,472	192,033
Other information at 31 December 2006					
Total assets*	3,490,606	828,474	4,319,080	–	4,319,080
Total liabilities*	2,971,043	804,888	3,775,931	–	3,775,931
Capital expenditure*	8,489	1,819	10,308	–	10,308
Additions in equity accounted investments	1,669	36,278	37,947	–	37,947

* The total assets, liabilities and capital expenditure of the Development Division include figures for Hopman Interheem Groep, which are recognized in the balance sheet as held for sale. Hopman Interheem Groep accounts for € 160,620, € 117,099 and € 98 of total assets, liabilities and capital expenditure respectively.

Net project income from property activities include an addition for provision against property balances of € 2.4 million.

No material transactions between above mentioned business units occurred during 2006.

Business segment information 2005

Interest income
Interest expense

Net interest income

Project income
Project expense

Net project income

Net fee and commission income
Results from financial transactions
Share of results in equity accounted investments
Other operating income

Operating income

Staff costs
General and administrative expenses
Depreciation and amortization

Operating expenses

Loan impairment charges and other credit risk provisions

Total expenses**Operating profit before taxes**

Income tax expense

Profit for the year**Other information at 31 December 2005**

Total assets
Total liabilities
Capital expenditure
Additions in equity accounted investments

	DEV	MGT	CONTINUED	DISCONTINUED	TOTAL
Interest income	27,685	16,500	44,185	2,074,942	2,119,127
Interest expense	61,491	21,441	82,932	1,523,397	1,606,329
Net interest income	(33,806)	(4,941)	(38,747)	551,545	512,798
Project income	2,098,202	(1,037)	2,097,165	18,905	2,116,070
Project expense	1,832,336	306	1,832,642	21,381	1,854,023
Net project income	265,866	(1,343)	264,523	(2,476)	262,047
Net fee and commission income	–	–	–	10,183	10,183
Results from financial transactions	–	1,296	1,296	–	1,296
Share of results in equity accounted investments	(56)	11,682	11,626	5,870	17,496
Other operating income	9,658	51,491	61,149	6,241	67,390
Operating income	241,662	58,185	299,847	571,363	871,210
Staff costs	112,360	21,694	134,054	65,865	199,919
General and administrative expenses	64,605	20,018	84,623	80,999	165,622
Depreciation and amortization	6,878	968	7,846	4,073	11,919
Operating expenses	183,843	42,680	226,523	150,937	377,460
Loan impairment charges and other credit risk provisions	(179)	–	(179)	26,459	26,280
Total expenses	183,664	42,680	226,344	177,396	403,740
Operating profit before taxes	57,998	15,505	73,503	393,967	467,470
Income tax expense	(19,667)	(5,497)	(25,164)	(123,517)	(148,681)
Profit for the year	38,331	10,008	48,339	270,450	318,789
Other information at 31 December 2005					
Total assets	2,925,341	555,958	3,481,299	40,013,374	43,494,673
Total liabilities	2,632,900	591,317	3,224,217	38,341,996	41,566,213
Capital expenditure	4,276	433	4,709	4,661	9,370
Additions in equity accounted investments	–	5,258	5,258	7,885	13,143

Net project income includes an addition for provisions in respect of outstanding property items of € 66.7 million. Of this addition, € 63.5 million relates to property activities and € 3.2 million to discontinued operations.

The financing activities were discontinued in 2006. For the comparative figures, holding company expenses have been allocated in the same way as for 2006. This has reduced the net profit for the year of the Development Division by € 2.5 million and that of the Management Division by € 0.6 million compared to the net profit for the year per division in the business segmentation 2005.

No material transactions took place between the different divisions in 2005.

Geographical segments

Bouwfonds primarily operates in the Netherlands, France, Germany and the USA. The geographical analysis presented below is based on the location of the customer Bouwfonds is serving.

Geographical segmentation 2006

	OPERATING INCOME		TOTAL ASSETS		CAPITAL EXPENDITURE	
	CONTINUED	DISCONTINUED	CONTINUED	HELD FOR SALE	CONTINUED	DISCONTINUED
Netherlands	245,128	125,786	3,036,423	160,620	8,706	98
France	88,083	10,051	408,168	–	854	–
Germany	37,214	12,524	589,922	–	315	–
USA	6,792	19,985	37,813	–	–	–
Other	642	27,802	86,134	–	335	–
Total	377,859	196,148	4,158,460	160,620	10,210	98

Geographical segmentation 2005

	OPERATING INCOME		TOTAL ASSETS		CAPITAL EXPENDITURE	
	CONTINUED	DISCONTINUED	CONTINUED	HELD FOR SALE	CONTINUED	DISCONTINUED
Netherlands	184,765	511,413	9,807,879	30,374,423	3,255	4,661
France	76,131	5,783	490,268	–	862	–
Germany	27,758	10,593	1,005,368	536,580	546	–
USA	14,405	26,768	545,946	–	–	–
Other	(3,212)	16,806	734,209	–	46	–
Total	299,847	571,363	12,583,670	30,911,003	4,709	4,661

4. Net interest income

Interest income and expenses comprise funding costs in relation to property and asset management activities.

5. Net project income

Project income can be broken down as follows:

	2006	2005
Residential property development	1,978,731	1,586,351
Commercial property development	445,269	494,004
Services	13,936	16,810
Total project income	2,437,936	2,097,165

Project expense can be broken down as follows:

	2006	2005
Residential property development	1,713,899	1,341,213
Commercial property development	368,023	488,656
Services	3,226	2,773
Total project expenses	2,085,148	1,832,642

6. Results from financial transactions

This item includes the results of derivatives elected to fair value hedges.

7. Share of results in equity accounted investments

This item includes the share in the result for participating interests over which, as a rule, significant influence can be exercised.

8. Other operating income

This item relates to income which cannot be categorized in the previous sections.

Other income can be broken down as follows:

	2006	2005
Structuring fee	4,422	1,553
Asset management fee	10,238	6,177
Syndication commissions	5,797	8,149
Fund management income	9,216	8,665
Other management income	8,281	661
Rental income	20,137	28,216
Other income	8,925	7,728
Total other operating income	67,016	61,149

9. Staff costs

Salaries (including bonuses, etc.)
Pension costs (incl. early retirement)
Social insurance
Other staff costs

Total staff costs

	2006	2005
Salaries (including bonuses, etc.)	101,040	91,581
Pension costs (incl. early retirement)	9,884	9,253
Social insurance	12,899	12,177
Other staff costs	24,064	21,043
Total staff costs	147,887	134,054

Average number of employees (FTEs)

Development
Management
Holding

Total average number of employees (FTEs)

	2006	2005
Development	979	883
Management	185	166
Holding	181	171
Total average number of employees (FTEs)	1,345	1,220

10. General and administrative expenses	2006	2005
Professional fees	20,680	21,999
Staff related expenses	2,261	1,914
Travel and transport	11,354	9,780
Property costs	14,049	12,023
Stationary and printing expenses machinery	881	(359)
Communication and information	4,058	4,219
Commercial expenses	6,957	8,132
IT expenses	4,076	4,064
Sundry expenses	19,152	22,851
Total general and administrative expenses	83,468	84,623

11. Depreciation and amortization	2006	2005
Property depreciation (own use)	4,094	1,427
Equipment depreciation	5,733	6,413
Software amortization (intangible fixed asset)	7	6
Total depreciation and amortization	9,834	7,846

12. Loan impairment charges and other credit risk provisions

This item includes impairment losses which is the result of a periodic review by management of financial assets of which it is expected that the carrying value in the balance sheet has been impaired.

13. Income tax expense

This item relates to corporate income tax due on the reported profit for the year and the ruling tax rate, taking tax facilities into account. The effective tax burden for the profit on ordinary activities fell from 31.8% to 26.6% in 2006. The composition of the tax burden can be broken down as follows:

	2006	2005
Nominal Dutch tax rate	29.6%	31.5%
Impact of rate reduction on deferred tax	(4.0%)	(1.5%)
Impact of tax-exempt income in the Netherlands	(0.8%)	(1.3%)
Effect of tax rate in foreign countries	1.6%	1.1%
Impact of unrecognized deferred tax assets	0.5%	0.1%
Impact income tax expense previous years	–	(0.2%)
Other movement	(0.3%)	2.1%
Effective tax rate on operating profit	26.6%	31.8%

A reconciliation between the tax expense and the outcome of accounting profit multiplied by the domestic tax rate for the years 2006 and 2005 is provided below:

	2006	2005
Operating profit before tax from continuing operations	136,185	73,503
Operating profit before tax from discontinued operations	125,076	393,967
Total operating profit before taxes	261,261	467,470
At income tax rate of 29.6% (2005: 31.5%)	77,331	147,253
Impact of rate reduction on deferred tax	(10,526)	(6,970)
Impact of tax-exempt income in the Netherlands	(2,176)	(6,040)
Impact of tax rate in other countries	4,189	4,954
Impact of unrecognized deferred tax assets	1,267	616
Impact income tax expense previous years	94	(761)
Other movement	(951)	9,629
At the effective income tax rates of 26.6% (2005: 31.8%)	69,228	148,681
Income tax expense reported in the consolidated income statement	32,624	25,164
Income tax attributable to discontinued operations	36,604	123,517
Total income tax expense	69,228	148,681

Deferred tax to an amount of € 38.5 million (2005: € 8.0 million) has been recognized directly in equity. This relates to changes in the fair value of derivative financial instruments used as cash flow hedges.

During 2006, a tax charge of € 3.8 million was added to the deferred tax liabilities due to timing differences between profits for tax purposes and those for financial reporting purposes.

14. Discontinued operations and assets and liabilities classified as held for sale

In January 2006, Bouwfonds Hypotheken B.V. was sold to ABN AMRO for € 957 million. In December 2006, Bouwfonds Property Finance B.V. was sold to ABN AMRO for € 631.6 million as part of the final transfer to SNS REAAL. The transactions were settled by means of a dividend payment to the parent company, ABN AMRO. As from 1 December 2006, the shareholding in Rijnlandse Bank N.V. and the savings activities of Rabo Bouwfonds N.V. were transferred to FGH Bank, another subsidiary of the Rabobank Group. This transaction resulted in an immediate movement in equity of € 81.7 million. The Board of Directors of Rabo Bouwfonds intends to sell Hopman Interheem Groep in 2007.

The income statement for the year 2006 includes the results of Bouwfonds Property Finance B.V. and Rijnlandse Bank N.V., which are separately recognized as profit from discontinued operations net of tax. The comparative figures for the income statement include the results of Bouwfonds Hypotheken B.V., Bouwfonds Property Finance B.V., and Rijnlandse Bank N.V., which are separately recognized as profit from discontinued operations net of tax.

The balance sheet as at 31 December 2006 shows the assets and liabilities of Hopman Interheem Groep, which are separately recognized as assets and liabilities relating to assets classified as held for sale. In the comparative figures, the assets and liabilities of Bouwfonds Hypotheken B.V. are separately recognized as assets and liabilities relating to assets classified as held for sale.

The results of Bouwfonds Financing for the year are presented below:

	2006	2005
Interest income	465,538	2,074,942
Interest expense	276,397	1,523,397
Net interest income	189,141	551,545
Project income	115,269	18,905
Project expense	113,193	21,381
Net project income	2,076	(2,476)
Net fee and commission income	–	10,183
Share of results in equity accounted investments	3,587	5,870
Other operating income	1,344	6,241
Operating income	196,148	571,363
Staff costs	28,400	65,865
General and administrative expenses	25,293	80,999
Depreciation and amortization	2,450	4,073
Operating expenses	56,143	150,937
Loan impairment charges and other credit risk provisions	14,929	26,459
Total expenses	71,072	177,396
Operating profit before taxes	125,076	393,967
Income tax expense	(36,604)	(123,517)
Profit for the year	88,472	270,450

The major classes of assets and liabilities of Hopman Interheem Groep (2006) and Bouwfonds Hypotheken B.V. (2005) classified as held for sale as at 31 December are as follows:

	2006	2005
Assets		
Derivative assets used for hedging	–	65,146
Loans and receivables – banks (42)	2,749	126,459
Loans and receivables – customers	16,536	30,334,439
Property	136,902	–
Interest-earning securities	–	6,940
Equity accounted investments	194	11,504
Buildings and equipment	243	4,185
Prepayments and accrued income	123	106,554
Other assets	3,873	255,776
Assets classified as held for sale	160,620	30,911,003
Liabilities		
Derivative liabilities used for hedging	–	130,946
Banks	89,611	14,517,856
Funds entrusted	18,626	599,869
Debt securities	–	14,425,825
Accruals and deferred income	602	729,845
Provisions	5,632	(4,368)
Other liabilities	2,628	1,756
Subordinated debt	–	592,143
Liabilities related to assets classified as held for sale	117,099	30,993,872

The net cash flows incurred by the discontinued activities are as follows:

	2006	2005
Cash flow from operating activities	38,807,553	(3,862,624)
Cash flow from investing activities	6,940	(9,259)
Cash flow from financing activities	(38,835,262)	3,695,983
Net cash inflow	(20,769)	(175,901)

The cash flow from discontinued operating activities includes € 465 million (2005: € 2,074 million) of interest income and € 276 million (2005: € 1,523 million) of interest expense.

Contingent liabilities and committed facilities

Hopman Interheem Groep

As at 31 December 2006, Hopman Interheem Groep had no contingent liabilities or committed facilities outstanding.

Bouwfonds Hypotheken B.V.

The committed facilities of Bouwfonds Hypotheken B.V. as at 31 December 2005 relates to the unused credit facilities and construction depots amounting to € 328.6 million and outstanding proposals of € 1,795.5 million (weighted according to likelihood of acceptance).

Other liabilities not shown on the balance sheet***Hopman Interheem Groep***

Liabilities in relation to work-in-progress relate to 1,630 homes, of which 1,545 had already been sold year-end. As at 31 December 2006, liabilities amounting to € 40 million had been entered into with third parties, including subcontractors and architects in respect of non-commercial property projects. No liabilities had been entered into with subcontractors or architects in respect of commercial property projects.

The long-term liabilities relating to office premises amounted to € 11.3 million as at 31 December 2006. Long-term liabilities relating to car operating leases amounted to € 0.9 million.

BALANCE SHEET

in € x 1,000.–

15. Cash

This item relates to all legal tender as well as notes and coins in foreign currencies.

16. Financial assets and liabilities at fair value through income statement

These derivatives represent the inflation derivative and the foreign exchange forward contracts. These derivatives are valued at market value as at year end. Movements in the market value of these instruments are recognized in the income statement.

The notional amounts of the positive derivatives are € 14.9 million (2005: € 702.1 million). There were no negative derivatives at fair value through the income statement at year-end 2006 (2005: € 240.5 million).

The derivatives outstanding at year-end 2006, of which gains and losses are taken to the income statement, have a remaining term of six months.

17. Derivative assets and liabilities used for hedging

These derivatives represent the interest rate derivatives used in the micro cash flow hedging programme. Movements in these derivatives are reflected in equity based on the hedge accounting principles.

The notional amounts of the derivative assets used for hedging are € 316.6 million (2005: € 1,620.9 million). The notional amounts of the derivative liabilities used for hedging are € 580.9 million (2005: € 1,539.0 million).

A maturity profile of the principal amounts is provided below:

	NOTIONAL AMOUNTS POSITIVE DERIVATES	NOTIONAL AMOUNTS NEGATIVE DERIVATES
Up to one year	16 mln	2 mln
Longer than one year but not longer than five years	86 mln	255 mln
Longer than five years	215 mln	324 mln
Total notional amount	317 mln	581 mln

Derivatives held or issued for hedging purposes

Bouwfonds enters into various derivative financial instruments which are designated and qualify as cash flow hedges.

Derivatives designated and accounted for as hedging instruments

At inception of a hedge, Bouwfonds formally documents the relationship between hedging instruments and hedged items. This includes its risk management objectives and strategies for undertaking the hedge transaction, which are in accordance with Bouwfonds' risk management policies, together with the methods that will be used to assess the effectiveness of the hedging relationship. In accordance with this, Bouwfonds formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of the hedged item.

In the case of hedging a forecasted transaction, the transaction must be highly probable and present an exposure to variations in cash flows that could ultimately affect reported net profit or loss. A hedge is normally regarded as highly effective if, at inception and throughout the life of the hedge, Bouwfonds can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results are within a range of 80% to 125%. Bouwfonds discontinues hedge accounting when it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, or if the derivative expires, or is sold, terminated, or exercised. A highly effective hedging relationship is one in which Bouwfonds achieves offsetting changes in fair value or cash flows for the risk being hedged. Hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative differ from changes in the fair value of the hedged item or where changes in the expected cash flow of the derivative differ from expected changes in the cash flow of the hedged item) and gains and losses on components of a derivative that are excluded from assessing hedge effectiveness are recorded in income statement.

Cash flow hedges of individual variable rate assets and liabilities

Bouwfonds uses interest rate swaps to protect against changes in cash flows of certain variable rate debt instruments. For the year ended 31 December 2006, the gain or loss associated with ineffective portions of cash flow hedges amounted to € 0.1 million (2005: € 4.3 million). Gains and losses on derivative contracts that are reclassified from accumulated gains and losses recognized in net interest income. As there are no macro cash flow hedges as of 31 December 2006, no deferred accumulated net gains will be reclassified into earnings during the next twelve months at the time the hedged cash flows occur (2005: € 24.2 million). As of 31 December 2006, the fair value of outstanding derivatives designated as micro cash flow hedges was a € 11.5 million net unrealised loss recorded in shareholders' equity (2005: € 112.2 million).

18. Loans and receivables – banks

This item includes all amounts receivable from credit institutions.

	2006	2005
Current account balance	179,638	140,658
Lease	–	23,376
Loans provided by banks	175,192	–
Total banks	354,830	164,034
Freely available	165,081	132,328
Not freely available	189,749	31,706
Total banks	354,830	164,034

Loans that are not freely available comprise interest-earning securities and loans in relation to the funding of Rabobank Nederland, the parent company.

19. Loans and receivables – customers

This item includes all receivables from lending other than receivables from credit institutions.

Loans can be broken down as follows:

	2006	2005
Residential mortgage loans	–	540,810
Investment mortgage loans	–	4,384,795
Other mortgage loans	–	186,910
Project loans	–	2,631,187
Lease	–	832,784
Loans in relation to property development activities	543,753	525,682
Loans in relation to investment management activities	182,895	188,187
Other	14,859	18,981
Total loans and receivables – customers	741,507	9,309,336

Loans per sector can be broken down as follows:

	2006	2005
Public sector	22,718	58,058
Private sector, commercial (see note 46)	711,345	7,994,718
Private sector, retail (see note 46)	10,527	1,290,972
Allowance for impairment (see note 20)	(3,083)	(34,412)
Net due from customers	741,507	9,309,336

The financial risk management section (see note 46) contains information about the concentration of credit risk in the loan portfolios for the private sector, such as a breakdown per business sector and the type of collateral received.

Lease

Bouwfonds presents assets held under a finance lease in the balance sheet as a receivable equal to the net investment in the lease.

	2006	2005
Leasing included in loans and receivables – banks	–	23,376
Leasing included in loans and receivables – customers	–	832,784
Net investment in finance leases	–	856,160
Unearned future income on finance leases	–	142,192
Gross investment in financial lease	–	998,352
Overview of terms to maturity:		
No later than one year	–	65,112
Later than one year and no later than five years	–	151,514
Later than five years	–	639,534
Net investment in financial lease	–	856,160
Overview of terms to maturity:		
No later than one year	–	97,368
Later than one year and no later than five years	–	224,600
Later than five years	–	676,384
Gross investment in financial lease	–	998,352
20. Allowance for impairment and other credit risk	2006	2005
Balance at 1 January	34,412	43,264
Addition and release (via loan impairment charges and other risk provision) – continuing operations	485	(179)
Addition and release (via loan impairment charges and other risk provisions) – discontinued operations	14,929	13,360
Addition and release (via net interest income) – discontinued operations	(2,336)	(3,843)
Withdrawals	(3,039)	(596)
Deconsolidation	(41,488)	(16,290)
Other movement	120	(1,304)
Balance at 31 December	3,083	34,412

All impaired loans have been written down to their recoverable amount. The allowance is fully apportioned to loans and receivables – customers.

21. Property

This item includes the positions relating to property activities. It can be broken down as follows:

	2006	2005
Building sites and equalisation funds	1,003,947	1,049,979
Work-in-progress	916,377	1,064,472
Trade debtors property	185,741	249,809
Finished goods	91,809	41,558
Investment property	418,930	462,933
Total property	2,616,804	2,868,751
Building sites and equalisation funds		
Developed sites	240,753	238,223
Undeveloped sites	128,299	218,354
Sites with zoning permission	30,699	83,736
Sites without zoning permission (incl. Vinex)	449,909	353,520
Inner-city sites with residential zoning designation	26,708	16,520
Inner-city sites without residential zoning designation	31,969	29,125
Inner-city restructuring in post-war districts	2,849	2,501
Equalisation funds	12,057	14,506
Capitalized fair value	80,704	93,494
Total building sites and equalisation funds	1,003,947	1,049,979

Work-in-progress***Work-in-progress (included in property)***

	2006	2005
Residential property in preparation and under construction	755,372	812,548
Commercial property under development and under construction	1,180,664	1,558,220
Instalments invoiced in advance, residential property	(420,053)	(452,517)
Instalments invoiced in advance, commercial property	(599,606)	(853,779)

Total work-in-progress (included in property)

916,377

1,064,472

Work-in-progress (included in other liabilities)

Residential property in preparation and under construction	469,274	347,651
Commercial property under development and under construction	293,710	(337)
Rendering of services	(3,414)	(5,763)
Instalments invoiced in advance, residential property	(569,517)	(433,521)
Instalments invoiced in advance, commercial property	(292,047)	–

Amounts due to customers
(included in other liabilities, see note 36)

(101,994)

(91,970)

Total work-in-progress

Work-in-progress (included in property)
Work-in-progress (included in other liabilities)

916,377

1,064,472

(101,994)

(91,970)

Total work-in-progress

814,383

972,502

Of the 17,467 (2005: 17,094) residential properties under construction, a total of 15,243 (2005: 15,249) had been sold.

Finished goods

	2006	2005
Residential property	10,388	28,123
Commercial property	81,421	13,435
Total finished goods	91,809	41,558

The table below shows a breakdown of the completed, unsold residential properties at the year-end.

	2006	2005
Netherlands	24	63
Germany	7	12
France	40	22
Other	5	–
Total completed, unsold goods	76	97

Property provision

A provision of € 165 million (2005: € 191 million) is included in property for projects that will be or are loss making. This provision mainly relates to work-in-progress amounting to € 86 million (2005: € 110 million) and the provision in building sites amounting to € 75 million (2005: € 70 million). The remaining part concerns the provision in finished goods amounting to € 1 million (2005: € 2 million) and the provision on property debtors amounting to € 2 million (2005: € 9 million).

The property item includes a capitalised interest component of € 35.9 million (2005: € 33.8 million). For this interest component an average interest rate of between 2.5% and 4% has been applied.

Investment property

	2006	2005
Balance at 1 January	462,933	336,457
Acquisitions	152,920	65,130
Additions	45,594	85,943
Disposals	(47,199)	(1,685)
Depreciation	(107)	(306)
Revaluation	4,404	(17)
Other	–	(14,049)
Deconsolidation	(199,511)	(8,540)
Exchange rate differences	(104)	–
Balance at 31 December	418,930	462,933
Total rental income from investment property	28,915	33,101
Direct operating expenses arising from investment property	8,778	4,445

Investment property is stated at fair value, of which € 207 million has been determined based on valuations performed by an independent valuer.

It is expected that future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2006
Less than one year	26 mln
Between one and five years	33 mln
More than five years	107 mln
Future minimum rentals	166 mln

22. Interest-earning securities

This item includes fixed interest negotiable bonds and other interest-earning securities. All interest-earning securities form part of the investments portfolio.

The table below shows a breakdown of the interest-earning securities:

	2006	2005
Other interest-earning securities (available-for-sale)	50,000	–
Total interest-earning securities	50,000	–

The movement in the interest-earning securities was as follows:

	2006	2005
Balance at 1 January	–	16,700
Additions/(disposals)	50,000	(9,760)
Assets available for sale	–	(6,940)
Balance at 31 December	50,000	–

23. Equity accounted investments

This item relates to investments held on a long-term basis for the purpose of business operations. There are no investments in credit institutions.

The movement in equity accounted investments was as follows:

	2006	2005
Balance at 1 January	42,308	59,186
Purchases	37,947	13,143
Goodwill paid	–	732
Sales	(27,688)	(7,773)
Share in results of equity accounted investments	7,010	14,668
Revaluation	25	–
Dividends received from equity accounted investments	(454)	(2,738)
Exchange rate adjustments	(718)	1,454
Deconsolidation	(24,494)	(954)
Assets held for sale	(194)	(11,504)
Other movement	(1,332)	(23,906)
Balance at 31 December	32,410	42,308

24. Buildings and equipment

The carrying value of buildings and equipment developed as follows in 2006:

	LAND AND BUILDING IN OWN USE	EQUIPMENT	TOTAL
Balance at 1 January	13,344	12,448	25,792
Additions	2,960	6,305	9,265
Disposals	–	(1,054)	(1,054)
Acquisitions through business combinations	626	417	1,043
Deconsolidation	(1,525)	(1,024)	(2,549)
Depreciation continued operations	(4,094)	(5,733)	(9,827)
Depreciation discontinued operations	(96)	(246)	(342)
Assets held for sale	–	(243)	(243)
Exchange rate adjustment	–	1	1
Other changes	(1)	50	49
Balance at 31 December	11,214	10,921	22,135
Representing:			
Cost	31,881	32,964	64,845
Cumulative depreciation	20,667	22,043	42,710

The carrying value of buildings and equipment developed as follows in 2005:

	LAND AND BUILDING IN OWN USE	EQUIPMENT	TOTAL
Cost	30,127	52,343	82,470
Cumulative depreciation	15,739	35,815	51,554
Balance at 1 January	14,388	16,528	30,916
Additions	1,135	8,202	9,337
Disposals	(791)	(556)	(1,347)
Acquisitions through business combinations	78	288	366
Deconsolidation	–	(49)	(49)
Depreciation charge	(1,427)	(6,413)	(7,840)
Depreciation discontinued operations	–	(251)	(251)
Assets held for sale	–	(4,185)	(4,185)
Other changes	(39)	(1,117)	(1,156)
Exchange rate adjustment	–	1	1
Balance at 31 December	13,344	12,448	25,792
Representing:			
Cost	30,517	43,413	73,930
Cumulative depreciation	17,173	30,965	48,138

25. Intangible assets

The item intangible assets relates to client contractual rights and licences acquired.

The movement in intangible assets was as follows:

	2006	2005
Balance at 1 January	2,327	4,600
Additions	–	33
Amortization continued operations	(7)	(6)
Amortization discontinued operations	(2,108)	(2,300)
Deconsolidation	(192)	–
Balance at 31 December	20	2,327
Representing:		
Cost	33	5,783
Cumulative amortization	13	3,456

26. Current tax assets

This item primarily relates to current tax assets on account of (foreign) corporation tax and value added tax.

27. Prepayments and accrued income

Prepayments and accrued income relates to prepaid amounts for costs chargeable to the following period and the amounts receivable not yet billed to be recognized in the current or previous period.

	2006	2005
Interest and securitization result	3,503	31,007
Interest due from interest rate swaps	–	14,938
Other prepayments and accrued income	77,488	40,948
Total prepayments and accrued income	80,991	86,893

28. Other assets

This item relates to call loans from the parent company that have yet to be received. The other assets in 2005 relate to mortgage amounts prepaid to the notary for mortgage deeds still to be executed.

29. Due to banks

This item includes amounts owed to credit institutions, other than debt securities and subordinated debt.

	2006	2005
Private loans	1,142,667	3,626,077
Mortgage loans	59,600	37,615
Cash and call loans	693,169	392,239
Current accounts	819,627	260,230
Total due to banks	2,715,063	4,316,161

30. Funds entrusted

This item includes all non-subordinated funds entrusted received from non credit institutions.

	2006	2005
Private loans	–	45,291
Cash and call loans	–	380,000
Creditors	209,774	181,314
Current accounts	81,823	122,896
Other	78,165	379,645
Total funds entrusted	369,762	1,109,146

31. Debt securities

This item comprises short-term funding under the European Commercial Paper programme. The term to the maturity of the securities is less than one year.

32. Provisions	2006	2005
(Post) employment benefit other than pension	9,864	6,127
Guarantee fund	18,996	18,833
Pension provision	2,955	3,837
Restructuring provision	6,947	10,023
Other provisions	18,660	19,491
Total provisions	57,422	58,311

	(POST) EMPLOYMENT BENEFIT OTHER THAN PENSION		GUARANTEE FUND		PENSION PROVISION		RESTRUCTURING PROVISION		OTHER PROVISIONS	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Balance at 1 January	6,127	13,043	18,833	12,611	3,837	4,206	10,023	7,809	19,491	26,014
Additions from income statement	8,908	2,530	3,337	6,888	536	1,158	1,218	4,649	5,052	4,754
Expenses charged to provisions	(761)	(178)	(3,443)	(255)	(1,261)	–	(3,407)	(3,009)	(1,235)	(1,326)
Release	(3,898)	(4,777)	378	(149)	–	–	(500)	–	(4,028)	(3,548)
Deconsolidation	(312)	–	–	–	8	–	(128)	–	(623)	–
Assets held for sale	–	(4,317)	–	–	(400)	–	–	574	–	(1,290)
Other changes	(200)	(174)	(109)	(262)	235	(1,527)	(259)	–	3	(5,113)
Balance at 31 December	9,864	6,127	18,996	18,833	2,955	3,837	6,947	10,023	18,660	19,491

(Post) employment benefit other than pension

This item relates to post employment benefits other than pension rights and early retirement benefits, as well as payments that may be considered fringe benefits.

Guarantee fund

Owners of Bouwfonds residential properties are issued with a guarantee certificate. The resulting financial commitments are paid from this fund

Pension provision

Bouwfonds maintained two defined benefit pension scheme. One of these schemes was recognized as a liability against assets held for sale. Bouwfonds decided to commute the other plan during 2006.

Restructuring provision

This provision has been formed for commitments arising from decisions taken to make adjustments to the organisation.

Other provisions

This mainly includes other guarantees and claims.

33. Pension employee benefits

1,064 employees were covered by Bouwfonds' main pension scheme, compared with 1,354 in 2005. This scheme is a multi-employer plan and is regarded as a defined benefit plan. Employees have the option of transferring their pension. However, within the pension scheme, there is no consistent and reliable basis for attributing the pension liability, the investments and the expenses relating to the individual members employers. This is due to the fact that the scheme exposes the member employers to actuarial risks relating to the current and former employees of other member employers. For this reason, this pension scheme has been treated for financial reporting purposes as if it were a defined contribution scheme.

According to the pension fund, the fund has been valued based upon the Financial Assessment Framework of the proposed Pensions Act (Pensioenwet). This resulted in a surplus of 33% (2005: 20.2%). The fund's target is a surplus rate of 40% (2005: 26%) as at the end of 2007. Since the pension scheme rules do not make any provision for additional contributions and/or withdrawals from the fund any surplus or deficit of the fund cannot have any effect on the level of future contributions. The option of changing the level of contribution from year to year is available, but on a minor scale.

34. Deferred tax liabilities

The deferred tax liabilities relate to the following items:

	2006	2005
Special component of equity (cash flow hedges)	(3,962)	(12,780)
Financing activities	–	(2,707)
Development activities	79,292	84,320
Pension and other post-employment benefits	(4,287)	(1,750)
Other	3,088	1,718
Total deferred tax liabilities	74,131	68,801

The temporary differences in the financing activities relate to commission income and expense. The temporary differences in the development activities are caused by a different timing of income recognition and capitalization of costs and interest.

As at 31 December 2006, Bouwfonds had accrued a total of € 29.0 million of tax losses, which have not been capitalized. € 21.9 million of the tax losses related to activities in Belgium. These losses are available indefinitely for offset against future taxable profits of the companies in which the losses arose. € 2.7 million of the losses relates to activities in the Netherlands and these losses expire as from 2011. In Germany, Bouwfonds generated a cumulative loss of € 1.9 million and a cumulative loss of € 2.5 million in other countries.

35. Accruals and deferred income

This item relates to amounts received in advance for income to be recognized in following periods and amounts payable which have not been invoiced yet and which are chargeable to previous periods.

	2006	2005
Interest payable on funds borrowed	5,288	68,301
Interest rate swaps due	–	18,664
Other accruals and deferred income	76,007	117,338
Total accruals and deferred income	81,295	204,303

36. Other liabilities

Work-in-progress (21)
Development properties

	2006	2005
Work-in-progress (21)	101,994	91,970
Development properties	89,565	94,682
Total other liabilities	191,559	186,652

37. Current tax liabilities

This item primarily relates to current tax liabilities attributable to (foreign) corporation tax, value added tax and wage tax.

38. Subordinated debt

This item includes all loans that are subordinated in rank compared to all other current and future debts under an agreement. The subordinated loans granted by ABN AMRO were repaid in 2006. The interest expense on subordinated debt amounts to € 30.7 million (2005: € 59.1 million). The average rate of interest on the subordinated debts was 4.81% (2005: 5.19%)

Overview of terms to maturity:

	2006	2005
Less than one year	–	–
After one and within two years	–	–
After three and within four years	–	–
More than five years	–	559,329
Total subordinated debt	–	559,329
Thereof:		
Perpetual component of Tier 1 capital	–	75,000
Preference shares qualify as Tier 1 capital	–	–
Other perpetual	–	193,000

39. Share capital and reserves	2006	2005
Issued and fully paid share capital	10,071	10,071
Share premium	360,115	365,115
Other reserves including profit for the year current reporting period	165,405	1,645,069
Net gains/(losses) not recognized in the income statement	(12,548)	(113,233)
Total equity attributable to shareholders of the parent company	523,043	1,907,022

The authorised share capital amounts to € 20.7 million and consists of 18 million shares of which 8,757,578 have been issued and fully paid (unchanged). The shares have a nominal value of € 1.15 each.

The general meeting of shareholders passes resolutions to issue shares. The general meeting may appoint the Board of Directors as the authority to issue shares.

The general meeting is authorised to appropriate profit. The company may only make distributions to shareholders and other persons entitled to receive distributions insofar the equity exceeds the issued capital plus the reserves that it is required to hold by law.

For information on movements reference is made to the section consolidation statement of changes in equity.

40. Contingent liabilities and committed facilities

Contingent liabilities

This item relates to guarantees given for liabilities of third parties and land provisionally acquired. These relate mainly to liabilities customary in development projects.

	2006	2005
Contingent liabilities arising from guarantees issued	136,550	342,005
Contingent liabilities concerning building sites	290,186	141,117
Total contingent liabilities	426,736	483,122

Many of the contingent liabilities arising from guarantees issued will expire without being advanced in whole or in part. This means that the amounts stated do not represent expected future cash flows.

Committed facilities

	2006	2005
Unused portions of credit facilities and construction depots	–	1,547,301
Outstanding proposals (weighted according to likelihood of conversion to order)	–	1,365,197
Total committed facilities	–	2,912,498

41. Other liabilities not shown on the balance sheet

Work-in-progress commitments relate to 17,476 (2005: 17,094) homes under construction, of which 15,243 (2005: 15,249) already have been sold. Commitments on non-commercial properties which have been entered into with third parties including contractors and architects amounts € 773 million (2005: € 720 million) as at 31 December 2006. Commitments on commercial properties have been entered into with contractors and architects for an amount of € 226 million (2005: € 268 million).

Guarantees for an amount of € 13.9 million (2005: € 48.8 million) have been granted in relation to construction companies not acquired during takeovers. These guarantees relate to building volume to be provided.

Joint and several liability for the obligations of joint ventures entered into with third parties is only taken into account on the balance sheet if and to the extent that the financial position of one or more of the partners were to justify this.

A rent flow of € 45.9 million nominal (2005: € 45.9 million nominal) from a commercial property portfolio has been used to provide protection for a pension fund against inflationary developments for a period of thirty years.

Long-term commitments have been entered into for the rental of office premises and operating leases for motor cars. As at 31 December 2006, the commitments entered into under long-term rental agreements and leases were as follows:

	2006	2005
Less than one year	8,969	10,487
Between one and five years	28,030	23,634
More than five years	2,322	8,173
Total long term commitments	39,321	42,294

ADDITIONAL INFORMATION

in € x 1,000.–

42. Cash flow statement

In the consolidated cash flow statement Bouwfonds presents the cash flows attributable to the operating, investing and financing activities of continued operations. The net cash flows attributable to operating, investing and financing activities of discontinued operations are disclosed in note 14.

Determination of cash and cash equivalents:

	2006	2005
Cash	28	23
Banks – freely available (18)	165,081	132,328
Assets held for sale – cash and banks freely available (14)	2,749	126,459
Total cash and banks freely available	167,858	258,810
Opening balance	258,810	161,048
Movement in cash and cash equivalents	(90,952)	97,762
Closing balance	167,858	258,810

Cash flows from continued operating activities include € 44 million (2005: € 444 million) interest received and € 83 million (2005: € 300 million) interest paid. The income tax paid amounts € 81.5 million (2005: € 175 million).

43. Share based payments plans

Bouwfonds has reconsidered the remuneration structure of its employees. This has resulted in the discontinuance of the share based payment plans. It has also caused all outstanding options to be exercised.

44. Fair value information

The following table presents the fair value of financial instruments, including those not reflected in the financial statements at fair value. It is accompanied by a discussion of the methods used to determine fair value for financial instruments.

in millions of euros	CONTINUED	HELD FOR SALE	CARRYING AMOUNT	FAIR VALUE	CONTINUED	HELD FOR SALE	CARRYING AMOUNT	FAIR VALUE
	2006		2006		2005		2005	
Financial assets								
Financial assets at fair value through income statement	1	–	1	1	13	–	13	13
Derivate assets used for hedging	17	–	17	17	27	65	92	92
Loans and receivables – banks	355	3	358	359	164	126	290	290
Loans and receivables – customers	742	17	759	770	9,309	30,334	39,643	41,848
Interest-earning securities	50	–	50	50	–	7	7	7
Total financial assets	1,165	20	1,185	1,197	9,513	30,532	40,045	42,250
Financial liabilities								
Financial liabilities at fair value through income statement	–	–	–	–	66	–	66	66
Derivate liabilities used for hedging	34	–	34	34	60	131	191	191
Due to banks	2,715	90	2,805	2,815	4,316	14,518	18,834	19,039
Funds entrusted	370	19	389	389	1,109	600	1,709	1,714
Debt securities	95	–	95	96	3,903	14,426	18,329	18,621
Subordinated debt	–	–	–	–	559	592	1,151	1,218
Total financial liabilities	3,214	109	3,323	3,334	10,013	30,267	40,280	40,849

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (such as a recognized stock exchange), as it is the best evidence of the fair value of a financial instrument.

Market prices and rates are not, however, available for certain financial assets and liabilities held and issued by Bouwfonds. In these cases, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet dates.

Valuation techniques are generally applied to derivatives, unlisted portfolio assets and liabilities, and unlisted financial investments. The most frequently applied pricing models and valuation techniques include forward pricing and swap models using present value calculations and credit models such as default rate models or credit spread models. The values derived from applying these techniques are significantly affected by the choice of valuation model used and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit risk.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in the above table for both financial instruments carried at fair value and those carried at cost (for which fair values are provided as a comparison):

- (a) the fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality, as the impact of impairment is recognized separately by deducting the amount of the allowance for credit losses from both carrying and fair values;
- (b) the fair value of fixed rate loans and mortgages carried at amortized cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of impairment is recognized separately by deducting the amount of the allowance for credit losses from both carrying and fair values. Where applicable the interest accrued to date on financial instruments is included in the carrying value of the financial instruments. These valuation techniques and assumptions provide a consistent measurement of fair value for Bouwfonds' assets and liabilities as shown in the table.

However, because other institutions may use different methods and assumptions when estimating fair value using a valuation technique, and when estimating the fair value of financial instruments not carried at fair value, such fair value disclosures cannot necessarily be compared from one financial institution to another. The table does not reflect the fair values of non-financial assets and liabilities such as property, equipment, goodwill, prepayments and non-interest accruals.

Derivative instruments used for hedging are carried on the balance sheet at fair values. Fair value changes are recorded in net profit. The treatment of derivatives designated as cash flow hedges is explained in note 17. These amounts are included in the derivative assets and liabilities used for hedging.

Determination of fair values from quoted market prices or valuation techniques

For financial instruments which do not have directly available quoted market prices, fair values are estimated using valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates existing at the balance sheet date. This is the case for many unlisted instruments and other items which are not traded in active markets. Of all fair values of the financial instruments the derivative assets used for hedging amounting € 17 million (2005: € 92 million) and the derivative liabilities used for hedging amounting € 34 million (2005: € 191 million) are traded in active markets. Interest-bearing securities of € 50 million (2005: € 7 million in relation to discontinued operations) are not traded in active markets. The purchase price of the interest-bearing securities has been used to arrive at the most accurate estimate of their value.

Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

Included in the fair value of financial instruments carried at fair value on the balance sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices or rates. Models used in these situations undergo an internal validation process before they are certified for use.

There may be uncertainty about a valuation, resulting from the choice of model used, the deep in the model parameters it employs, and the extent to which inputs are not market observable, or as a result of other elements affecting the valuation, for example liquidity. Valuation adjustments are made to reflect such uncertainty and deducted from the fair values produced by the models or other valuation techniques.

Based on the controls and procedural safeguards Bouwfonds employs, management believes the resulting estimated fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable and are the most appropriate at the balance sheet date.

The potential effect of using reasonably possible alternative assumptions as inputs to valuation techniques from which the fair values of these financial instruments are determined has been quantified as a reduction of approximately € 4.7 million (2005: € 153 million) using less favourable assumptions and an increase of approximately € 4.7 million (2005: € 173 million) using more favourable assumptions at 31 December 2006.

The determination of reasonably possible alternative assumptions is itself subject to considerable judgment. For valuations based on models, reasonably possible alternatives have been estimated on the basis of an increase and decrease in the applicable credit spread of 50 basis points (2005: 100 basis points) In changing the assumptions it was assumed that the impact of correlation between different financial instruments and models is minimal.

Changes in fair value recognized in income statement during the period which were estimated using valuation techniques

The total amount of the change in fair value for foreign exchange forward and inflation contracts estimated using a valuation technique that was recognized during the period amounted a loss of € 2.0 million (2005: a loss of € 1.3 million). The changes in fair value recognized in profit or loss during the period which were estimated using valuation techniques represent only a portion of net interest income. In many cases these amounts were offset by changes in fair value of other financial instruments or transactions, which were priced in active markets using quoted market prices or rates, or which have been realized.

45. Directors remuneration

The following table summarises the total remuneration awarded to the Board of Directors:

	2006	2005
Short-term employee benefits	3,857	2,430
Post employment benefits	287	341
Other long-term employee benefits	3	–
Termination benefits	527	5,032
Share-based payments	–	648
Total compensation Board of Directors	4,674	8,451

The following table summarises the total remuneration awarded to key management other than Board of Directors and Supervisory Board:

	2006	2005
Short-term employee benefits	–	1,648
Post employment benefits	–	254
Share-based payments	–	175
Total compensation other key management	–	2,077

The remuneration of members of the Supervisory Board amounts € 135,000 (2005: € 53,340).

Loans to directors and Supervisory Board

No mortgage loans have been granted to Supervisory Board members.

The mortgage loans granted at arm's length conditions to the Board of Directors (2005: Board of Director and other key management) had a balance of € 2.1 million at the end of 2006 (2005: € 4.8 million) against an interest rate of 3.9% (2005: 3.9%).

46. **Financial risk management and use of financial instruments**

This paragraph provides an overview of the financial risks of Bouwfonds and of the methods and techniques to measure and manage these risks. The financial risks that Bouwfonds faces are credit risk, interest rate risk, liquidity risk and currency risk. Bouwfonds is not involved in trading activities. The methods and techniques discussed in this paragraph are aimed at mitigating risks that are found to be unacceptable. It should be noted that any representation of risk at a specific date offers only a snapshot of the risks taken, since even non-trading positions can vary significantly on a daily basis, because they are actively managed. As such, it may not be representative of risks at other times.

A Financial derivatives

Bouwfonds enters into financial derivative transactions with the purpose to hedge existing risk exposures. Examples of derivatives that Bouwfonds may hold include interest rate swaps (IRS), currency forwards (FX-forward), forward rate agreements (FRAs, for example) and occasionally interest options (caps, floors, collars).

A.1 Swaps

Bouwfonds uses interest rate swaps. Swaps are dealt over-the-counter with Rabobank. Swap transactions are based on exchanging future cash flows between two parties. Bouwfonds uses swaps to exchange the cash flows of an undesirable position with cash flows of a favourable position that Bouwfonds does not hold. This enables Bouwfonds to swap risky interest and currency positions with another party for a position that Bouwfonds is willing to hold.

In case of an interest rate swap, usually, a short interest payable is swapped for a longer term interest rate. The maturity of the swap is then equal to the maturity of the long term interest rate and the notional of the swap determines the size of the interest cash flows. Notionals are not exchanged, only interest cash flows.

With swap transactions two parties enter into future obligations to each other. This causes a credit risk exposure. In order to mitigate this risk, Bouwfonds only enters into swap transactions with Rabobank. Because Bouwfonds uses swaps only for hedging purposes of existing interest rate risk, there is no additional interest rate risk involved in these transactions.

A.2 Forwards

Bouwfonds policy allows the use of interest rate forwards (Forward Rate Agreement, FRA) and currency forwards (FX-forward).

The FRA was added to the Treasury instruments in 2005 in order for Treasury to hedge Bouwfonds for fluctuations in future money market rates. An FRA is an agreement between two parties on an interest rate for a short future period. This instrument enables Bouwfonds to hedge its margin on floating funded development projects against interest rate fluctuations. An FRA only settles the difference between the agreed future interest rate and the actual rate at that time in the future.

An FX-forward is an agreement on a future currency exchange rate. Whenever Bouwfonds takes ECP funding in currencies other than euros (British Pounds), these foreign currencies are exchanged into euro using spot transactions. Still, the future redemption of the ECP is settled in the foreign currency. Bouwfonds enters into FX-forwards to exchange euros back into British Pounds for future redemption of ECP issued in those currencies.

Forwards are traded over-the-counter with counterparties known to Bouwfonds. As these transactions may include a(n) (unrealised) gain, a counterparty claim may arise. In turn, this gives rise to credit risk. In order to mitigate this credit risk, Bouwfonds only enters into forward contracts with Rabobank. Because Bouwfonds uses forwards only for hedging purposes of existing interest rate or currency risks, there is no additional interest rate or currency risk involved in these transactions.

A.3 Options

Options provide the buyer, in exchange for a premium, the right, but not the obligation, to exercise a transaction in the future against an already agreed price with the writer of the option. Bouwfonds is occasionally a buyer of interest options in order to hedge itself against rights that are embedded in contract sold to customers. An interest option offers the right to compensation for an increase or a decrease of the interest rate above a cap rate or below a floor rate. Only the interest rate difference over the notional of the option is compensated by the writer of the option. Bouwfonds buys its options over-the-counter with Rabobank. Because an interest rate option could potentially lead to a receivable, there is credit risk involved. In order to mitigate credit risk, Bouwfonds only enters into option transactions with Rabobank.

B Financial risks

This paragraph discusses the financial risks Bouwfonds encounters. Bouwfonds is not involved in trading activities, but only seeks to hedge existing exposures arising from its commercial activities. Credit risk, interest rate risk, currency risk and liquidity risk is actively managed by risk management committees at several levels within Bouwfonds. Local mandates and limits ensure manageable consolidated risk positions at holding level. The limits are frequently reviewed considering the risk acceptance of the bank. Per risk category a number of techniques are used to quantify the risk. These various risk measurement techniques offer different views of the same risk and should not be aggregated.

B.1 Liquidity risk

Bouwfonds needs to ensure that it is capable of funding its activities at appropriate maturities and at a reasonable price. Bouwfonds uses a range of funding instruments in order to minimize its dependency on one specific instrument. Also, Bouwfonds spreads its funding over the maturity calendar to prevent large refinancing operations in short time frames. As a buffer, Bouwfonds maintains a guaranteed facility with Rabobank.

The following table provides an analysis of the financial assets and liabilities as at 31 December 2006 into relevant maturity groupings based on the remaining contractual periods to repayment.

in millions of euro	PAYABLE	LESS THAN THREE MONTHS	BETWEEN THREE MONTHS AND ONE YEAR	BETWEEN ONE AND FIVE YEARS	MORE THAN FIVE YEARS	TOTAL	CONTINUED	HELD FOR SALE
Loans receivable								
Loans and receivables – banks	168	80	33	25	52	358	355	3
Loans and receivables – customers	78	52	24	506	98	758	742	16
Total loans receivable	246	132	57	531	150	1,116	1,097	19
Loans payable:								
Due to banks	1,320	293	321	494	377	2,805	2,715	90
Funds entrusted	155	56	51	82	44	388	370	18
Debt securities	–	72	23	–	–	95	95	–
Total loans payable	1,475	421	395	576	421	3,288	3,180	108

The following table provides an analysis of the financial assets and liabilities as at 31 December 2005 into relevant maturity groupings based on the remaining periods to repayment.

in millions of euro	PAYABLE	LESS THAN THREE MONTHS	BETWEEN THREE MONTHS AND ONE YEAR	BETWEEN ONE AND FIVE YEARS	MORE THAN FIVE YEARS	TOTAL	CONTINUED	HELD FOR SALE
Loans receivable								
Loans and receivables – banks	259	7	2	1	21	290	164	126
Loans and receivables – customers	5	923	879	2,258	35,578	39,643	9,309	30,334
Total loans receivable	264	930	881	2,259	35,599	39,933	9,473	30,460
Loans payable								
Due to banks	4,804	926	2,614	8,425	2,065	18,834	4,316	14,518
Funds entrusted	731	477	231	213	57	1,709	1,109	600
Debt securities	–	4,092	2,976	8,405	2,855	18,328	3,903	14,425
Subordinated debt	–	–	9	68	1,074	1,151	559	592
Total loans payable	5,535	5,495	5,830	17,111	6,051	40,022	9,887	30,135

Cash, accruals and deferred income, other assets and assets held for sale all have a term of less than one year.

For monthly liquidity risk monitoring Bouwfonds uses two reports:

- a statement of required versus available liquidity;
- the impact of a stress scenario on the liquidity position in the coming three months.

The statement of required versus available liquidity is equal to the official report for the Dutch Central Bank. The statement presents required and available liquidity based on actual payables and receivables or the liquidity equivalent of on-balance and off-balance sheet items for the coming week and coming month. The liquidity equivalence ratio represents that part of the balance sheet item that will be receivable or payable in the coming week or month. The liquidity equivalence of a portfolio of bonds is for example 95% of the value, because a bank is able to sell that portfolio in one week for 95% of its current value. The liquidity equivalence ratio of mortgage proposals is 2.5% for the week period, because it is assumed that 2.5% of the proposals will be paid out in the next week. The liquidity equivalence ratio for the month period is 10%. All used liquidity equivalence ratios are compliant with Dutch Central Bank regulations.

in millions of euro

	WEEK PERIOD		MONTH PERIOD	
	2006	2005	2006	2005
Available	1,626	3,459	1,761	3,775
Required	99	4,705	1,110	7,402
Surplus/(shortage)	1,527	(1,246)	651	(3,627)

The shortage year-end 2005 was due to the transfer of the mortgage activities. Although the figures presented in this report are on a going concern basis, a substantial part of the money market funding matured in the first week of January 2006 because the sale of the mortgage activities was then settled. If the mortgage operations had not been divested, loans with a longer maturity would have been contracted prior to the divestment. Alternatively, existing facilities would have been rolled over sooner. The negative liquidity position at year-end 2005 is attributable to the sizeable repayment obligation that arose as a result of the divestment.

Bouwfonds also uses a stress scenario to gain insight in its liquidity risk. The scenario represents the situation where Bouwfonds is no longer able to attract funds from the money and capital markets. In that case the funding of Bouwfonds is only supported by receivables from clients paying their interest and redemption. The scenario does not take into account new production. Given that the liquidity position at time of occurrence of such a scenario will be zero, the liquidity position will become negative in the weeks and then stabilise. The horizon of three months will provide sufficient time for Bouwfonds to re-enter money and capital markets. Bouwfonds holds financial facilities available with Rabobank to buffer for the negative liquidity position that this scenario presents.

B.2 Interest rate risk

Assets

Loans and receivables – customers

Average rate assets

Liabilities

Banks

Funds entrusted

Debt securities

Subordinated debt

Average rate liabilities

Average rate assets

Average rate liabilities

Difference

	EFFECTIVE RATE	
	2006	2005
Loans and receivables – customers	5.53%	4.88%
Average rate assets	5.53%	4.88%
Banks	3.85%	3.45%
Funds entrusted	4.88%	4.00%
Debt securities	3.25%	3.54%
Subordinated debt	–	4.87%
Average rate liabilities	3.88%	3.55%
Average rate assets	5.53%	4.88%
Average rate liabilities	3.88%	3.55%
Difference	1.65%	1.33%

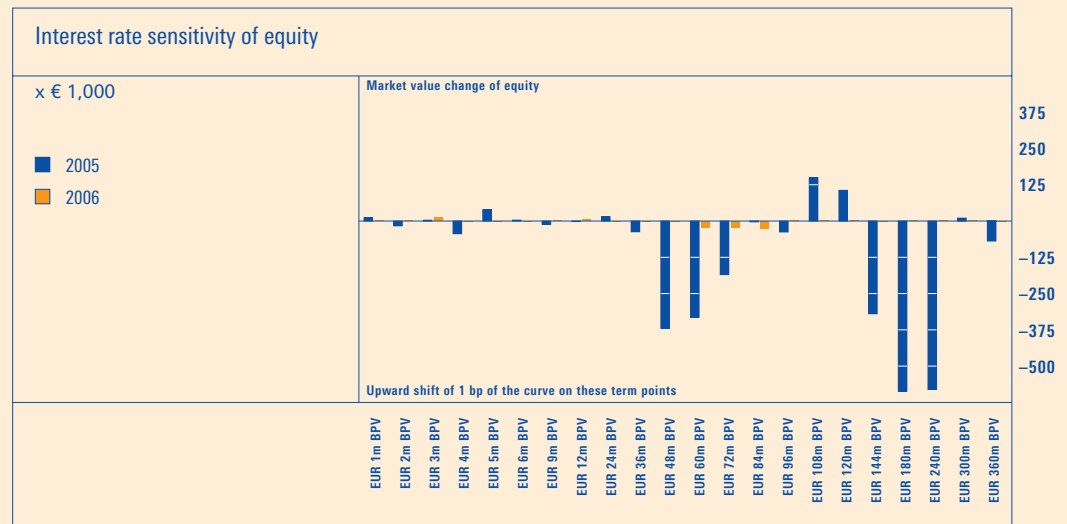
With regard to the effective interest rates achieved in 2006 compared with 2005, it should be noted that Bouwfonds was a very different business as at the end of 2006 compared to year-end 2005. At the end of 2005, the balance sheet and the income statement were still dominated by Bouwfonds Hypotheken B.V. and Bouwfonds Property Finance B.V. At the end of 2006, these business units, whose primary objective is to generate an interest margin, were divested. What remains is a company in which an active interest margin business plays a minor role.

Bouwfonds' activities are sensitive to fluctuations in interest rates on money and capital markets. This is caused by the difference in reprising of interest bearing assets and liabilities. The duration has not been stated because this would take a disproportionate amount of time. In addition, the principle measure of Bouwfonds' sensitivity to interest rates is the modified duration (see below).

When Bouwfonds funds its fixed assets with floating liabilities, an interest rise on the money market will lead to an increase of funding costs, whilst keeping the fixed rate gains constant. The Asset & Liability Management (ALM) policy of Bouwfonds is focussed on funding customer assets with liabilities with similar properties. This creates a situation where the liabilities will match the assets and as a result, the equity will be equally divided over the asset mix. Therefore Bouwfonds' equity basically has the same interest rate sensitivity as the weighted average interest rate sensitivity of the assets. Bouwfonds considers this interest rate sensitivity of equity to be the risk neutral position.

Managing the interest rate sensitivity of Bouwfonds is performed in compliance with the ALM policy. ALM at Bouwfonds is focused on managing the interest rate sensitivity of the market value of equity. Bouwfonds will lose market value when interest rates go up, because this will diminish margins and therefore negatively impact future profits. The sensitivity of these profits is also monitored by the Asset & Liability Committee, but is not yet limited.

Bouwfonds limits its sensitivity to interest rate fluctuations by matching maturity of funding with the maturity of assets. Although the risk neutral position of the equity of Bouwfonds is equal to the interest rate sensitivity of the assets, there are still some uncertainties involved. Therefore interest rate risk is monitored closely.



The most important measure for interest rate sensitivity is the modified duration of equity. The duration of an interest bearing contract is the weighted average maturity of the discounted cash flows. The modified duration is arrived at following a minor adjustment. In general the modified duration represents the relation between an interest rate increase and a market value decrease of the contract. A bond with a modified duration of 5 will lose 5% of its value when the market rate for that bond increases with 1%-point and vice versa.

Bouwfonds calculates the 'modified duration sensitivity of equity'. This figure roughly represents the relation between an upward parallel shift of the interest rate curve rise and a decrease of the market value of equity and vice versa. When interest rates rise 1%-point (= 100 basis points), the market value of equity will roughly decrease by 1% times the modified duration. To represent this event in euros, the scenario would include the assumption that the rates rise immediately and remain constant on their new level.

Sensitivity of market value of equity

Figures including mortgage proposals
Figures excluding mortgage proposals

MODIFIED DURATION OF EQUITY	IMPACT OF + 100 BP ON MARKET VALUE OF EQUITY (IN MILLIONS)	
	2006	2005
Figures including mortgage proposals	1.1	8.1
Figures excluding mortgage proposals	1.1	6.7

At the end of 2005, the mortgage operations still formed part of Bouwfonds. In the mortgage business, the interest risk relating to outstanding proposals was substantial. As a consequence, the figures were reported excluding and including these proposals. For 2006, the proposal risk was no longer significant. No comparison has therefore been made of the position including and excluding proposals in 2006.

Besides duration, which is a market value driven indicator, Bouwfonds also monitors the sensitivity of its projected earnings for changes on the interest markets. This so-called Earnings Risk report is only used for additional information and no limits apply to the outcomes of the analyses. The interest scenarios used are a 200 basis points gradual increase over 12 months and a 100 basis points gradual decrease over 12 months.

Bouwfonds also calculates a 95% monthly Value-at-Risk (VaR). This figure was in 2006 also only indicative and not officially limited. The Value-at-Risk is the maximum amount of equity market value that can be lost within a month with a 95% statistical certainty.

B.3 Currency risk

Bouwfonds is confronted with currency risk in two ways. Firstly, Bouwfonds' commercial paper was issued abroad. This led to an inflow of foreign currencies. Secondly, Bouwfonds engages in activities abroad, also leading to turnover in foreign currencies. The Asset & Liability Management policy does not allow Bouwfonds to hold a significant currency risk exposure. Bouwfonds uses FX-spot and FX-forward transactions to exchange foreign currencies into euros.

Bouwfonds attracts funding in several currencies. In general funding is attracted in a foreign currency because Bouwfonds has an investment in that same currency. Only in case of ECP issues Bouwfonds occasionally attracts foreign currencies that do not match the investments. It is Bouwfonds' policy to exchange these positions immediately into euros and agree a rate on an FX-forward transaction to exchange the euros back to the original currency for the redemption. The table below shows the foreign currency amounts that were attracted by ECP, deposits and longer term private placements. As already stated, all this funding is hedged implicitly (through investments) or explicitly (with FX-forwards) to euro positions.

2006

in millions of euros

	ECP ISSUE	SHORT DEPOSITS	LONG DEPOSITS	PRIVATE PLACEMENTS	TOTAL
USD Funding	-	(30)	-	-	(30)
Investments	-	30	-	-	30
FX-forward	-	-	-	-	-
GBP Funding	(14)	-	-	-	(14)
Investments	-	-	-	-	-
FX-forward	14	-	-	-	14

2005

in millions of euros

	ECP ISSUE	SHORT DEPOSITS	LONG DEPOSITS	PRIVATE PLACEMENTS	TOTAL	
USD	Funding	(675)	(674)	(4)	(11)	(1,364)
	Investments	–	674	4	11	689
	FX-forward	675	–	–	–	675
GBP	Funding	(204)	(22)	–	–	(226)
	Investments	–	22	–	–	22
	FX-forward	204	–	–	–	204
DKK	Funding	–	(195)	–	–	(195)
	Investments	–	195	–	–	195
	FX-forward	–	–	–	–	–
SEK	Funding	–	(114)	–	–	(114)
	Investments	–	114	–	–	114
	FX-forward	–	–	–	–	–
CHF	Funding	(5)	–	–	–	(5)
	Investments	–	–	–	–	–
	FX-forward	5	–	–	–	5

B.4 Credit risk

Bouwfonds is subject to credit risk through its lending and investing activities and in cases it issues guarantees. Credit risk associated with treasury activities are managed through the Asset & Liability Management process.

Bouwfonds' primary exposure to credit risk arises through its loans and receivables. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. Bouwfonds is exposed to credit risk on various other financial assets, including derivative instruments used for hedging. The credit exposure on off-balance sheet instruments is a sum of the current market value plus a fraction of the notional of the transaction. This fraction is called the 'potential future exposure' and reflects possible market value increases in the future. The potential future exposure factor increases therefore with the remaining maturity of the transaction. In addition to all this, Bouwfonds is also exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued.

Bouwfonds' senior management is responsible for establishing credit policies and the mechanisms, organization and procedures required to analyse, manage and control credit risk. A detailed policy containing the delegation of authorities is used and maintained. Approval for individual credits is controlled through a system of risk committees, each at their own level in the organisation and with their own mandates. Reports are made covering large exposures, concentration risk, doubtful debtors and provisions.

Total commercial loans and receivables per business sector are presented in the table below:

	2006		2005	
Agriculture, mining and energy			2,746	0.0%
Industry			132,997	1.7%
Property and trade constructions	711,345	100%	7,188,089	89.9%
Trade			358,250	4.5%
Financial services			78,596	1.0%
Other Business services			52,731	0.6%
Hotel and Catering			22,194	0.3%
Transport and communicating			93,958	1.2%
Education, care and other services			65,157	0.8%
Total commercial loans	711,345	100%	7,994,718	100%

The amounts stated in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. These amounts greatly exceed expected losses, which are included in the allowance for uncollectability.

It is Bouwfonds' policy to require suitable collateral to be provided by customers prior to disbursement of approved loans. Guarantees are also subject to strict credit assessment before being provided. The table below shows a breakdown of the collateral received on loans. Unsecured loans also include loans for which Bouwfonds has the right to require collateral.

The following table details loans and receivables from commercial and retail clients by type of collateral. There is no evidence that the fair value of the underlying collateral is lower than the advances made.

	CONTINUED	HELD FOR SALE	TOTAL	%	CONTINUED	HELD FOR SALE	TOTAL	%
	2006		2006		2005		2005	
Mortgage coverage	459,637	–	459,637	63.1%	6,299,690	–	6,299,690	78.8%
Other collateral and unsecured credits	251,708	16,536	268,244	36.9%	1,695,028	–	1,695,028	21.2%
Total private sector, commercial	711,345	16,536	727,881	100%	7,994,718	–	7,994,718	100%
Public authority guarantees	–	–	–	–	–	5,475,906	5,475,906	17.3%
Mortgages	8,819	–	8,819	83.8%	1,290,972	23,048,662	24,339,634	76.9%
Guarantees provided by other credit institutions	–	–	–	–	–	–	–	0%
Other collateral and unsecured credits	1,708	–	1,708	16.2%	–	1,836,902	1,836,902	5.8%
Total private sector, retail	10,527	–	10,527	100%	1,290,972	30,361,470	31,652,442	100%

47. Capital adequacy

To monitor the adequacy of its capital Bouwfonds uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS) by comparing Bouwfonds' eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount. Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of conversion factors, which are designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Tier 1 capital consists of shareholders' equity and qualifying subordinated debt less goodwill and intangibles. Tier 2 capital represents additional qualifying subordinated debt.

Bouwfonds' capital adequacy level, was as follows:

Balance sheet assets (net of provisions)

	BALANCE SHEET/UNWEIGHTED AMOUNT			RISK WEIGHTED AMOUNT, AFTER EFFECT OF CONTRACTUAL NETTING		
	CARRYING AMOUNT			CARRYING AMOUNT		
	CONTINUED	HELD FOR SALE	TOTAL			
2006			2005	2006	2005	
Cash	28	–	28	–	–	–
Financial assets at fair value through income statement	543	–	543	13,825	–	–
Derivative assets used for hedging	17,194	–	17,194	92,321	–	–
Loans and receivables – banks	354,830	2,749	357,579	290,493	71,516	58,098
Loans and receivables – customers	741,507	16,536	758,043	39,643,775	746,899	21,666,079
Property	2,616,804	136,902	2,753,706	2,868,751	2,476,673	2,868,751
Interest earning securities	50,000	–	50,000	6,940	50,000	1,388
Equity accounted investments	32,410	194	32,604	53,812	32,604	53,812
Buildings and equipment	22,135	243	22,378	29,977	22,378	29,977
Intangible assets	20	–	20	2,327	–	–
Current tax assets	47,564	3,873	51,437	34,436	–	–
Prepayments and accrued income	80,991	123	81,114	193,447	78,963	177,944
Other assets	194,434	–	194,434	264,546	40,034	52,909
	4,158,460	160,620	4,319,080	43,494,673	3,519,067	24,908,958
Off-balance sheet positions and derivatives						
Contingent liabilities	426,736	–	426,736	483,364	50,328	260,068
Committed facilities	–	–	–	5,036,614	–	753,780
Credit equivalents of derivatives	–	–	–	–	–	28,805
Total risk-weighted assets					3,569,395	25,951,611

The following table analyses actual capital and the minimum standard needed in order to comply with supervisory requirements.

in millions of euros

	REQUIRED	ACTUAL	REQUIRED	ACTUAL
	2006		2005	
Total capital	286	555	2,076	3,118
Total capital ratio	8.0%	15.5%	8.0%	12.0%
Tier 1 capital	143	555	1,038	2,178
Tier 1 capital ratio	4.0%	15.5%	4.0%	8.4%

48. Joint ventures

Joint ventures with third parties in project development in which neither party has the power of control are consolidated proportionally. Joint and several liability for the obligations of joint ventures entered into with third parties is only taken into account if and to the extent that the financial position of one or more of the partners were to justify this.

The consolidated financial statements include the following assets and liabilities, income and expenses of joint ventures, which represent Bouwfonds' proportionate share:

	2006	2005
Assets		
Loans and receivables – banks	63,774	50,343
Loans and receivables – customers	58,884	55,940
Property	877,156	1,008,053
Other asset accounts	10,341	12,889
Total assets	1,010,155	1,127,225
Liabilities		
Financial liabilities at fair value through income statement	–	65,108
Due to banks	804,824	920,247
Funds entrusted	60,425	43,973
Other liability accounts	75,977	53,401
Total liabilities	941,226	1,082,729
Operating income	54,759	55,937
Operating expenses	11,266	18,446
Operating profit before taxes	43,493	37,491
Income tax expense	(3,772)	(6,743)
Profit for the year	39,721	30,748

The principal joint ventures in which Bouwfonds has an interest are:

- Frankfurt HochVier GmbH & Co KG (50%)
- Pieter Vreedeplein Ontwikkeling CV (50%)
- Ontwikkelingscombinatie Almere Hart CV (60%)
- Oosterdokseiland Ontwikkeling Amsterdam CV (50%)
- SCI SCCV Promenade (50%)
- Bouwfonds Fortis Vastgoedontwikkeling Leidsche Rijn VOF (50%)
- Inflation Exchange Fund Capital NV (48%)
- Flor Investment BV (50%)

Since many of the property activities of Bouwfonds are carried out through joint ventures, no information has been provided on transactions between Bouwfonds and individual joint venture partners.

49. Related parties

Bouwfonds has related party relationships with subsidiaries, equity accounted investments (see note 23), joint ventures (see note 48), key management (see note 45) and the ultimate parent company Rabobank Nederland (2005: ABN AMRO Holding N.V.).

Bouwfonds enters into a number of banking transactions with related parties in the normal course of business. These transactions are at arms length. No allowances for loan losses have been recognized in respect of loans to related parties in 2006 and 2005.

The following table provides the total amount of transactions, which have been entered into with the parent company and equity accounted investments for the relevant financial year.

	YEAR	SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	AMOUNTS OWED BY RELATED PARTIES	AMOUNTS OWED TO RELATED PARTIES
Rabobank	2006	–	–	456,422	2,381,500
ABN AMRO	2005	–	5,863	152,214	16,625,571
Equity accounted investments	2006	–	–	–	–
	2005	17,081	13,471	30,518	1,462

Rabobank Nederland paid German transfer tax totalling € 4.4 million resulting from the sale of Bouwfonds by ABN AMRO to Rabobank Nederland.

The purchases by ABN AMRO Holding N.V. relate to the annual fees for services provided. For 2006, this fee amounted to € 4.2 million (2005: € 5.8 million).

The balance sheet items classified as continued and held for sale include amounts receivable from and payable to the ultimate parent company, Rabobank Nederland (2005: ABN AMRO Holding N.V.). In total, these amounted to:

	2006	2005
Amounts receivable		
Financial assets at fair value through income statement	–	1,856
Derivatives used for hedging	770	28,163
Loans and receivables – banks	228,358	122,195
Prepayments and accrued income	32,860	–
Other assets	194,434	–
Total amounts receivable	456,422	152,214
Amounts payable		
Financial liabilities at fair value through income statement	–	373
Derivatives used for hedging	31,513	113,797
Due to banks	2,349,987	15,414,024
Subordinated debt	–	1,097,377
Total amounts payable	2,381,500	16,625,571

Equity accounted investments

There were no material transactions between the equity accounted investments and Bouwfonds and there were no significant amounts outstanding that were payable by or to equity accounted investments.

The purchases and amounts owed to related party in 2005 concerns mainly the services rendered in the field of the management of loan and property portfolios by Stater N.V. (40% participating interest).

COMPANY FINANCIAL STATEMENTS

50. **Company balance sheet and income statement**

Accounting policies

The entity financial statements of Rabo Bouwfonds N.V. have been prepared in accordance with the legal requirements in Title 9 Book 2 of the Dutch Civil Code. Starting 1 January 2005, Bouwfonds prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies applied in the entity financial statements are the same as those applied in the consolidated financial statements. The valuation of participating interests in Group companies which are valued at net asset value are determined based on IFRS as accepted by the European Union.

Changes in accounting policy

In 2005, Bouwfonds decided to adopt the same accounting policies for measurement and recognition in its entity financial statements as applied in the consolidated financial statements. The reason for this decision is to improve the reporting of the company financial statements and to have a single set of accounting policies for the subsidiaries. As a consequence, the profit for the year and the total shareholders' equity in the company financial statements is the same as in the consolidated financial statements. The policies have been consistently applied in all years presented and comparative numbers have been amended.

Basis of preparation

The financial statements are presented in euros, which is the presentation currency of Bouwfonds, rounded to the nearest thousand.

COMPANY INCOME STATEMENT for 2006

x € 1,000.–

	2006	2005
Profits of participating interests after taxes	248,474	341,861
Other profit after taxes	(59,066)	(27,756)
Net profit	189,408	314,105

Drawn up in accordance with section 2:402 of the Dutch Civil Code.

COMPANY BALANCE SHEET

at 31 December 2006 (before profit appropriation)

x € 1,000.–

(Letters stated against items refer to the notes)

	2006	2005
ASSETS		
Cash	7	6
Financial assets at fair value through income statement	543	13,825
Derivative assets used for hedging	–	116,057
Loans and receivables – banks (a)	209,476	25,812,162
Loans and receivables – customers (b)	252,018	13,673,202
Interest-earning securities	50,000	6,940
Participating interests in group companies (c)	578,602	2,177,432
Equity accounted investments	384	333
Buildings and equipment	14,442	15,772
Prepayments and accrued income	53,384	81,001
Current tax assets	30,469	136,567
Deferred tax assets	4,287	45,206
Other assets	193,080	–
Total assets	1,386,692	42,078,503
LIABILITIES		
Financial liabilities at fair value through income statement	–	1,140
Derivative liabilities used for hedging	–	196,407
Due to banks (d)	673,899	17,973,548
Funds entrusted (e)	33,415	1,856,353
Debt securities	95,048	18,272,985
Provisions	21,816	23,384
Accruals and deferred income	18,847	690,636
Current tax liabilities	11,931	5,556
Other liabilities	8,693	–
Subordinated debt	–	1,151,472
Total liabilities	863,649	40,171,481
Share capital	10,071	10,071
Share premium account	360,115	365,115
Other reserves	152,857	1,531,836
Equity attributable to shareholders of the parent company	523,043	1,907,022
Total equity and liabilities	1,386,692	42,078,503

NOTES TO THE COMPANY BALANCE SHEET AND INCOME STATEMENT

x € 1,000.–

a Loans and receivables – banks

This item includes all amounts receivable from credit institutions. € 175 million of these receivables relates to group companies (2005: € 25,808 million).

b Loans and receivables – customers

This item includes all receivables from lending other than amounts receivable from credit institutions, bonds and other fixed-interest securities. € 230 million (2005: € 13,654 million) of these receivables relates to companies forming part of the Bouwfonds group.

c Participating interests in group companies

	2006	2005
Balance at 1 January	2,176,197	1,819,680
Share in the results	248,474	341,861
Purchases/contributions	18	20,000
Deconsolidation/divestment	(1,846,230)	–
Other movements	143	(5,344)
	578,602	2,176,197
Classified as provisions	–	1,235
Balance at 31 December	578,602	2,177,432
Credit institutions	–	1,720,290
Other group companies	578,602	457,142
Total group companies	578,602	2,177,432

d Due to banks

This item includes amounts owed to credit institutions, other than debt securities and subordinated loans. € 616 million of this amount (2005: € 14,938 million) relates to group companies.

e Funds entrusted

This item includes all funds entrusted such as current account balances and non-subordinated private loans. € 31 million of this amount (2005: € 206 million) relates to group companies.

Contingent liabilities

This item relates to liabilities arising from guarantees issued. Bank and group guarantees for a sum of € 543 million (2005: € 953 million) have been issued, of which € 407 million (2005: € 610 million) relates to group companies.

51. Major participating interests

The consolidated financial statements include the financial statements of Bouwfonds corporate and the subsidiaries listed in the following table.

(Unless otherwise stated, Bouwfonds' interest is 100%)

Bouwfonds Development BV, Hoevelaken

Bouwfonds MAB Ontwikkeling B.V., Hoevelaken
 Bouwfonds MAB Development B.V., The Hague
 Bouwfonds Property Development België B.V., Hoevelaken
 Bouwfonds Property Development Frankrijk B.V., Hoevelaken
 Marignan Immobilier Investissements S.A., Paris
 Bouwfonds Property Development Duitsland B.V., Hoevelaken
 Bouwfonds Hamburg GmbH, Hamburg
 Bouwfonds NRW GmbH, Düsseldorf
 Bouwfonds Bayern GmbH, Munich
 Onroerend Goed Exploitatiemaatschappij Weldam B.V., Hoevelaken
 Onroerend Goed Exploitatiemaatschappij Hoevelaken B.V., Hoevelaken
 Hopman Interheem Beheer B.V., Gouda (70%)

Bouwfonds Management BV, Hoevelaken

Bouwfonds Asset Management B.V., Hoevelaken
 ZOM Holland BV, Rotterdam (50%)
 ZOM Holding Inc, Orlando, Florida (39.9%)
 Bouwfonds Fondsenbeheer B.V., Hoevelaken

Bouwfonds Participations BV, Hoevelaken

A complete list of all the participating interests as required under sections 379 and 414, Part 9, Book 2 of the Dutch Civil Code has been filed with the Trade Registry.

Pursuant to section 403, Part 9, Book 2 of the Dutch Civil Code, the company is exempted from filing with the Trade Registry the annual accounts of a significant number of Dutch group companies which have been consolidated. General guarantees have been issued on behalf of these group companies.

52. Other information**Auditor's report*****Report on the financial statements***

We have audited the accompanying financial statements 2006 of Rabo Bouwfonds N.V., Hoevelaken. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2006, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Rabo Bouwfonds N.V. as at December 31, 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Rabo Bouwfonds N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Dutch Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, March 8, 2007

for Ernst & Young Accountants

Signed by G.H.C. de Méris

SUBSEQUENT EVENTS

Hopman Interheem Groep is expected to be sold in 2007.

Articles of Association provisions governing the appropriation of profit

The provisions of the Articles of Association governing the appropriation of profit are as follows:

Article 37 – Profit and loss

1. Profit shall be distributed in accordance with the provisions of this article following the adoption of the financial statements, which statements shall evidence that such distribution is permitted.
2. The general meeting of shareholders is authorized to appropriate profit. If the number of votes cast in favour of distribution of profit is equal to the number of votes cast in favour of transferring profit to reserves, the profit to which the motion relates will be transferred to reserves.
3. The company may only distribute profit that is available for distribution to shareholders and other persons entitled to receive distributions in so far as its equity exceeds the issued capital plus the legal reserves (reserves that are required to be held by law).
4. A deficit may only be offset against legal reserves if this is permitted by law.

Profit appropriation for 2006

The profit of € 189.4 million (2005: € 314.1 million) will be transferred in full to retained earnings.

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