Erasmusveld, The Hague

Central & Park, Frankfurt

Annual Report 2018

Uhlandstrasse, Ludwigsburg

bpd

bouwfonds property development

PoortMeesters, Delft

Park070, Voorburg

Riva, Bensheim


De Sax, Rotterdam


Ackermannbogen, Munich

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This English version is a translation of the Dutch version. The Dutch version prevails.

Annual Report 2018

BPD Europe

Message from the CEO

2018 was a historically good year for BPD for several reasons. In the Netherlands, 5,470 housing transactions were conducted in nearly 300 (sub) project developments in more than 130 municipalities. In Germany, we transacted more than 2,000 residential property deals for the first time ever, achieving a record 2,117 transactions to be precise. Since our inception in 1946, we have now developed over 350,000 residential properties, which is a huge milestone. Total revenue rose to € 1.4 billion, while profit for the year increased to € 240 million. This includes non-recurring income, such as the proceeds from the sale of Marignan, our **French subsidiary**, which we sold in 2018. The shares were transferred to a joint venture between Les Nouveaux Constructeurs (LNC) and PW Real Estate Fund III Holding. The proceeds from the sale of BPD Marignan will help strengthen our position in the Netherlands and Germany, our core markets, and support our growth plans in these two countries.

BPD not only saw growth in numbers and size, but also improved its **quality and competitive edge**. In 2018, we managed to win a number of inspiring requests for proposal, showing that we – as an area developer – can meet the market's highest demands. In addition, we strengthened our ties with housing associations and formalised our sustainability ambitions in a clear vision, geared towards the energy transition, circularity, climate change adaptation, and health and well-being in the built environment.

Our strong performance does not alter the fact that we operate in a **housing market** where it is increasingly challenging for people to find what they are looking for. The pressure on the market kept intensifying, particularly in urban areas where middle earners, i.e. people earning between once and twice the median household income, are being left out in the cold. We see it as our mission to help bring about structural affordability and availability of residential properties and will continue to actively pursue this ambition in 2019.

The **outlook for 2019** is definitely positive, both for BPD and for the sector as a whole. Sustainable affordability and availability of housing will remain an important social theme. BPD will continue to focus on creating inclusive living environments. In other words, the physical, spatial and social dimension of housing will have our undivided attention. Management and leadership are what is needed to successfully take on this social mission.

In the Netherlands, BPD will launch a **new initiative** in 2019 to meet the housing needs of more than 3 million middle earners. Their salary is too high to qualify for social housing and too low to allow them to buy property. BPD will help this target group by initiating the creation of a fund that will develop rental properties for middle earners. Over the coming years, this fund will come to hold some 15,000 rental properties in its portfolio.

BPD has built up the required capacity to help advance its focus on the major challenge of urban transformation. We will increasingly take control of area developments in city centres and other urban areas. Thanks to our continuous **growth strategy**, the future looks bright for 2019 and beyond. We will build heavily on what we have achieved in recent years. Our performance would not have been possible without the tremendous commitment of all our staff.

I would like to take this opportunity to thank them whole-heartedly for their great enthusiasm and boundless energy. I look forward to 2019 with confidence.

Walter de Boer
CEO BPD

Cobercokwartier, Armhem

BPD Europe in 2018

Key data

Profit for the year	€ 240 million
Return on equity	30%
Number of residential transactions in the Netherlands and abroad	10,142

De Zuivelfabriek, Eindhoven

Managing Board

The members of the Managing Board (MB) are BPD's executive directors. Until 1 December 2018, the members of the Managing Board were Mr W.P. de Boer (CEO), Mr H.W.J. Doornink (COO) and Mr J.C. Kreikamp (CFRO). Mr Doornink resigned by mutual consent on 1 December 2018. His duties were taken on by the other members of the Managing Board and by Ms G. Voorhorst, Director of Legal & Compliance.
On 1 March 2019, the members of the Managing Board were:

Ir. W.P. (Walter) de Boer
CEO

Drs. J.C. (Carl-Jan) Kreikamp
CFRO

Mr. G. (Gea) Voorhorst
Director of Legal & Compliance

A group-wide management team will be formed for the Dutch operations. This team will consist of members of the Managing Board, regional managers and BPD corporate support services directors. In addition, BPD will institute a separate investment committee that will be responsible for reviewing investment proposals.
The German operations have been headed up by Mr F.J. (Franz-Josef) Lickteig (CEO) and Mr R. (Raymond) van Almen (CFRO) since 1 January 2019.

Delegated General Meeting of Shareholders

- Drs. J.L. (Jan) van Nieuwenhuizen
- Dr. J.J. (Jan) Bos

Outside advisers

- Drs. Ing. C.M. (Cindy) van de Velde-Kremer
- Prof. Ir. H. (Hans) de Jonge

About BPD

BPD, which stands for Bouwfonds Property Development, is one of Europe's largest project & area developers. We provide people with one of the most important basic necessities: housing. We develop homes and residential areas, thus meeting the housing requirements of people in the Netherlands and Germany. We sold BPD Marignan, our French subsidiary, in 2018; the sale took place on 14 November 2018.

Since that date, BPD has operated from over 20 offices in the Netherlands and Germany. We lead the market in both countries. Since the company was incorporated in 1946, we have been involved in the construction of more than 350,000 homes. As a result, today, more than 1 million people live in residential areas where BPD played some role or other.

Our operations are based on five pillars:

1

We develop fully serviced areas

The need for coherence

BPD develops areas and districts where people can lead happy, healthy and fulfilling lives. These are vibrant areas: they are easily accessible by bicycle, car and/or public transport and designed for different target groups, offering affordable and sustainable homes. It is BPD's ambition to create high-quality residential environments. This ambition can only be realised if we develop fully serviced areas, in which the social mission, the common interest and individual housing requirements come together. Together with our partners, we always seek to strike a balance between all individual interests in order to achieve the best overall result. Given today's vast and complex building landscape, we believe that our fully serviced approach offers the best opportunities for the successful development of cities and areas.

2

We are committed to sustainable and responsible development

Long-term vision

BPD's ambition is to contribute to making society more sustainable. The energy transition, the circular economy, climate change adaptation and health and well-being in the built environment are our guiding principles, both in transforming urban areas and in developing new-builds. Sustainable area development requires a broad, all-encompassing and expert perspective. What we focus on in this process is how the customer ultimately plans to use the property. That is why BPD works in close collaboration with local authorities to devise climate-proof solutions. We link sustainable product applications to personal benefits for residents, such as lower housing costs through energy efficiencies. We believe that this effectively leads to greener behaviour.

3

We develop affordable housing

Housing availability

BPD believes that housing should be available and remain attainable for all, whether in or outside urbanised areas. We see it as our social mission to offer affordable housing and to ensure that housing remains affordable, both now and in the future. This is more important now than ever before, because more and more people are moving to the city. This trend towards urban agglomeration can be seen in the Netherlands and Germany, as well as in the rest of Europe. As a result, demand for housing in urbanised areas is greater than supply, which has far-reaching consequences for housing affordability. In contrast to Germany, which is now embracing a conglomeration policy that creates physical space for further development, the Netherlands pursues a concentration policy that has a highly adverse effect in terms of pricing, supply volume and – particularly – completion times.

4

We put residents' interests first

The living environment is what makes people feel at home

We make sure that people genuinely feel at home in their new neighbourhood and home. It goes without saying that building density in urbanised areas and transformation of occupied and vacant properties will play a key role in achieving the housing mission over the coming period. What is not self-evident is that these solutions will meet all demand for housing. Thanks to continuous applied market research and in-depth client contacts, we know exactly what people want in a home. And we are not just researching the requirements of city dwellers, but we also look at what people want who live in the suburbs or in the countryside. Together with our partners – authorities, designers, contractors and advisers – we create appealing living environments.

5

We come up with forward-looking solutions

Tomorrow's solutions today

By focusing heavily on chain integration and digital buying and selling processes in collaboration with enterprising partners, we develop neighbourhoods and homes that are ready for future generations. Our broad knowledge of the housing market and our large network as the market leader help us take ownership. This is how we ensure that every area development can be adapted to new requirements in a sustainable manner.

Organisation chart at 31 December 2018

BPD Europe B.V.

BPD Ontwikkeling B.V.

BPD Immobilienentwicklung GmbH

The Netherlands

BPD Ontwikkeling B.V.

Number of homes sold in the past 10 years:

43,000

4 regional offices +

1 local office

Head office in: **Amsterdam**

Year of incorporation: **1946**

Germany

BPD Immobilienentwicklung GmbH

Number of homes sold in the past 10 years:

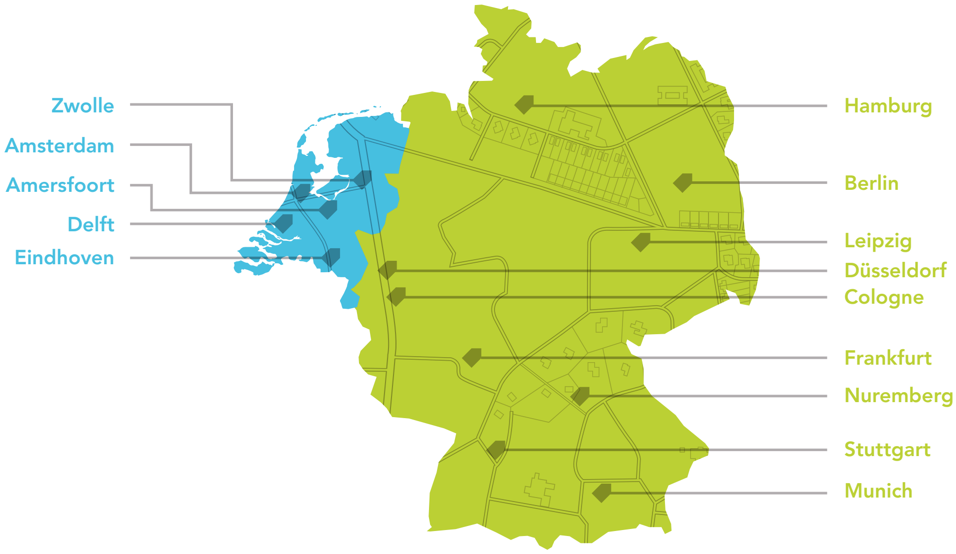
11,500

8 regional offices +

6 local offices

Head office in: **Frankfurt**

Year of incorporation: **1993**



The Netherlands

BPD Ontwikkeling B.V.

Northwest
Amsterdam
H.H. (Harm) Janssen, Regional Director

Northeast & Central
Amersfoort & Zwolle
F.A. (Frans) Holleman, Regional Director

Southwest
Delft
P.B.J.M. (Patrick) Joosen, Regional Director
W.K. (Wim) de Haas, Regional Director

South
Eindhoven
J.P.C.M. (Erik) Leijten, Regional Director

Germany

BPD Immobilienentwicklung GmbH

North
Hamburg
F.J. (Franz-Josef) Lickteig, CEO and Regional Director

East
Berlin
C. (Carsten) Hartwig, Regional Director

Saxony-Thuringia
Leipzig
D. (Dirk) Seidel, Regional Director

North Rhine-Westphalia
Düsseldorf & Cologne
J. (Joachim) Siepmann, Regional Director
C. (Carl) Smeets, Regional Director

Central
Frankfurt
I. (Ingo) Schilling, Regional Director

Franconia
Nuremberg
G. (Günter) Schenk, Regional Director

Southwest
Stuttgart
A. (Antonius) Kirsch, Regional Director

Southeast
Munich
S. (Samira) Akhlaghi, Regional Director

Key figures

		2018	2017
Statement of profit or loss			
Profit for the year	in millions of euros	**240**	151
Revenue	in millions of euros	**1,364**	1,040*
Cost-to-Income ratio (C/I)	%	**34**	40*

* Exclusive of BPD Marignan in 2017

		2018	2017
Statement of financial position			
Equity	in millions of euros	**927**	659
Total assets	in millions of euros	**2,440**	3,185
Return on equity	%	**30**	26
Solvency ratio	%	**38**	21
Output			
Residential transactions (including third-party developments)	number	**10,142**	10,897
– The Netherlands		**5,470**	5,657
– Germany		**2,117**	1,546
– France		**2,555**	3,688
– Belgium		**-**	6
Development portfolio			
Residential properties	number	**70,000**	74,000
Employees			
FTEs	number	**593**	931
– The Netherlands		**332**	319
– Other countries		**261**	612

Financial policy and earnings

Financial policy

Partly with a view to providing a good service to clients, BPD seeks to achieve a future-proof required return that is appropriate to the risk profile Rabobank has defined. The performance contract between Rabobank and BPD elaborates strategic objectives that lead to strategic, operational and financial agreements aimed at value creation.

Financial performance

The profit in 2018 amounted to **€ 240 million** (2017: € 151 million). BPD achieved its highest profit ever in 2018, which was the direct result of the soaring housing markets in the Netherlands, Germany and France, as well as amongst others the sale of BPD Marignan, our French subsidiary. Positive developments in operating profit compared to the previous reporting period were in line with the outlook expressed in the Annual Report 2017.

In 2018, BPD sold 5,470 residential transactions in the Netherlands (2017: 5,657), 2,117 in Germany (2017: 1,546) and 2,555 in France (2017: 3,688).

Cash flows and financing requirements

Thanks to a higher operating profit, the sale of BPD Marignan and a reduction in housing stocks, cash flows from operating and investing activities were up from € 122 million in 2017 to € 456 million in 2018. These cash flows were mainly used to repay current and non-current liabilities; overall, an amount of € 517 million was repaid in 2018.

The Rabobank credit facility can be used for any financing that may be required. The credit facility stood at € 1.7 billion at 31 December 2018. Of this amount, € 0.8 billion had been drawn down at year-end 2018.

ZUIVER, Eindhoven

General Meeting of Shareholders
BPD Europe is a wholly owned subsidiary of Rabobank. The Managing Board of Rabobank has assigned the supervision of BPD Europe to a delegated General Meeting of Shareholders (GMS) made up of Mr J.L. (Jan) van Nieuwenhuizen and Mr J.J. (Jan) Bos. This GMS is advised by two external experts who have specific real estate expertise. They are Ms C.M. (Cindy) van de Velde-Kremer and Mr H. (Hans) de Jonge. The members of the GMS and the external advisers have not changed from 2017.

The GMS held four routine meetings and two additional meetings in 2018. During the meetings, which were held in the presence of the Managing Board of BPD, the GMS addressed a range of issues. The GMS is periodically informed of the status of BPD's strategy. A much-debated issue in the reporting period was the sale of BPD Marignan. This sale was also discussed in the Managing Board of Rabobank. The sale was completed in November 2018.

One of the additional meetings of the GMS was held specifically to discuss BPD's initiative to develop more mid-priced rental properties and to create an investment fund for this purpose. The other additional meeting was convened to allow the HR Director to explain staffing developments at BPD.

The routine meetings also served to discuss market conditions and the general situation at BPD. The financial and risk reports for the period in question came up for discussion as well; BPD's CFRO provided an explanation on these reports. The Annual Report 2017 and the report by the external auditor were also discussed at length.

Rabobank's internal auditors and the BPD Compliance Officer attended the meetings that covered the quarterly reports of Audit & Compliance. They were present so that they could contribute to the discussion and provide an explanation of the annual plan and the quarterly reports. At these meetings, the Director of Legal & Compliance elaborated on the litigation report.

The variable remuneration of the members of the Managing Board and senior management was discussed at the GMS in the presence of the HR Director.

Real Estate Investment Committee
In addition to the delegated GMS, BPD has instituted a Real Estate Investment Committee (REIC). This Committee approves BPD's property development proposals in accordance with the approval framework. Mr J.L. van Nieuwenhuizen and Mr J. Bos are also on the Real Estate Investment Committee; the third member of the Committee is Mr A.P.M. van der Weijden, a Rabobank risk officer. Property development proposals that fall outside the scope of authority of the Real Estate Investment Committee are also submitted to the Managing Board of Rabobank.

The Real Estate Investment Committee is supported by the same two external real estate experts who advise the GMS (for their names, see above). The Committee met 11 times in 2018 to discuss investment proposals, BPD's Medium-Term Plan, revision proposals and other current projects and developments. In addition, a continuing education session was held to explain the concept of digital customer journeys as well as developments in the German housing market.

The Real Estate Investment Committee was formed in the summer of 2017; its members felt that is was expedient to evaluate the performance of this body, which is new to BPD, after the first 18 months. Overall, the members of the Committee were positive about the Committee's performance; some issues that were identified will be addressed in 2019.

Market developments in 2018 and expectations for 2019

The Netherlands: fewer residential units sold, lower supply and persistent price increases

The Dutch housing market is gradually starting to become less overheated. More than 218,000 existing properties were sold in 2018, down nearly 10% on the record number in 2017.[1] However, the overheating of the market is still visible in the decreasing supply at year-end 2018, fewer than 70,000 residential properties were up for sale; this figure was about 19% lower than at year-end 2017.[2] Similar to last year, the trend is still that the housing market is recovering not only in the Randstad metropolitan area, but in other areas as well. The prices of existing properties continued to rise: at year end, the price of a residential property was 9% higher on average than the year before.[3]

Owing to the lack of housing supply, prices are rising mainly in cities in the Randstad metropolitan area, but medium-sized cities outside this area are also experiencing price increases. As a result, groups that have a relatively weak position on the housing market, such as first-time buyers and low-income earners, are finding it increasingly difficult to buy property. In the four major cities, prices were up 12.1% on average compared to last year, while the number of transactions fell by 20.4% on average. Developments in the cities of Rotterdam and The Hague are particularly remarkable: while the number of transactions still saw somewhat of a rise in 2017, they fell sharply in 2018.[4]

Although the growth and dynamics of the existing housing market are clearly still there, the number of new-builds sold dropped to just over 34,000 in 2018, representing a 6.6% decrease on 2017.[5] Construction costs are rising due to a shortage of labour; this makes the feasibility and affordability of developments increasingly challenging. The number of residential construction permits rose slightly to just over 70,000 in 2018[6], but there is still too little planning capacity to reduce the shortage of homes. An increase in demand for housing due to income hikes and the low mortgage interest rate – combined with little supply – will lead to a sustained rise in house prices. In its most recent trading update for 2018, Rabobank mentioned that it expects prices to rise by 6% in 2019. The sale price of an average residential property in the Netherlands will be more than € 300,000 by the middle of next year.[7]

Germany: demand continues to significantly outpace supply, leading to huge price increases

The demand for housing in Germany continues to rise: this is due, on the one hand, to economic prosperity and immigration, and to billions of euros being invested in real estate on the other. Approximately 280,000 residential units were completed in 2018, but demand is double this figure (some 500,000 every year). Building permits were issued for 315,200 units in 2018.[8] Some developments are being sold on by speculators after a building permit has been issued. Other developments are not being built due to a lack of contracting capacity. Expectations are that no more than 275,000 residential units will be constructed in 2019.

It is not just metropolitan areas such as Munich, Berlin, Hamburg and Frankfurt that are faced with a huge shortage of new housing; large and medium-sized cities, such as Nuremberg, Koblenz, Osnabruck and Munster are feeling the effects as well. The German Federal Government is calling it a crisis situation, because low and middle-income earners in cities can no longer afford to buy or rent property. The non-subsidised rental sector in Germany is considerably larger than in the Netherlands: 50% versus 14% of the total housing stock. Given that the social housing sector is relatively small in Germany (10% of the total housing stock), people on relatively low incomes are forced to rent a non-subsidised unit. Rent control (in German: Mietpreisbremse) was introduced a number of years ago for regions with the lowest supply of housing,

1 Land Registry
2 Huizenzoeker.nl
3 Statistics Netherlands (CBS)
4 Statistics Netherlands (CBS)
5 Dutch Banking Association (NVB)
6 Statistics Netherlands (CBS)
7 Rabobank
8 Destatis Statistisches Bundesamt

i.e. Munich, Frankfurt, Hamburg and Berlin. This attempt to limit the increase in rents proved to have little effect. That is why the German Federal Government has recently decided to tighten the law.

In September 2018, Chancellor Angela Merkel organised a summit on the housing situation with the responsible Ministers. The prime ministers of all states were represented, as were the main public interest groups. The summit, which was preceded by an in-depth preparatory session, resulted in a series of measures, four of which are worth mentioning:

1. The German Federal Government will pay € 5 billion over a three-year period to fund the construction of 100,000 social housing units.
2. Families with children can apply for a grant (in German: Baukindergeld) to purchase a home. A total of € 2.7 billion will be made available in grants.
3. Investors who invest in affordable rental properties will qualify for a tax credit; the government will grant € 700 million in tax credits in total.
4. The government will form a committee of experts (in German: Expertenkommission) to look at whether building regulations could be simplified.

The main obstacle in Germany, however, is the lack of building locations. The authorities of the outlying areas of major cities are not keen on large new residential development locations and there is little space left in the cities themselves or zoning procedures take five to ten years. A special building locations committee (in German: Baulandkommission) has now been created to investigate solutions to this problem and to prepare measures.

The year 2019 will again see huge price rises, both as far as owner-occupied and rental properties are concerned. There are major regional differences in absolute sale prices: the price of a new-build apartment is € 10,000/m² in Munich, € 5,500/m² in Hamburg, € 7,700/m² in Frankfurt, € 6,350/m² in Berlin and € 4,600/m² in Nuremberg. The price for a town house in the Munich area is approximately € 1,000,000, whereas in the Berlin, Hamburg and Frankfurt areas, a town house fetches between € 530,000 and € 840,000.[9]

The rent increase, which was more than € 15/m² in the large metropolitan areas, seems to have reached its ceiling, because affordability is subject to extreme pressure. Investors are still buying developments for 2.8% to 3.5% the initial yield. Social acceptance of an apartment as a commodity rather than as a basic life necessity is under pressure: in Berlin, politicians and citizens have even started a debate on expropriating residential units owned by commercial investors.

In 2019, we expect to see a slowdown in the rise in sale prices in Germany, a construction boom in the outlying areas of major and medium-sized cities, and a heated debate about the affordability of housing.

France: housing market is booming, but uncertainty is increasing

As in 2017, the French economy saw slight growth in 2018 (+0.4%); at 8.8%, the unemployment rate continued to be high.[10] The French housing market is growing, but rising prices and a lack of sufficient supply are creating pressure on the housing market.

After a slight fall, the number of transactions in the existing housing market was back up to the figure for 2017 in the course of 2018: approximately 962,000 annually.[11] In addition, the price of existing residential properties rose by 2.9% year-on-year.[12] Prices of apartments rose more sharply (3.3%) than those of single-family homes (2.6%) and the increase was more marked in the Paris area (3.5%) than elsewhere (2.7%).

The market for new-builds has deteriorated compared to previous years. While construction resumed in 2016 and 2017, the number of construction permits issued fell by around 7%.[13] The scarcity of planning capacity and the strong demand for housing have led to high house prices, particularly in the Île-de-France metropolitan area and in major cities. The number of homes sold was down 4.6% on 2017, dropping to 124,000 in 2018.[14] The strong demand for housing caused prices to rise by more than 2%.[15] In Île-de-France, the area in France where most residential properties are sold, the number of transactions increased by more than 6% in 2018. Prices were up too; new-build apartments were sold for some € 4,800/m² on average.[16]

9 Trimag-Püschel-Wolf Gbr, Delphi-Committee 1. Quartal 2019

10 Institut national de la statistique et des études économiques
11 Conseil général de l'environnement et du développement durable
12 Institut national de la statistique et des études économiques
13 Conseil général de l'environnement et du développement durable
14 Conseil général de l'environnement et du développement durable
15 Institut national de la statistique et des études économiques
16 Conseil général de l'environnement et du développement durable

Internal developments

New CLA
Early in 2018, BPD and trade unions FNV, De Unie and CNV Vakmensen signed a new collective labour agreement (CLA) for the Netherlands. The CLA will be in effect for two years. The main features of the CLA include a wage increase in the standard salary as of 1 January 2018 and 2019, a new personal development and employability budget, and simplification of the individual choice budget. The redundancy plan has been geared towards market developments. Finally, agreement was reached on a number of study arrangements, such as a new mobility scheme.

Relocation
At the end of January 2018, the BPD head office was relocated from Hoevelaken to the Burgerweeshuis building at IJsbaanpad in Amsterdam. The regional Northwest office, which was previously located in Haarlem, moved to the building at the same time. This icon of modern architecture, a building designed by Aldo van Eyck, was renovated extensively and with great care in 2017, in close cooperation with the landlord. It offers people an inspiring work environment and is a great example of the many urban developments and redevelopments that BPD is involved in.

Redesign of Sales
The BPD Sales department in the Netherlands was redesigned at the end of 2018. The most important change – in addition to a number of changes in roles – is that the sales departments at the regional offices have started to be managed centrally with effect from 1 January

Central & Park, Frankfurt

2019. The new set-up has multiple objectives: implementing more uniform working methods, improving the customer satisfaction rating and accelerating the digitisation of the sales process.

Code of Conduct

BPD has its own Code of Conduct. This Code defines the general framework of standards for appropriate, ethical and professional conduct. All employees are expected to sign the Code of Conduct and to declare annually that they have acted in compliance with the Code. BPD actively encourages ethical conduct, for instance by screening integrity and organising dilemma sessions. BPD is committed to exercising due care in handling the personal data of customers, business partners and employees, and has implemented the General Data Protection Regulation where applicable.

Audit

The independent internal audit function (which comes under the responsibility of Rabobank) performed a number of audits in 2018. An audit plan is drawn up annually. The reports were discussed with the management of BPD and explained in greater detail at the General Meeting of Shareholders. Any areas for improvement identified during the audits were addressed and remedied.

New strategy

BPD has a long history of encouraging in-house knowledge development and exchange through three-year strategy programmes. In 2018, as part of the Go18 programme, BPD worked on tweaking the required knowledge and competencies of employees, which is befitting of a market leader not only in quantitative but also in qualitative terms. Customised skills training and professional sessions were organised to address topical issues such as sustainability, commissioning practices and full-service area development.
From 2019 onwards, a new strategy programme will form the basis for knowledge development within BPD: we have called this programme Growth21. Based on the view that everyone should have access to a suitable home whatever their budget, we actively contribute to making the housing market accessible to all layers of society. To achieve this, new residential properties need to be built: an all-encompassing mission that requires engagement on our part. The new Growth21 programme is designed to answer the expertise questions thrown up by this mission by offering courses and training.

In parallel, our German colleagues have developed a similar programme by the name of Fokus2020. This programme centres on increasing the uniformity and efficiency of the organisation, building up expertise as an area developer and digitising the sales process.

Sustainability

BPD wants to be at the forefront of sustainable area development. We contribute to a sustainable society by accepting our corporate social responsibility to help shape a worthwhile future. For us, sustainable area development is not just about the environment; it is also about social, spatial and economic value. Our sustainability strategy focuses on four priorities: energy transition, climate change adaptation, circularity and health and well-being in the built environment.
We approach these priorities as a coherent whole, at the level of the property, the district and the region. We aim high: our objective is for all our developments to do better than the legal requirement and we want our sustainable property development goals to be progressive and ambitious. We formalised our sustainable area development ambitions in 2018.

We have obviously also embedded sustainability in our own business practices. This means that we respect people and the planet, that we treat resources respectfully to prevent scarcity in the future, and that we do business responsibly. In our housing policy, we try to make the most of opportunities when redeveloping existing buildings. We seek to have our offices in locations that are easily accessible by public transport and that have charging points for electric cars and offer a free bike service. Our new head office, which is located in a listed building in Amsterdam, was awarded energy label A after a major transformation. Utilities, telecommunications, vehicles (including company and lease cars), furnishings, catering, coffee and paper are purchased based on sustainable procurement practices: social and environmental aspects are weighed heavily in our procurement process. Our goal is to have circular products make up 20% of our purchase volume by 2020, using as few scarce raw materials as possible.

Risk management

All echelons of the BPD organisation acknowledge that risk management is key in safeguarding sound business practices. Both in the Netherlands and Germany, BPD is structured such that the CEO bears final responsibility for general management, the CFRO for financial and process control, and the Director of Legal & Compliance for operational risk.

BPD operates on the basis of delegated powers in the countries and regions in which it is active. Investments in property developments are assigned to five different phases of the development process: acquisition, feasibility, preparation, completion and subsequent costing. A phase document will be prepared for each transition from phase to phase; any related decision-making is based on a layered approval structure. The Real Estate Investment Committee has been set up to take major investment decisions.

Partly with a view to providing a good service to clients, BPD seeks to achieve a future-proof required return that is appropriate to the risk profile Rabobank has defined.

Business Control Framework

Risks attaching to the processes operated by BPD are identified and controls are implemented to mitigate them. We regularly test the effectiveness of these controls. The procedure for doing so is described in the Business Control Framework (BCF). BPD has implemented this framework because it seeks to be in control.

Reports on the effectiveness of the controls are written every quarter. Where needed, these controls are adjusted to reflect changes in business practices. Adjustments to the BCF are driven by continuous improvements on the one hand and by growth or contraction of the organisation and the centralisation or decentralisation of risk management responsibilities within BPD on the other.

Risk Appetite

BPD's Risk Appetite Statement (RAS) defines the level of risk that it is willing to accept in order to achieve its objectives. This risk appetite is based on a risk strategy that is in line with the corporate strategy. It has been fleshed out by formulating indicators for each risk category. A risk appetite has been established for each risk indicator. It defines the maximum risk level that will be accepted as well as an early warning level at which management can take action to prevent the risk appetite from being exceeded.

BPD's risk appetite must be in line with Rabobank's risk appetite. Within the confines of the RAS, BPD will act in a socially responsible manner, while keeping a close eye on the interests of the different stakeholders.

Risk categories

We have identified the following risk categories:

- *Integrated risk:* general risks associated with attaining the corporate strategy.
- *Credit risk:* the risk that a counterparty will default on its payment obligations.
- *Balance sheet risk:* interest rate, currency and liquidity risks.
- *Market risk:* the risk of changes in the value of a development on the property market.
- *Risk of strategic land holdings:* the risk associated with land holdings that are not expected to be designated for residential purposes for some time.
- *Risk of properties in operation on the statement of financial position:* the risk of such properties being too expensive to keep on a bank's statement on financial position due to the associated capital requirement.
- *Non-financial risk:* a category with a broad scope, including such risks as operational risks, information security risks, IT risks, risks associated with business continuity and compliance, and legal risks.

> **BPD's principal risks are general market risk and the risk of property holdings (including strategic land holdings and properties in operation).**

Market risk is the risk that changes in market variables as a result of changes in the general economic climate will lead to gains or losses on exposures. Decreases in value on the property market have an immediate effect on BPD's direct

Binckeiland, the Hague

property holdings, i.e. its land portfolio, unsold properties under construction, unsold but completed properties and property under management. At 31 December 2018, these 'direct' property holdings amounted to € 1,894 million (2017: € 2,328 million). The impact on BPD's figures is potentially major if market risk shows negative developments and/or the value of the properties drops.

Every quarter, the BPD Managing Board and the Real Estate Investment Committee receive a report outlining whether the company has operated within the limits of the RAS indicators. If these limits are exceeded, the BPD Managing Board is expected to take mitigating measures. The RAS is reviewed annually and adjusted where necessary.

Outlook

In terms of earnings and number of transactions, 2018 was a unique year for BPD. We expect to continue our excellent performance over the coming years. That said, a number of factors will probably lead to some delays in the award and sale of new property developments in 2019.

The most important of these factors being the environment – mainly due to focus on urban development – and changes in market conditions. These would include an increase in construction costs, which will cause us to have to revisit new developments, and a delay in local authorities issuing building permits, as well as a lack of administrative capacity. The small scale of developments and the difficulty of increasing that number leads to backlogs in public administration. The latter is due to a variety of reasons, including the formation of new municipal executives after the municipal elections in the Netherlands in 2018. Urban transformations, to which BPD is keen to contribute, often pose a challenge; they tend to have longer lead times because of the involvement of many stakeholders.

Over the next few years, BPD will focus on the affordability and accessibility of housing by bringing about growth in the number of residential properties we develop. We aim to develop sustainable, future-proof housing. In addition, BPD will take the initiative to create a fund that will offer mid-priced rental housing. This shows the commitment on the part of BPD and its shareholder to resolving a major problem in today's society: the availability of mid-price rental housing. Over the years, the fund will come to hold 15,000 sustainable rental properties in its portfolio. This is how we expect to be able to make an impactful contribution to remedying this specific scarcity in the housing market.

In addition, BPD will be taking clear ownership of its position as an area development manager, both at urban transformation locations and in potential new extension areas.

Future investments and funding are expected to keep pace with the size and exposure of the organisation. Any personnel developments will follow in line with the above.

Where our internal focus is concerned, we will concentrate on the efficiency of the organisation, the optimisation of the qualitative and quantitative development of our staff, and on improving the exchange and use of knowledge and expertise among employees, with the goal of achieving an effective organization so that it is ready to face the future with confidence.

Mönchpark, Wurzburg

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Financial statements 2018

BPD Europe

Consolidated statement of profit or loss

(in € millions)	Note	2018	2017 * Restated
		Year ended 31 December	
Revenue	3	**1,364**	**1,040**
Impairment/(impairment reversal) of property inventory	4	(88)	(41)
Impairment/(impairment reversal) of asset contracts	5	6	-
Cost of raw materials, consumables and work contracted out	6	1,116	811
Personnel costs	7	77	75
Other operational expenses	8	31	27
Amortisation and depreciation	12, 13	5	7
Operational expenses		**1,147**	**879**
Operating profit/(loss)		**217**	**161**
Finance income	9	12	9
Finance costs	9	(26)	(18)
Share of profit/(loss) of associates accounted for using the equity method	14	30	19
Profit/(loss) before tax		**233**	**171**
Income tax expense	10	(56)	(34)
Profit/(loss) after tax from continuing operations		**177**	**137**
Profit/(loss) after tax from discontinued operations	11	64	14
Profit/(loss) for the year		**241**	**151**
Attributable to non-controlling interest		**1**	**-**
Attributable to equity holder of the company		**240**	**151**

* For details on the reclassification of the comparative figures, see Note 2.2 to the consolidated financial statements.

Consolidated statement of comprehensive income

(in € millions)	Note	2018	*Year ended 31 December* 2017 * Restated
Profit/(loss) for the year		**241**	**151**
Other comprehensive income			
Items subsequently reclassified to profit or loss after tax		-	-
Items not subsequently reclassified to profit or loss after tax		-	-
Total comprehensive income for the year		**241**	**151**
Attributable to:			
Equity holder of the company		**240**	**151**
Non-controlling interest		**1**	-
Total comprehensive income for the year Attributable to equity holders of the company, broken down by:			
Continuing operations		176	137
Discontinued operations		64	14
Profit/(loss) for the year		**240**	**151**

* For details on the reclassification of the comparative figures, see Note 2.2 to the consolidated financial statements.

Consolidated statement of financial position

(in € millions)	Note	2018	2017
		At 31 December	
Non-current assets			
Property, plant and equipment	12	7	10
Investment property	13	142	90
Associates accounted for using the equity method	14	68	71
Financial assets at fair value	15	2	4
Long-term loans and receivables	16	100	138
Deferred tax assets	17	0	20
Total non-current assets		**319**	**333**
Current assets			
Property inventory	19	1,500	2,238
Contract assets	18	252	-
Trade receivables	20	80	241
Short-term loans and receivables	21	162	155
Current income tax assets	22	15	117
Prepayments and accrued income	23	81	13
Cash and cash equivalents	24	31	88
Total current assets		**2,121**	**2,852**
Total assets		**2,440**	**3,185**
Equity	25	921	657
Non-controlling interest		6	2
Group equity		**927**	**659**
Non-current liabilities			
Loans	26	451	643
Provisions	27	106	126
Deferred tax liabilities	17	39	22
Total non-current liabilities		**596**	**791**
Current liabilities			
Loans	28	566	889
Contract liabilities	29	121	-
Provisions	27	1	2
Trade payables		71	143
Current tax liabilities	30	95	62
Other current liabilities	31	63	639
Total current liabilities		**917**	**1,735**
Total liabilities		**1,513**	**2,526**
Total equity and liabilities		**2,440**	**3,185**

Consolidated statement of changes in equity

(in € millions)	Share capital	Share premium reserve	Available for profit appropriation	Other reserves	Total equity attributable to equity holder	Non-controlling interest	Total equity
At 1 January 2018 (before change in accounting policies)	**23**	**468**	**151**	**15**	**657**	**2**	**659**
Change in accounting policies due to application of IFRS 9 and IFRS 15*	**-**	**-**	**-**	**24**	**24**	**-**	**24**
At 1 January 2018 (after change in accounting policies)	**23**	**468**	**151**	**39**	**681**	**2**	**683**
Added to profit/(loss)	-	-	(151)	151	-	-	-
Profit/(loss) for the year	-	-	240	-	240	1	241
Other comprehensive income after tax	-	-	-	-	-	-	-
Total comprehensive income for the year	**23**	**468**	**240**	**190**	**921**	**3**	**924**
Dividend distribution	-	-	-	-	-	-	-
Equity contribution including transaction costs	-	-	-	-	-	3	3
At 31 December 2018	**23**	**468**	**240**	**190**	**921**	**6**	**927**
At 1 January 2017	**23**	**468**	**106**	**(91)**	**506**	**2**	**508**
Added to profit/(loss)	-	-	(106)	106	-	-	-
Profit/(loss) for the year	-	-	151	-	151	-	151
Other comprehensive income after tax	-	-	-	-	-	-	-
Total comprehensive income for the year	**23**	**468**	**151**	**15**	**657**	**2**	**659**
Dividend distribution	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
At 31 December 2017	**23**	**468**	**151**	**15**	**657**	**2**	**659**

* For details on the changes in accounting policies, see Note 2.3 to the consolidated financial statements.

Consolidated statement of cash flows

(in € millions)	Note	*Year ended 31 December* 2018	2017
Profit/(loss) for the year from continuing operations		**177**	**137**
Profit/(loss) for the year from discontinued operations		**64**	**14**
Adjustments for:			
- Income tax	10	(56)	(34)
- Amortisation and depreciation	12, 13	5	7
- Impairment of inventory	4, 5	(82)	(41)
- Impairment of financial assets	27	1	(2)
- Gain/(loss) on sale of BPD Marignan	11	(58)	-
- Share of profit/(loss) of associates	14, 27	(31)	(18)
Interest received	9	12	9
Changes in working capital – net		8	69
Cash generated from operations		**40**	**141**
Interest paid	9	(26)	(18)
Income tax paid	22, 30	(39)	(2)
Income tax received	22, 30	138	-
Cash flows from 'normal' activities		**72**	**(20)**
Net cash from/(used in) operating activities		**112**	**121**
Purchase of property, plant and equipment	12	(5)	(8)
Disposals of property, plant and equipment	12	5	-
Purchases of investment property	13	(55)	(12)
Investments in associates	14, 27	(6)	-
Disposals of associates	14, 27	14	8
Dividends received from associates	14, 27	7	4
Disposals of other financial assets	15, 26, 28	24	9
Proceeds from sale of BPD Marignan		360	-
Net cash from/(used in) investing activities		**344**	**1**
Proceeds from loans	26, 28	49	192
Loan repayments	26, 28	(566)	(260)
Net cash from/(used in) financing activities		**(517)**	**(68)**

		Year ended 31 December	
(in € millions)	**Note**	**2018**	**2017**
Net cash and cash equivalents at 31 December	24, 28	(24)	37
Net cash and cash equivalents at 1 January	24, 28	37	(17)
Increase/(decrease) in cash and cash equivalents		**(61)**	**54**

Notes to the consolidated financial statements

1 General information

BPD Europe B.V. has its registered office and principal place of business at IJsbaanpad 1, 1076 CV Amsterdam, the Netherlands, and is listed in the Trade Register of the Chamber of Commerce under number 08024283. The consolidated financial statements 2018 include the financial information of BPD Europe B.V. and its subsidiaries, its equity interests in jointly controlled entities, its equity interests in associates over which significant influence is exercised and its other equity interests (hereinafter jointly referred to as 'BPD'). The group's operations are mainly concentrated in the Netherlands, Germany and France. Coöperatieve Rabobank U.A. of Amsterdam (hereinafter referred to as 'Rabobank') has been BPD's sole direct shareholder since 1 July 2017. The French operations were sold at year-end 2018.

BPD engages in developing and managing real estate.

2 Summary of significant accounting policies

2.1 General

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with Part 9 of Book 2 of the Dutch Civil Code. Pursuant to the option provided in Section 402 of Part 9, Book 2 of the Dutch Civil Code, BPD has published a condensed statement of profit or loss in its separate financial statements. The financial statements are presented in euros, which is BPD's functional and reporting currency, rounded to the nearest million, unless otherwise stated.

The amounts recognised in the financial statements are presented on the basis of historical cost, unless otherwise indicated in the accounting policies.
These financial statements have been prepared based on the company's ability to continue as a going concern.

The Managing Board prepared and approved these financial statements on 1 May 2019.

2.2 Comparative figures

The comparative figures have not been restated from last year, except for:

- Reclassification of the earnings BPD Marignan S.A.S. to discontinued operations. The table on the next page shows the reclassifications in the statement of profit or loss for 2017.

Other operating expenses can be broken down as follows:

	2017 before restatement	Reclassification	2017 after restatement
Revenue	1,620	(580)	1,040
Operating expenses	1,423	(544)	879
Operating profit/(loss)	**197**	**(36)**	**161**
Finance income and costs	(15)	6	(9)
Operating profit/(loss) before tax	**182**	**(30)**	**152**
Share of profit/(loss) of associates	19	-	19
Income tax expense	(50)	16	(34)
Profit/(loss) after tax from continuing operations	**151**	**(14)**	**137**
Profit/(loss) after tax from discontinued operations	0	14	14
Profit/(loss) for the year including non-controlling interest	151	0	151

2.3 Changes in accounting policies and presentation

IFRS 9, Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2018 and has been applied retrospectively to the opening statement of financial position as at 1 January 2018. The new standard primarily affects the management estimates that are made of the provision for bad debts. A calculation based on outstanding loans and receivables showed that the impact of the Expected Credit Loss (ECL) was less than € 0.5 million at 1 January 2018. Given that the financial statements are prepared in millions of euros, the restatement following the change in accounting policy did not have an effect on the presented figures. The introduction of IFRS 9 has not affected the classification in the statement of financial position.

The table below lists the accounting policies that were applied to the relevant classes of financial assets (IAS 39 in 2017 and IFRS 9 in 2018):

	IFRS 9	IAS 39
Financial assets at fair value	Fair value with changes through profit or loss	Fair value with changes through profit or loss
Long-term loans and receivables	Amortised cost	Amortised cost
Loans	Amortised cost	Amortised cost

IFRS 15, Revenue from Contracts with Customers

The standard is effective for accounting periods beginning on or after 1 January 2018 and has been applied retrospectively (after adjustment) to the opening statement of financial position as at 1 January 2018. The comparative figures for 2017 have not been restated. Based on this transitional method, an entity can opt to apply this standard retrospectively only to contracts that qualify as uncompleted at the date of first application (e.g. 1 January 2018 for an entity ending its financial year on 31 December). BPD has applied the following practical expedients: all contracts that had not been completed by the transitional date (i.e. 1 January 2018) were retrospectively restated in opening equity.

The new standard primarily affects the timing of revenue recognition and the presentation of sold developments under construction in the statement of financial position.

The effects of the changes in accounting policies have been included in opening equity as at 1 January 2018. The changes affect the following items in the statement of financial position:

	The Netherlands	Germany	BPD – total
Equity	(19)	43	24
Consisting of:			
Property inventory	70	-	70
Contract assets	-	62	62
Trade receivables	(110)	-	(110)
Prepayments and accrued income	19	-	19
Tax liabilities (current corporate income tax)	5	-	5
Deferred tax liabilities	-	(19)	(19)
Associates accounted for using the equity method	**(3)**	**-**	**(3)**

Until 2018, revenue in Germany was recognised based on the sale of inventory at contract completion, since the risks and rewards were transferred upon completion of the contract. With effect from 2018, due to the application of IFRS 15, revenue in Germany has been recognised over time, given that the entity's performance does not create an asset with alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. This has resulted in a one-off increase in equity by € 43 million.

Until 2018, revenue in the Netherlands was recognised when the contract was awarded, in which process the risks and future rewards of the contract were transferred. With effect from 2018, due to the application of IFRS 15, revenue in the Netherlands has been recognised when control is transferred, i.e. on the date the notarial deed is executed. This change has resulted in a one-off decrease in equity by € 19 million.

2.4 Foreign currency translation

The financial statements are presented in euros. Receivables, debts and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Transactions denominated in foreign currencies conducted in the reporting period are recognised in the financial statements at the rates of settlement. Any resulting exchange rate differences are recognised through profit or loss.

2.5 Judgements and estimates

The preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU requires the use of judgements and estimates that affect the recognition and reported amounts of assets and liabilities, disclosures about contingent assets and liabilities at the reporting date and reported income and expense for the reporting period. Although these judgements and estimates of events and actions are made to the best of management's knowledge, these estimates may not equal the actual results. The estimates and underlying assumptions are assessed on a continuous basis, with any adjustments being applied prospectively.

Key aspects requiring judgements and estimates are consolidation or non-consolidation of jointly controlled equity interests (see Note 2.7), the net realisable value of property inventory (including strategic land holdings – see Note 2.9) and the interim recognition of gains and losses on sold property developments (see Note 2.16).

Owing to the long-term nature of capitalised land, particularly if no zoning plan is in place, and the limited number of comparable transactions, especially in strategic land holdings,

the measurement of property inventory (land holdings, work in progress, finished goods) comes with significant uncertainty. Valuations are made using various assumptions and valuation methods. Because of their subjective nature, different assumptions and methods may lead to different results. For more details on the assumptions and techniques used, see the accounting policies and the notes.

2.6 New and amended standards and proposed changes

New standards issued by the IASB, endorsed by the EU, but not yet applicable

The following standard, which will come into effect on 1 January 2019, has been issued by the IASB and approved by the EU, but are not yet applicable and have not been early-adopted by BPD:

IFRS 16 Leases

The IASB issued IFRS 16, Leases, in January 2016. This standard supersedes IAS 17. The standard will be effective from 1 January 2019. BPD will apply it retrospectively to its opening statement of financial position as at 1 January 2019 rather than restating its comparative figures. BPD will apply a number of available practical expedients:

- Operational leases falling due within one year on 1 January 2019 will continue to be recognised based on the accounting policies for operational leases for their remaining terms;
- A single discount rate will be applied to all operational leases that have reasonably similar characteristics;
- Initial direct costs will be excluded upon initial application;
- The latest available knowledge of the contract will be used to determine the term of the contract when it is renewed or terminated.

IFRS 16 will ensure that lessees capitalise a right of use of a leased item while simultaneously recognising a corresponding financial liability. Over the term of the lease, the asset will be depreciated and the liability will be recognised at amortised cost. There will be no substantial changes for lessors. Following the adoption of IFRS 16, BPD will, in 2019, recognise a right of use and a corresponding financial liability of € 21 million by virtue of tenancy agreements and lease payments.

2.7 Basis of consolidation

Subsidiaries and acquisitions

Subsidiaries are all entities in which BPD has decisive control. BPD has decisive control if, as an investor, it is exposed to, or is entitled to, variable income by virtue of its involvement in the business and has the power to influence that income by virtue of its control of the business. The assets, liabilities and earnings of these entities are consolidated in full. The financial statements of subsidiaries are included in the consolidated financial statements from the date that decisive control commences until the date that it ceases.

The share of non-controlling interests in equity and profit for the year is presented separately in the statement of financial position and the statement of profit or loss, respectively.

Elimination of group transactions

Intra-group balances and transactions, and any related unrealised gains, are eliminated in preparing the consolidated financial statements. Unrealised gains on transactions with jointly controlled entities and associates are eliminated by reference to BPD's interest in the business. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss on the transferred asset.

Discontinued operations

A discontinued operation is a component of a group whose activities and cash flows are clearly distinct from those of the rest of the group and that:

- Represents a major line of business; and
- Is part of a single coordinated plan to dispose of this major line of business.

When a line of business is designated as a discontinued operation, it will be presented on a separate line both in the statement of profit or loss and in the statement of financial position. Netting in the statement of financial position is not permitted. The comparative figures in the statement of income are revised as if the line of business was discontinued at the start of the comparative period. The comparative figures in the statement of financial position are not adjusted. Balances and transactions between continuing entities and discontinued entities, as well as any related unrealised gains, are eliminated when preparing the consolidated financial statements, unless they are continued after termination of the discontinued operations. If a transaction qualifies as a common control transaction (i.e. the ultimate owner remains the same), the difference between the carrying amount of the discontinued operations and the selling price is recognised through profit or loss from discontinued operations.

Associates and jointly controlled entities

BPD tends to develop fully serviced residential areas in collaboration with partners. In most cases, each partner has a decisive vote, meaning that decisions can only be taken by consensus. Therefore, these partnerships generally qualify as joint arrangements.

Each partnership has its own legal structure, which is dependent on the wishes and requirements of the parties involved. These partnerships usually take the form of a limited partnership/private limited company or a general partnership or something similar. If the partners opt for a limited partnership/private limited company structure, they limit their risk to their paid-up capital in principle and they will only be entitled to the entity's net asset. If they opt for a general partnership, each partner is liable without limitation in principle and each has the right to a proportional share of the entity's assets and is liable for a proportional share of the entity's liabilities in principle. As a result, purely based on legal form, a limited partnership/private limited company qualifies as a joint venture and a general partnership as a joint operation. That said, the contractual terms and other relevant facts and circumstances may lead to a different conclusion.

Joint ventures are generally accounted for using the equity method, while joint operations are recognised based on BPD's share of the assets, liabilities, income and expenses. After initial measurement at acquisition price, BPD's share of profit or loss of joint ventures is recognised in the statement or profit or loss (based on BPD's own accounting policies) within 'Share of profit/(loss) of associates accounted for using the equity method'. BPD's proportional share of joint operations is recognised (based on BPD's own accounting policies) in the different items disclosed in its statement of financial position and statement of profit or loss.

Material joint ventures and joint arrangements are reviewed annually, or more frequently if deemed necessary, to determine whether any contractual arrangements and/or facts and circumstances have changed that might warrant a change in recognition method.

Dividends received or receivable are deducted from the acquisition price of a joint venture. If BPD's share in the net asset value of the joint venture is negative, the joint venture is measured at nil. If, in the event of an equity deficit, the group is fully or partially liable for the debts of the joint venture or it has a constructive obligation, a provision is formed for this amount. The provision is first deducted from outstanding receivables for which no securities have been provided. The remaining amount is recognised within provisions.

Unrealised gains arising from transactions between the group and a joint venture are eliminated by reference to the group's equity interest in the joint venture. Unrealised losses are eliminated too, unless the transaction results in an impairment loss having to be recognised on the asset in question.

2.8 Revenue

Revenue consists of contract revenue from property development and rentals. Contract revenue is made up of income from property development activities. Rentals are earned from operating property inventory and investment property

Contract revenue from property development

Contract revenue from property development comprises sales proceeds from land holdings (with or without a development plan) and the development and sale of residential and commercial property. Revenue is recognised as soon as control of the land (with or without a development plan) or a residential or commercial property has been transferred to the buyer.

In accordance with the provisions of IFRS 15, revenue is recognised at a point in time or over time. BPD uses the five-step model provided by IFRS 15 to determine the revenue recognition method for each development. The five steps are as follows:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation;
5. Recognise revenue when a performance obligation is satisfied.

Identify the contract with the customer

A contract exists if BPD and the buyer of a lot and/or residential property/building have signed a contract of sale and this contract has become unconditional.

Identify the performance obligations in the contract

If BPD is responsible for the construction of the development only, the performance obligation comprises the delivery of the lot by BPD to the buyer. For full-service developments, the delivery of the plot and that of the buildings are inextricably linked, which is why this qualifies as a single performance obligation to the buyer of the property.

Determine the transaction price

The signed contracts of sale specify the transaction price. Where penalty clauses apply, they are deducted from revenue unless they are not likely to result in a significant drop in revenue. Revenue from upward contract variations is included in total contract revenue if the amount has been accepted by the customer. The performance obligation is satisfied shortly after the payment for the related service by the buyer in principle. BPD makes use of the practical expedient that, when payments are made by the buyer within one year of having satisfied the performance obligation, no financing component will be included in the contract.

Allocate the transaction price to each performance obligation

Depending on the contract of sale, the transaction price is allocated to the plot (construction-only) or the plot and the buildings (full-service

Recognise revenue when a performance obligation is satisfied

The analysis BPD has performed shows that, overall, the following revenue recognition methods apply to each revenue category:

• *Sale of land holdings/plots:*

Control is transferred to the buyer and revenue is recognised when the notarial deed is executed.

• *Development and sale of a plot with buildings:*

In the Netherlands, by far the majority of developments are carried out on a construction-only basis. This leads to a transfer of control when the notarial deed is executed, so that revenue is recognised on this date using the point-in-time method. Revenue from any full-service developments in the Netherlands is recognised over time, given that control of the land is transferred at the start of the contract and the buyer gradually comes to own the buildings constructed on this land by accession. Recognition is based on the percentage-of-completion method.

In Germany, revenue is generally recognised over time, given that the entity's performance does not create an asset with alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. Revenue is recognised based on the percentage-of-completion method.

These are by far the most common revenue categories for BPD. BPD determines the recognition method of revenue from other projects and/or contracts in accordance with the five-step model provided by IFRS 15.

To determine expected earnings on developments, annual analyses are performed of all developments in aggregate based on market developments and the most recent outlook. If contracts turn out to be onerous, a provision is formed. Revenue from upward contract variations is included in total contract revenue if the amount has been accepted by the customer.

Rentals
Rentals are recognised as revenue on a straight-line basis over the term of the lease. Rent reductions are recognised as an integral part of total rental income over the term of the lease.

2.9 Impairment of property inventory

This item comprises impairment losses arising from lower net realisable value or the reversal of such impairment losses. For details on the accounting policies for changes in the value of property inventory, see Note 2.19 (Property inventory).

2.10 Cost of raw materials, consumables and work contracted out

The cost of raw materials, consumables and work contracted out consists of the cost of land/plots purchased and property development contractors, as well as operating expenses associated with investment property.

The costs are determined with due observance of the aforementioned accounting policies and allocated to the reporting period to which they relate. Directly attributable indirect costs based on normal production capacity are included in the cost of raw materials, consumables and work contracted out.

2.11 Employee benefits expense

Short-term employee benefits
Short-term employee benefits are expensed when the related service is provided. A liability is recognised for the amount expected to be paid if BPD has a present legal or constructive obligation to pay this amount as a result of services provided by the employee and the obligation can be measured reliably.

Defined contribution plan
A pension plan or other retirement provision is in place for employees in the Netherlands and Germany, in accordance with the local regulations and customs. These plans are administrated by various pension funds or by other external parties.

With effect from 1 August 2008, BPD's employees in the Netherlands have been covered by the pension plan offered by the Rabobank Pension Fund.

PD's pension plan qualifies as a defined contribution plan; under this plan, BPD's obligation is limited in principle to paying premiums net of contributions already paid. BPD does not offer a pension plan in Germany.

Defined contribution obligations are expensed when the related services are provided. Prepaid contributions are recognised as an asset to the extent that there is a repayment obligation in cash or a reduction in future payments.

Other long-term employee benefits
BPD's net obligation by virtue of long-term employee benefits relates to entitlements employees have earned in return for their service in the current and prior reporting periods. These entitlements are discounted to determine their present value. Revaluations are recognised through profit or loss in the period in which they occur. For details on the accounting policies for the other employee benefits, see Note 2.23 (Provisions).

Termination benefits
Termination benefits are recognised as a liability when BPD can no longer withdraw the offer of those benefits or – if earlier – when it recognises the restructuring costs. If the benefits are not expected to be settled entirely within 12 months of the reporting date, they are discounted. For details on the accounting policies for the restructuring provision, see Note 2.23 (Provisions).

2.12 Share of profit/(loss) of associates

Share of profit/(loss) of associates is determined based on the equity method of accounting using BPD's own accounting policies.

2.13 Finance income and costs

BPD's finance income and costs consist of:
- interest income;
- interest expense;

Interest income and expense are recognised in the statement of profit or loss using the effective interest method. This item also includes interest income and expense relating to trading-book exposures. Interest income from loan losses is recognised based on the interest rate used to discount future cash flows in order to establish the recoverable amount.

Interest income net of loan losses is recognised using the effective interest rate at inception of the instrument. For details on the fair value of outstanding loans and the associated loan losses, see Note 2.17 (Financial assets and liabilities).

2.14 Gains and losses from discontinued operations

If a line of business is qualified as a discontinued operation, the comparative figures in the statement of profit or loss are restated as if the line of business was discontinued from the start of the comparative period. Discontinued operations are presented within the item 'Profit/(loss) after tax from discontinued operations'. Transactions between continuing group companies and discontinued group companies, as well as any related unrealised gains, are eliminated when preparing the consolidated financial statements, unless they are continued after termination of the discontinued operations.

2.15 Property, plant and equipment

Property, plant and equipment are measured at historical cost, net of accumulated depreciation and impairment losses.
Where an item of property, plant and equipment is made up of key components with different useful lives, each component is accounted for separately.

Additions and costs after initial recognition are capitalised only to the extent that it is probable that the future economic benefits embodied in the asset will flow to the company.

Separately identifiable components are capitalised and depreciated on a component-by-component basis. All other costs are expensed as incurred.

When an item of property, plant and equipment is retired or disposed of, the difference between the proceeds from the sale and the carrying amount is recognised through profit or loss.

Investments in rented buildings (long-term improvements or renovations of rented properties) are recognised at cost (acquisition price) and depreciated on a straight-line basis over their useful life (usually corresponding to the remaining term of the lease in question).

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment, determining the estimated useful lives of each key component. Land is not depreciated.

BPD generally uses the following estimated useful lives:

- owner-occupied properties and long-term building improvements: 5 to 40 years
- operating assets: 3 to 5 years

Depreciation rates, depreciation methods and residual values of property, plant and equipment are reviewed periodically to make allowance for any changes in circumstances.

2.16 Investment property

Investment property, which mainly consists of rented housing and a parking garage, are held for long-term rentals; BPD does not qualify as its owner-occupier. Investment property is recognised as a long-term investment and recognised at cost, net of accumulated depreciation and impairment losses. The depreciation period of investment property is 40 years.
For the purposes of the notes to investment property and establishing any impairment losses, the fair value is determined at the most likely price that can reasonably be obtained in the market on the reporting date. The fair value is based on current prices in an active market for similar properties in the same location and in the same condition.

The fair value is usually based on a discounted cash flow method or on capitalisation at net initial yields of comparable transactions. The value of investment property is usually determined by a certified external appraiser every year.

2.17 Financial assets and liabilities

Classification

BPD classifies financial assets and liabilities in the following categories:

Cash and cash equivalents

Cash and cash equivalents comprise all legal tender including foreign currencies that are freely available.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets arise when BPD provides cash to a party without the intention of trading or selling the loan.

Financial assets

Financial assets at fair value through profit or loss comprise financial assets that, on initial recognition, are classified as financial assets at fair value through profit or loss. These include equity instruments.

Loans

Loans are non-derivative financial liabilities with fixed or determinable payments that are not quoted on an active market. Borrowings arise when BPD borrows cash from a party.

Trade payables

Trade payables are non-derivative financial obligations related primarily to the cost of raw materials, consumables and work contracted out.

Recognition and derecognition

A financial asset – or a component of a financial asset – is derecognised if:

- the rights to the cash flows from the asset expire;
- the rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset are transferred;
- an obligation to transfer the cash flows from the asset is assumed and substantially all the risks and rewards of ownership are transferred;
- an obligation to transfer the cash flows from the asset is assumed; or
- not all the economic risks and rewards are transferred or retained, but control over the asset is transferred.

If BPD retains control over the asset but does not retain substantially all the risks and rewards, the asset is recognised by reference to BPD's continuing involvement. The difference between the carrying amount and the transferred value of the asset is recognised in the

statement of profit or loss. Any unrealised gains and losses are realised.
A financial liability – or a component of a financial liability – is derecognised if the obligation specified in the contract:

- is discharged;
- is cancelled; or
- has expired.

Measurement
Financial assets and liabilities are initially recognised at fair value, including directly attributable transaction costs (with the exception of financial assets subsequently measured at fair value). Subsequent measurement is at amortised cost using the effective interest method, with the exception of financial assets at fair value through profit or loss.

Interest accrued or payable on financial assets and liabilities is recognised within 'Finance income and costs' in the statement of profit or loss.

Impairment of financial assets and contract assets
BPD forms provisions for expected losses using expected credit loss (ECL) models for financial assets at amortised cost and contract assets.

2.18 Current and deferred tax

The income tax expense is recognised in the period in which it arises, using tax rates enacted or substantially enacted in the relevant jurisdictions.

The future tax benefit of tax losses is recognised as an asset when it is probable that future taxable profits will be available against which the losses can be utilised.

Current tax assets and liabilities are offset only if they arise within the same tax group and if there is both an enforceable right and the intention to settle the assets and liabilities on a net basis or to realise them simultaneously. BPD's Dutch-based wholly owned subsidiaries are generally members of the tax group headed by Rabobank, with settlement being effected via Rabobank.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The main temporary differences are the result of property development activities.
The amount of deferred tax is based on the manner in which the carrying amount of the assets and liabilities is expected to be realised or settled, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.19 Property inventory

Property inventory includes asset items relating to the property development. These have been grouped into the following categories:

- building sites and equalisation funds;
- work in progress;
- finished goods.

Building sites and equalisation funds
Building sites are measured at the lower of cost, including allocated interest and additional costs for purchasing the land and preparing it for development, and net realisable value. If it is uncertain that land for which the zoning plan does not identify a specific designated use will be built on, no interest is capitalised on that land. The contingent liability that depends on future changes in the designated use of the land in question is not included in the cost of land, but is weighed in determining the net realisable value.

The net realisable value of all building sites is calculated at least once a year and when indications so warrant. The net realisable value of building sites is the higher of their direct realisable value and their indirect realisable value. Direct realisable value is the estimated value at sale less the estimated costs of making the sale. Indirect realisable value is the estimated selling price in the ordinary course of business less the estimated costs to complete and the estimated costs required to make the sale. When calculating indirect realisable value, scenarios are fleshed out in which the cash flows make as much allowance as possible for site-specific issues and company-specific parameters and circumstances, such as location characteristics, ambitions, and financial and social prerequisites. An impairment loss is recognised if cost exceeds the higher of indirect realisable value and direct realisable value.

The equalisation funds relate to capitalised building rights purchased from third parties, in addition to building rights that have arisen at the sale of land to local authorities or other parties, and are measured as the cost of the land less the proceeds from the sale. The equalisation funds, less any required depreciation, must be recouped from future construction projects.

Work in progress
Work in progress relates to unsold residential property developments, as well as to unsold commercial property developments under construction or in preparation. Work in progress is measured at the lower of costs incurred plus attributable interest and net realisable value.

The carrying amount of unsold work in progress is reviewed annually to determine whether there is any evidence of impairment losses. If any such evidence exists, the indirect realisable value of work in progress is estimated, mostly using an internal or external valuation. Indirect realisable value is the estimated selling price in the ordinary course of business less the estimated costs to complete and the estimated costs required to make the sale. A downward value adjustment is recognised if the cost exceeds the expected indirect net realisable value.

Finished goods
Unsold residential and commercial properties are recognised at the lower of cost and net realisable value. The net realisable value of finished goods is calculated at least once a year and when indications so warrant. For finished goods, the net realisable value is generally equal to the direct realisable value, which is mostly determined by means of an internal or external appraisal. If cost exceeds the expected direct realisable value, an impairment loss is recognised to the extent that this loss is for account of BPD.

Finished goods may qualify for reclassification to investment property where appropriate. In these cases, the property must be held over a longer period to earn rentals and/or for capital appreciation without the likelihood of sale in the ordinary course of business. Optimising the value of a property by letting it with a view to selling it is considered to be normal practice in the production process. If management makes a conscious decision to let a property for several years, the property will be designated by management as an investment property.

2.20 Contract assets and liabilities

Contract assets and liabilities relate to residential and commercial property developments that are under construction and for which BPD recognises revenue using the over-time method (see note 2.8, Revenue). If the buyer's advance payments exceed BPD's performance obligations on the development, a net contract liability is recognised. If BPD's performance obligations on the development exceed the buyer's advance payments, a net contract asset is recognised.

2.21 Trade receivables

Trade receivables are receivables from buyers and tenants of residential and commercial properties and other receivables. Trade receivables are initially measured at fair value. After initial recognition, trade receivables are measured at amortised cost, which usually corresponds to their face value. A provision for bad debts is based on the simplified ECL method.

2.22 Equity

The share capital consists of issued and paid-up capital, both of which are stated at nominal value. The reserves are made up of a share premium reserve, retained earnings and earnings for the current reporting period. The share premium reserve shows the amount paid up by the shareholder for the issued shares and includes capital contributions and dividend distributions made in the past by or for the shareholder. Profit or loss for the year is added to or deducted from retained earnings annually after a resolution of the General Meeting of Shareholders. Dividends on ordinary shares are charged to equity in the period in which they are approved by the General Meeting of Shareholders.

2.23 Provisions

BPD forms provisions for associates accounted for using the equity method, onerous contracts, employee benefits, warranties and restructuring costs when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, the discount rate used to determine the present value of provisions is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The specific guidance of IAS 11 has ceased to apply since the reporting period 2018. It has been established that this does not lead to a material difference for BPD in determining its provisions; as a result, BPD has not changed its approach to calculating its provisions.

Provision for associates accounted for using the equity method

If BPD's share of the losses of an associate accounted for using the equity method corresponds to or exceeds its equity interest in that associate, BPD will not recognise any more losses unless BPD is liable for the debts of the associate or has a constructive obligation. If so, the aforementioned criteria are used to determine whether a provision should be formed.

Provision for onerous contracts

A provision for onerous contracts arises if BPD has a constructive obligation to develop property or land, but the contract is onerous based on current estimates.

Employee benefits

Jubilee and post-retirement benefits, including contributions to health insurance, leave schemes for older employees, mortgage interest reductions and benefits paid to inactive employees, are calculated on the basis of actuarial assumptions.

Warranty fund

This fund comprises warranties relating to sold and completed residential properties to the extent that BPD Europe has provided the warranty. Owners of these properties are issued a ten-year warranty at the time of purchase. Any resulting financial obligations will be met from this fund. At the reporting date, BPD calculates whether the level of the warranty fund corresponds to the expected financial obligations, the amount of which is determined on the basis of empirical data. Any differences are recognised through profit or loss. Given that the warranty tends to be issued by the contractor, BPD's warranty fund is in run-off.

Restructuring provisions

A restructuring provision is recognised if BPD has a constructive obligation at the reporting date. This is the case when a detailed plan has been approved and a valid expectation has been raised in those affected that the restructuring will be carried out by starting to implement that plan or announcing its main features. Costs directly related to the restructuring are included in the provision only.

Other provisions

Other provisions mainly concern other guarantees and legal claims.

2.24 Statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents refer to cash at hand and net deposits and credit balances with banks.

The statement of cash flows has been prepared using the indirect method and provides an understanding of the source of the cash that became available during the year as well as its application during the year.

Cash flows from operating, investing and financing activities are stated separately. Changes in current assets and associated liabilities relating to operating activities are included in cash flows from operating activities. Investing activities comprise purchases and sales of non-current assets, including the acquisition and disposal of associates and of items of property, plant and equipment.

Changes in equity, loans and repayments of loans are regarded as financing activities.

2.25 Leases

Operational lease contracts under which BPD acts as the lessor mainly relate to investment property. For more details, see note 13 (Investment property). These are contracts in which the resulting rewards are retained by BPD Europe. Income from operational leases is recognised as rental income through profit or loss by reference to the term of the lease. BPD has no finance lease contracts.

Operational leases under which BPD acts as the lessee mainly relate to the lease of office buildings and vehicles. For more details, see note 32 (Commitments and contingencies). These are contracts in which no significant portion of the risks and rewards arising from the contract apply to the lessee. Costs associated with operational leases of office buildings and vehicles are recognised as housing expenses and other personnel expenses respectively by reference to the term of the lease. BPD has no finance lease contracts.

3 Revenue

Revenue can be broken down as follows:

	2018	2017 Restated
Residential properties (including building sites)	1,225	990
Commercial properties	117	32
Other	9	8
Total contract revenue from property development (revenue from contracts with buyers)	**1,351**	**1,030**
Rental income from investment property	13	10
Total revenue	**1,364**	**1,040**

If revenue were to be recognised based on the old accounting policies, it would have amounted to € 1,326 million in 2018.

Revenue from contracts with buyers can be broken down into segments as follows:

	Residential properties		Commercial properties		Other		Total contract revenue from property development		
	NL	GE	NL	GE	NL	GE	NL	GE	Total
2018	**594**	**631**	**116**	**1**	**9**	**-**	**719**	**632**	**1,351**
2017	**476**	**514**	**32**	**-**	**8**	**-**	**516**	**514**	**1,030**

At year end, BPD's contractual performance obligations were worth approximately € 792 million. These obligations can be broken down as follows:

Future sales value	Residential properties		Commercial properties		Total contractual performance obligations		
	NL	GE	NL	GE	NL	GE	Total
2019	63	397	60	-	123	397	**520**
2020	-	159	64	-	64	159	**223**
2021	-	17	32	-	32	17	**49**
Total	**63**	**573**	**156**	**-**	**219**	**573**	**792**

4 Impairment of property inventory

Changes in value due to a downward change in net realisable value can be broken down as follows:

	2018	2017
By type of property:		**Restated**
Residential properties (including building sites)	(75)	(37)
Commercial properties	(11)	(3)
Services	(2)	(1)
Total changes in value due to changes in NRV	**(88)**	**(41)**

For details on the changes in value due to changes in the net realisable value (NRV) of property inventory, see note 19 (Property inventory).

5 Impairment of asset contracts

Changes in value can be broken down as follows:

	2018	2017
By type of property:		
Residential properties (including building sites)	(3)	-
Commercial properties	9	-
Services	-	-
Total changes in value	**6**	**-**

6 Cost of raw materials, consumables and work contracted out

Cost of raw materials, consumables and work contracted out can be broken down as follows:

	2018	2017
		Restated
Residential properties (including building sites)	1,006	783
Commercial properties	110	28
Other	(3)	(3)
Total cost of property development	**1,113**	**808**
Operating expenses associated with investment property	3	3
Total cost of raw materials, consumables and work contracted out	**1,116**	**811**

7 Personnel costs

The personnel costs can be broken down as follows:

	2018	2017 Restated
Salaries and wages (including variable remuneration and other pay)	53	48
Pension costs	5	5
Social security contributions	7	6
Insourced staff	4	3
Other personnel costs	8	13
Total personnel costs	**77**	**75**
Number of employees (internal/FTEs)	553	531
Number of insourced staff (external/FTEs)	40	35
Total headcount (FTEs)	**593**	**566**

Of the total headcount, 261 FTEs worked outside the Netherlands in the reporting period (2017: 246).

8 Other operational expenses

Other operational expenses can be broken down as follows:

	2018	2017 Restated
Housing expenses	7	6
Office expenses	2	1
IT expenses	7	6
Selling and advertising expenses	2	2
Third-party services	4	3
General and administrative expenses	9	8
Allocation to provisions	-	1
Total other operational expenses	**31**	**27**

Of other operational expenses, € 4 million concerns related parties (2017: 0).

9 Finance income and costs

Finance income and costs can be broken down as follows:

	2018	2017 Restated
Interest income	12	9
Total finance income	**12**	**9**
Interest expense	(26)	(19)
Loan losses	-	1
Total finance costs	**(26)**	**(18)**

Of interest income, € 5 million concerns related parties (2017: € 3 million). Of interest expense, € 24 million concerns related parties (2017: € 22 million).

10 Income tax expense

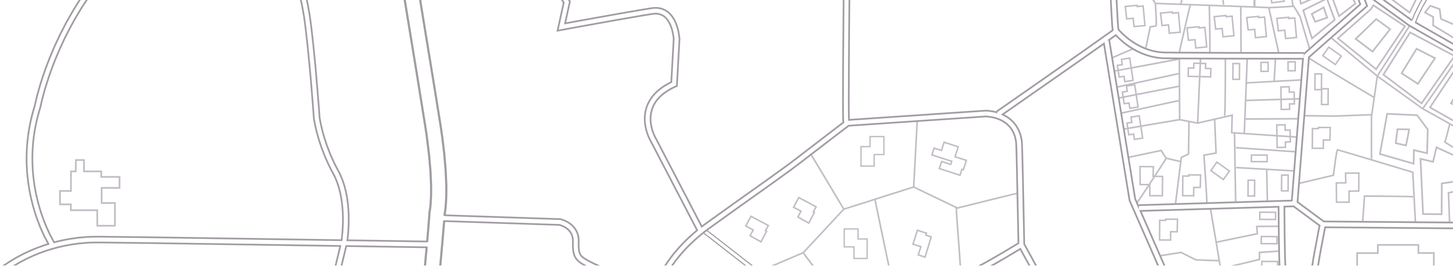
This item concerns the corporate income tax liability.

Reconciliation between the tax liability and the amount resulting from the application of the Dutch tax rate to the profits for 2018 and 2017:

	2018	2017 Restated
Profit/(loss) before tax	**233**	**171**
At nominal tax rate of 25.0% (2017: 25.0%)	58	43
Effect of different tax rates in other countries*	5	5
Effect of deferred tax (unrecognised)	-	2
Effect of prior-year tax	-	(5)
Income (non-taxable)	(5)	(2)
Expense (non-deductible)	-	-
Other items	(2)	(9)
Total income tax expense	**56**	**34**
Effective tax rate	**24.0%**	**19.9%**

* The effect of different tax rates in other countries relates to the higher tax rates in Germany in both 2018 and 2017.

	2018	2017 Restated
Current tax		
Reporting period	53	48
Prior years	-	(5)
Deferred tax	3	(9)
Total tax liability (continuing operations)	**56**	**34**
Tax on discontinued operations	4	16
Total tax liability (including discontinued operations)	**60**	**50**



11 Discontinued operations

BPD sold its 100% equity interest in BPD Marignan S.A.S. on 14 November 2018. Given that BPD Marignan S.A.S. was an independently operating subsidiary of BPD with its own activities and operating in its own line of business and that all its assets, liabilities and cash flows were separately identifiable, the sale caused BPD's share of profit for 2017 and 2018 to be recognised within 'Share of profit/(loss) from discontinued operations'.

The item 'Share of profit/(loss) after tax from discontinued operations' includes the operating profit and the proceeds from the sale of BPD Marignan S.A.S.. The gains and losses and cash flows from the discontinued operations are shown below and can be broken down as follows:

	2018	2017
Revenue	405	580
Operating expenses	393	544
Operating profit/(loss)	**12**	**36**
Finance income and costs	(3)	(6)
Profit/(loss) before tax	**9**	**30**
Share of profit/(loss) of associates	1	-
Tax on operating profit/(loss)	(4)	(16)
Proceeds from sale by BPD Europe B.V.	58	-
Tax on proceeds from sale by BPD Europe B.V.	-	-
Total gains/(losses) on discontinued operations	**64**	**14**
Cash flows from/(used in) operating activities	75	15
Cash flows from/(used in) investing activities	(6)	(4)
Cash flows from/(used in) financing activities	-	-
Total cash flows from/(used in) discontinued operations	**69**	**11**

Notes to the consolidated statement of financial position

12 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	2018	2017
Cost	28	20
Accumulated depreciation	(18)	(16)
At 1 January	**10**	**4**
Purchased	5	8
Sold	(5)	-
Depreciated	(3)	(2)
Changes during the year	**(3)**	**6**
Cost	19	28
Accumulated depreciation	(12)	(18)
At 31 December	**7**	**10**

Property, plant and equipment consist of operating assets.

13 Investment property

Movements in the carrying amount of investment property were as follows:

	2018	2017
Cost	109	99
Accumulated depreciation	(19)	(3)
Accumulated impairment	-	(13)
At 1 January	**90**	**83**
Purchased	55	12
Sold	-	-
Depreciated	(3)	(16)
Reversed impairment losses	-	13
Reclassified	-	(2)
Changes during the year	**52**	**7**
Cost	164	109
Accumulated depreciation	(22)	(19)
At 31 December	**142**	**90**

Fair value and valuations

The fair value of investment property stood at € 184 million at year-end 2018 (2017: € 108 million). As at 31 December 2018, all investment property held for more than six months had been valued by an external expert. All investment property was valued by external experts in 2017. The investment property was valued by independent professionally qualified external parties; the valuations were carried out in accordance with the RICS valuation standards or other equivalent valuation standards.

In valuing the different types of investment property, the valuers use a large number of parameters that are derived from contracts and market data where possible. A certain degree of judgement and estimation is generally unavoidable in this process. As a result, all investment property has been classified as Level 3 in accordance with the fair value classification of IFRS 13. Depending on the type of property, the following parameters are among those used to determine the fair value of the investment property:
current and expected future market rent per square metre, current and expected future vacancy rates, location of the property, marketability of the property, average discount rate and potential credit risks.

A discount rate of between 5% and 7% was used in 2018 (2017: between 4% and 7%). BPD conducted sensitivity analyses of its investment property portfolio in 2018. These showed that a change in discount rate of 0.25% (2017: 0.25%) will have an effect of € 3 million on the appraised value (2017: € 3 million).

Operational leases

The investment property consists of residential properties and a parking garage. All leases can be terminated by the tenant at short notice. The budgeted annual rental income from investment property is € 9 million (2017: € 8 million).

14 Associates accounted for using the equity method

This item includes interests in joint ventures with an equity surplus. Equity interests with an equity deficit are recognised within provisions.

The carrying amount of associates accounted for using the equity method showed the following movements in 2018:

	2018	2017
At 1 January	**71**	**65**
Associates acquired	6	6
Associates sold	(14)	(14)
Gains/(losses)	20	18
Dividends	(7)	(4)
Other	(8)	-
Changes during the year	**(3)**	**6**
At 31 December	**68**	**71**

* Gains/(losses) consist entirely of income from continuing operations.
There were no gains or losses from discontinued operations.

Joint ventures
A separate legal entity is created for each joint venture. The individual scale of these joint ventures was not material to BPD in 2018 and 2017.

15 Financial assets at fair value

Financial assets at fair value with changes through profit or loss consist of equity interests of less than 5% in Nationale Maatschappij tot Restaureren en Herbestemmen van Cultureel Erfgoed B.V. (trade name: BOEi) and HTWO Winterhude Object GMBH & Co KG. The equity interest in Stedefonds Amsterdam N.V. was sold in 2018. The proceeds from the sale were nil.

16 Long-term loans and receivables

Movements in the carrying amount of long-term loans and receivables were as follows:

	2018	2017
Property development loans	144	190
Provision for loan losses	(6)	(6)
At 1 January	**138**	**184**
Loans granted	7	1
Repayments received	(30)	(50)
Impaired loans	(11)	-
Tax provision released/(utilised)	6	-
Reclassified	(10)	3
Other	-	-
Changes during the year	**(38)**	**(46)**
Property development loans	100	144
Provision for loan losses	-	(6)
At 31 December	**100**	**138**

Long-term loans and receivables do not include any intercompany loans and receivables (2017: € 14 million).

The loans, which mainly fall due in more than one year, are made up of loans to joint venture partners or loans granted in anticipation of the purchase of land. An amount of € 43 million has been provided in the form of securities on the loans (2017: € 87 million).

17 Deferred tax assets and liabilities

Deferred tax assets and liabilities for 2018 can be allocated to the following items:

	1 January 2018		Changes in 2018		31 december 2018	
	Receivables	Liabilities	Through profit or loss	Through equity	Receivables	Liabilities
Property inventory/contract assets	5	22	(1)	(21)	-	39
Capitalised tax losses	15	-	(1)	(14)	-	-
Total	**20**	**22**	**(2)**	**(35)**	**-**	**39**

Of the changes in property inventory/contract assets through equity, € 19 million relates to the restatement recognised by virtue of the change in accounting policy under IFRS 15. For more details, see Section 2.3 (Changes in accounting policies and presentation). The remaining changes in property inventory/contract assets through equity (€ 2 million) and in capitalised tax losses (€ 14 million) relate to the sale of BPD Marignan S.A.S.

Deferred tax assets and liabilities for 2017 can be allocated to the following items:

	1 January 2017		Changes in 2017		31 december 2017	
	Receivables	Liabilities	Through profit or loss	Through equity	Receivables	Liabilities
Property inventory	8	38	13	-	5	22
Capitalised tax losses	20	-	(5)	-	15	-
Total deferred taxes	**28**	**38**	**(8)**	**-**	**20**	**22**

- Capitalised tax losses have decreased as a result of the sale of BPD Marignan S.A.S.
- Deferred taxes within property inventory relate to differences arising between the tax base of the capitalised interest on land in production and its carrying amount in the financial statements, as well as provisions for inventories.
- Deferred taxes on property inventory are available both within and outside the tax group headed by Rabobank. The deferred tax liabilities are expected to fall due in more than five years.
- At year-end 2018, a cumulative amount of € 9 million in tax losses had not been capitalised (2017: € 33 million). Of this amount, € 8 million can be utilised for more than five years.

18 Contract assets

Contract assets can be broken down as follows:

	2018	2017
Residential properties (including building sites)	252	-
Commercial properties	-	-
Services	-	-
Total asset contracts	**252**	**-**

Contract assets as at 31 December 2018 are all expected to fall due within one year.

19 Property inventory

This item comprises property holdings and can be broken down as follows:

	2018	2017
ASSETS		
Building sites and equalisation funds	1,611	1,691
Impairment losses on building sites	(411)	(536)
	1,200	**1,155**
Work in progress	299	1,098
Impairment losses on work in progress	(28)	(44)
	271	**1,054**
Finished goods	33	37
Impairment losses on finished goods	(4)	(8)
	29	**29**
Total property inventory	**1,500**	**2,238**

Impairment losses are due to the fact that the net realisable value is lower than capitalised costs. Movements in impairment losses were as follows in 2018:

	At 1 January 2018	Additions/release (through profit or loss)	Withdrawals/ other changes	At 31 December 2018
Recognised within property inventory				
Building sites and equalisation funds	536	(71)	(54)	411
Work in progress	44	(14)	(2)	28
Finished goods	8	(3)	(1)	4
	588	**(88)**	**(57)**	**443**

Impairments are due to the fact that the net realisable value is lower than capitalised costs. Movements in impairment losses were as follows in 2017:

	At 1 January 2017	Additions/release (through profit or loss)	Withdrawals/ other changes	At 31 December 2017
Recognised within property inventory				
Building sites and equalisation funds	593	(31)	(26)	536
Work in progress	119	(20)	(55)	44
Finished goods	8	-	-	8
	720	**(51)**	**(81)**	**588**

The additions to/release of the impairment losses are presented in the statement of profit or loss as part of changes in property inventory.

Net building sites and equalisation funds can be broken down as follows:

	2018	2017
ASSETS		
Plots ready for development	549	518
Current land developments	183	205
Other land subject to zoning plan	9	79
Land not subject to zoning plan (< 5 years)	332	189
Land not subject to zoning plan (5-10 years)	126	156
Land not subject to zoning plan (> 10 years)	7	12
Equalisation funds	(6)	(4)
Total recognised within property inventory	**1,200**	**1,155**

Net work in progress can be broken down as follows:

	2018	2017
ASSETS		
Residential properties in preparation and under construction	249	1,017
Commercial properties under development	22	37
Total recognised within property inventory	**271**	**1,054**

The value of unsold work in progress is reviewed annually to assess whether there is any evidence of impairment losses. A provision is formed for potential impairment losses. Assumptions and estimates are taken into account in the assessment; for residential properties, this concerns house prices, expected margins per property and percentage of properties sold, while for commercial properties, this concerns expected developments in rent and vacancy rates (for a more detailed description, see accounting policies for property inventory).

On balance, € 17 million of the provision for work in progress was released in 2018 (2017: release of € 17 million).

An amount of € 18 million was allocated to interest and capitalised on work in progress in 2018 (2017: € 19 million). The interest rate used to determine the interest expense to be capitalised is between 1.0% and 6.0% (2017: between 1.0% and 5.0%).

Net finished goods can be broken down as follows:

	2018	2017
ASSETS		
Residential property developments	24	22
Commercial property developments	5	7
Total recognised within property inventory	**29**	**29**

20 Trade receivables

Trade receivables consist of receivables from buyers of residential and commercial properties in the sum of € 83 million (2017: € 245 million). Receivables are settled upon legal transfer of the property, so that no collateral is deemed necessary. The provision for bad debts amounted to € 3 million at year-end 2018 (2017: € 4 million).

21 Current receivables

Movements in the carrying amount of short-term loans and receivables were as follows:

	2018	2017
Property development loans	159	120
Provision for loan losses	(4)	(5)
At 1 January	**155**	**115**
Loans granted	87	49
Repayments received	(89)	(24)
Impaired loans	-	-
Tax provision released/(utilised)	-	1
Reclassified	3	14
Other	6	-
Changes during the year	**7**	**40**
Property development loans	162	159
Provision for loan losses	-	(4)
At 31 December	**162**	**155**

These loans, which mainly fall due in less than one year, are made up of loans to joint venture partners or loans granted in anticipation of the purchase of land. An amount of € 120 million has been furnished in the form of securities on the loans (2017: € 95 million). At year-end 2018, no provisions for bad debts had been formed for short-term loans and receivables (2017: € 4 million).

Of short-term loans and receivables, € 146 million consists of intercompany loans and receivables (2017: € 114 million).

22 Current tax assets

Current tax assets can be broken down as follows:

	2018	2017
Income tax	1	104
VAT	14	13
Total current tax assets	**15**	**117**

The Dutch tax group headed by BPD is part of the tax group headed by Rabobank. The current income tax asset is expected to be set off against income tax on future profits, with settlement taking place via Rabobank. BPD has opted to calculate the tax position independently and present it as a tax asset or liability rather than as an intercompany balance with Rabobank.

23 Prepayments and accrued income

Prepayments and accrued income can be broken down as follows:

	2018	2017
Interest receivable	1	1
Other prepayments and accrued income	80	12
Total prepayments and accrued income	**81**	**13**

24 Cash and cash equivalents

This item comprises all legal tender including foreign currencies that are available on demand. This relates exclusively to current account balances totalling € 31 million (2017: € 88 million).

All cash and cash equivalents are freely available. Of cash and cash equivalents, € 24 million concerns intercompany balances (2017: € 57 million).

25 Equity

The share capital amounts to € 22,510,500 (2017: € 22,510,500) and consists of 45,021 issued and paid-up shares. The shares have a nominal value of € 500 each.

For details on the reserves that must be maintained by law, please consult the notes to the separate financial statements.

26 Non-current liabilities

This item can be broken down as follows:

	2018	2017
Term deposits	412	553
Land purchase obligations	12	70
Other non-current liabilities	27	20
Total non-current liabilities	**451**	**643**

Of term deposits, € 406 million concerns intercompany payables to Rabobank (2017: € 546 million). The total credit facility for term deposits provided by Rabobank amounts to € 1.7 billion (2017: € 1.8 billion). Of this amount, € 841 million had been drawn down at year-end 2018 (long and short) (2017: € 1.4 billion).
An amount of € 175 million has a remaining term to maturity of more than five years (2017: € 175 million). Liabilities falling due in less than one year are recognised within current liabilities. The average interest rate on non-current liabilities was 2.4% in 2018 (2017: 1.6%). No securities have been provided for the term deposits and other liabilities.

27 Provisions

This item comprises the following short-term and long-term provisions:

	2018	2017
Provisions for joint ventures	63	82
Provision for onerous contracts	25	12
Provision for employee benefits	3	7
Warranty fund	14	16
Other provisions	1	9
Total long-term provisions	**106**	**126**
Restructuring provision	1	2
Total short-term provisions	**1**	**2**
Total provisions	**107**	**128**

Movements in the carrying amount of other provisions were as follows in 2018:

	Employee benefits	Joint ventures	Onerous contracts	Warranty fund	Restructuring	Other provisions	Total
At 1 January	**7**	**82**	**12**	**16**	**2**	**9**	**128**
Allocated and charged against profit	-	-	3	4	1	-	**8**
Released to profit	-	(10)	-	(1)	-	(3)	**(14)**
Withdrawn/changes in group composition	(4)	(5)	10	(4)	-	-	**(3)**
Other changes	-	(4)	-	(1)	(2)	(5)	**(12)**
At 31 December	**3**	**63**	**25**	**14**	**1**	**1**	**107**

Movements in the carrying amount of other provisions were as follows in 2017:

	Employee benefits	Joint ventures	Onerous contracts	Warranty fund	Restructuring	Other provisions	Total
At 1 January	**-**	**82**	**-**	**20**	**1**	**4**	**107**
Allocated and charged against profit	-	1	-	5	1	-	**7**
Released to profit	-	-	-	(5)	-	(3)	**(8)**
Withdrawn/changes in group composition	-	(1)	12	(6)	-	-	**5**
Other changes	7	-	-	2	-	8	**17**
At 31 December	**7**	**82**	**12**	**16**	**2**	**9**	**128**

Provisions for onerous contracts

The term of provisions for onerous contracts depends on the development in question and ranges from approximately one to 30 years.

Provision for employee benefits

This provision relates to post-retirement benefits other than pension rights and to facilities qualifying as fringe benefits.

Warranty fund

Owners of homes developed by BPD are issued a warranty. The resulting financial obligations will be met from the warranty fund to the extent that this warranty was issued by BPD. The remaining term of this provision is five years. Given that the warranty tends to be issued by the contractor, the warranty fund is in run-off.

Restructuring provision

This provision relates to decisions to scale back activities, strategic review and the relocation of the head office. This provision is generally utilised within one year.

Other provisions

This item mainly includes provisions for claims and legal disputes. The term of these provisions is uncertain.

28 Current liabilities

This item can be broken down as follows:

	2018	2017
Money market deposits	441	802
Call money and callable credit balances	55	51
Other current liabilities	70	36
Total current liabilities	**566**	**889**

In 2018 and 2017, money market deposits consisted entirely of intercompany payables to Rabobank. Other current liabilities amounted to € 5 million at year-end 2018 (2017: € 2 million).

No securities were provided for current liabilities.

29 Contract liabilities

Contract liabilities can be broken down as follows:

	2018	2017
Residential properties (including building sites)	101	-
Commercial properties	20	-
Services	-	-
Total contract liabilities	**121**	**-**

Contract liabilities amounted to nil at 1 January 2018. The full amount was recognised as contract revenue in the statement of profit or loss for 2018.

Contract liabilities as at 31 December 2018 are all expected to fall due within one year.

30 Current tax liabilities

Current tax liabilities can be broken down as follows:

	2018	2017
Income tax	69	27
VAT payable	24	21
Other taxes	2	14
Total current tax liabilities	**95**	**62**

31 Other current liabilities

Other current liabilities can be broken down as follows:

	2018	2017
Work in progress	-	513
Interest payable	11	11
Other current liabilities	52	115
Total other current liabilities	**63**	**639**

Net interest payable consists entirely of intercompany payables to Rabobank. Work in progress at 31 December 2017 consisted mainly of developments for which billed instalments were higher than costs incurred. Following the application of IFRS 15, billed instalments have been included in contract assets/liabilities.

32 Commitments and contingencies

For details on commitments and contingencies associated with joint ventures, see Note 14 (Associates accounted for using the equity method). BPD has commitments and contingencies arising from warranties issued and has also entered into a number of other commitments and contingencies in relation to work in progress and tenancy agreements and lease contracts.

Commitments and contingencies can be broken down as follows:

	2018	2017
Contingencies arising from warranties issued	511	240
Contingencies arising from group guarantees issued	395	581
Contingencies regarding land holdings	392	353
Commitments regarding land holdings	71	-
Third-party liabilities regarding residential properties	391	774
Third-party liabilities regarding commercial properties	127	10
Total contingencies	**1,887**	**1,958**

The contingencies arising from issued group and other guarantees issued will largely expire upon completion of the property development without leading to full or partial payment. This means that the amounts disclosed do not reflect expected future cash flows.
There are no assets that have been pledged or provided as security.

Joint and several liability in respect of obligations assumed by joint ventures is not disclosed unless the financial position of one or more partners so warrants.

Commitments arising from tenancy agreements and lease contracts:

	2018	2017
Less than 1 year	7	12
Between 1 and 5 years	18	30
More than 5 years	9	13
Total commitments under operational leases	**34**	**55**

Legal claims are recognised as provisions if it is probable that the settlement will lead to an outflow of means and a reliable estimate of the expected outflow can be made. In addition, legal claims in the sum of € 7 million (2017: € 11 million) have been lodged against BPD; the settlement of these claims may result in an outflow of resources, but this is not considered probable.

33 Fair value

The table below shows the fair value of financial instruments (including those not recognised at fair value in the financial statements). Fair value is the price that would be received to sell an asset or that would be paid to transfer a liability into an orderly transaction between market participants at the measurement date. The loan portfolio qualifies as a financial asset.

The fair value of financial assets and liabilities is broken down in the table below:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value	2	2	4	4
Long-term loans and receivables	100	100	138	138
Short-term loans and receivables	162	162	155	155
Cash and cash equivalents	31	31	88	88
Total financial assets	**295**	**295**	**385**	**385**

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current liabilities	451	514	643	651
Current liabilities	566	585	890	900
Total financial liabilities	**1,017**	**1,099**	**1,533**	**1,551**

Fair value of financial assets and liabilities

The fair value of floating-rate financial assets recognised at amortised cost is assumed to correspond to their carrying amount. The fair value of fixed-rate receivables recognised at amortised cost is calculated by discounting the contractual cash flows at the current market rate for similar loans and mortgages. The fair value of fixed-rate financial liabilities recognised at amortised cost is calculated by discounting the contractual cash flows at the current market rate of interest for similar obligations. For details on the fair value of financial assets recognised in the financial statements, see note 2.17 (Financial assets and liabilities). Interest accrued on financial assets (at the reporting date) is included in the carrying amount of the financial assets.

The fair value of non-financial assets and liabilities such as property, equipment, prepayments and non-interest-related accruals is not included in the table.

The tables below show which accounting policies were used to determine the fair value of the financial assets and liabilities. There are three fair value hierarchy levels:

Level I	Valuation based on quoted market prices;
Level II	Valuation using valuation techniques based on assumptions supported by observable market data; and
Level III	Valuation using valuation techniques based on assumptions not fully supported by observable market data.

Measurement of financial assets and liabilities in 2018:

	Fair value			
	Level I	Level II	Level III	Total
Financial assets at fair value	-	-	2	2
Long-term loans and receivables	-	100	-	100
Short-term loans and receivables	-	162	-	162
Cash and cash equivalents	-	31	-	31
Total financial assets	**-**	**293**	**2**	**295**

	Level I	Level II	Level III	Total
Non-current liabilities	-	514	-	**514**
Current liabilities	-	585	-	**585**
Total financial liabilities		**1,099**		**1,099**

Measurement of financial assets and liabilities in 2017:

	Reële waarde			
	Level I	Level II	Level III	Total
Financial assets at fair value	-	-	4	4
Long-term loans and receivables	-	138	-	138
Short-term loans and receivables	-	155	-	155
Cash and cash equivalents	-	88	-	88
Total financial assets	**-**	**381**	**4**	**385**

	Level I	Level II	Level III	Total
Non-current liabilities	-	651	-	651
Current liabilities	-	900	-	900
Total financial liabilities	**-**	**1,551**	**-**	**1,551**

The financial assets at fair value in Level III relate to some equity interests in entities in which BPD has no significant influence and that are not quoted.

34 Fees as per Section 382a, Book 2, Dutch Civil Code

(x € 1.000)	2018	2017
Audit of financial statements	**925**	1,025
Other audit services	**181**	67
Total fees	**1,106**	**1,092**

The fees relate to the services provided to the company and its consolidated entities by accounting firms and external auditors as referred to in Section 1(1) of the Dutch Accounting Firms (Supervision) Act and to the fees charged by the entire network to which the accounting firm belongs.
These fees are for the audit of the financial statements 2018, regardless of whether or not the services were provided during the reporting period.
The fee PricewaterhouseCoopers Accountants N.V. charged for the audit of the financial statements 2018 was € 479,000 (2017: € 473,000); the other member firms of the PricewaterhouseCoopers network charged € 189,000 (2017: € 252,000).

35 Executive remuneration

The managing directors, who jointly qualify as key management, are listed on Page 7 of the Annual Report. In 2018, the remuneration of the members of the Managing Board and its legal predecessors amounted to € 1.7 million (2017: € 1.4 million).

This amount, which is recognised within the employee benefits expense, can be broken down as follows:

(x € 1.000)	2018	2017
Short-term employee benefits	**1,367**	1,188
Pension plans	**93**	78
Other long-term employee benefits	**214**	172
Total executive remuneration	**1,674**	**1,438**

Other long-term employee benefits have been estimated for the reporting period. The difference between this estimate and actual long-term employee benefits granted to members of the Managing Board is recognised in the employee benefits expense for the following reporting period. No loans have been granted to the members of the Executive Board (2017: nil).

36 Risk management

36.1 Governance

The Executive Board of BPD bears collective responsibility for BPD's risk profile, which is determined based on a Risk Appetite Statement (RAS). The RAS defines the level of risk that BPD is willing to accept in order to achieve its objectives. In concrete terms, this means that the risk appetite for each risk category is determined in qualitative terms before quantitative standards are applied. In adopting the risk appetite and risk management policy, the Executive Board is supervised by the General Meeting of Shareholders.

36.2 Financial instruments

Developing, owning and financing real estate is a capital-intensive process. For this reason, BPD's operations are determined to a large extent by the efficient and risk-aware use of a few relatively simple financial instruments. The choice of financing method is largely determined by the term for which the funds are required and by the interest rate sensitivity of the value of an investment or portfolio for which the funds are used. BPD does not use derivatives or interest rate swaps, nor does it use other, i.e. more complex, financial instruments.

36.3 Measurement, benchmarks and reporting

Risk Management ensures that all relevant risks associated with operations are measured, mitigated and managed in a consistent manner. It does so by assessing the risks against the pertinent risk policy and the risk appetite. The risk policy is based on Rabobank's policy and has been formalised for market and credit risk, balance sheet risk, operational risk and product approval.

Risk management practices are reported to the General Meeting of Shareholders at least quarterly. Rabobank Risk Management is also kept informed. BPD's policy and position with regard to the risk categories is described in the following sections.

36.4 Market risk

Market risk is the risk that changes in market variables as a result of changes in the general economic climate will lead to gains or losses on exposures. BPD operates on the property market and – through its funding from Rabobank – on the money and capital market. For a quantification of the market risk on the money and capital market, see Note 36.5 (Interest rate, currency and liquidity risks).

BPD breaks down its exposures to the property market into 'property under development' and 'property under management'. Decisions to invest in or sell properties in each of these categories are made based on a layered approval structure and an assessment by experienced risk assessors.

Their risk assessment will always include a Customer Due Diligence (CDD) review. BPD can approve investments within its own mandate, while approval for the most sizeable investments must be obtained from the REAL ESTATE Investment Committee (REIC). This approval structure is evaluated annually.

Market risk associated with property

Decreases in value on the property market have an immediate effect on BPD's direct property holdings, i.e. its land portfolio, unsold properties under construction, unsold but completed properties and property under management. On 31 December 2018, these 'direct' property holdings amounted to € 1,894 million (2017: € 2,328 million).

Market risk associated with financial assets

BPD also owns 'indirect' property because, where appropriate, it participates in investment funds with property as collateral. As at 31 December 2018, this portfolio with investments amounted to € 2 million (2017: € 4 million). Participations in funds for which there is no active market are measured based on net asset value.

36.5 Interest rate, currency and liquidity risks

Interest rate risk

Interest rate risk is the risk of changes in a company's earnings or enterprise value as a result of fluctuations in interest rate markets. Interest rate risk can be quantified in terms of value and income effects. The sensitivity of the value of BPD's equity to interest rate fluctuations is expressed in the modified duration of equity. BPD is aware of the assumptions underlying the calculations. For this reason, the main focus lies on developments in this figure from month to month, keeping the approved assumptions as constant as possible. The modified duration of equity on 31 December 2018 was 1.9 (2016: 1.1). For the position on 31 December 2018, a parallel rise of 100 basis points in the yield curve would lead to a reduction of € 18 million in the value of equity (2017: € 7 million).
A duration limit has been set for this change in value; BPD remained well below this limit.

Currency risk

Currency risk is the risk that the exchange rate of a foreign currency changes such that the value of an asset or liability denominated in that foreign currency shows an adverse change. BPD's foreign exchange exposures were highly limited at year-end 2018 (the same applied at year-end 2017). The interest margin and other gains and losses subject to currency fluctuations are not material. Therefore, currency fluctuations are not hedged.

Liquidity risk

Liquidity risk is the risk that BPD may be unable to duly meet its payment obligations. These may include interest and repayment obligations on current liabilities, as well as property-related investments, such as stage payments in the property development business.

BPD takes out loans from Rabobank, which has good access to money and capital markets thanks to its credit rating. Each year, the funding requirement for the coming year is calculated based on which a limit is agreed with Rabobank.

Analysing the refinancing obligation requires an understanding of cash flows. In addition to the principal amounts and accrued interest on the liabilities, future coupon payments also contribute to an understanding of BPD's liquidity position. The table below provides a breakdown (undiscounted) of all these liabilities with respect to BPD's financial instruments into liquidity-related maturities on the basis of the remaining period at the reporting date until the first reasonable contractual maturity date. The total amounts do not correspond to those presented in the consolidated statement of financial position, as the table shows repayments as well as coupons.

Contractual maturity date of financial liabilities at 31 December 2018:

	Payable on demand	Less than 3 months	3 months to 1 year	15 years	More than 5 years	Total
Liabilities						
Non-current liabilities	-	-	-	276	175	451
Current liabilities	-	301	265	-	-	566
Total financial liabilities	**-**	**301**	**265**	**276**	**175**	**1,017**

Contractual maturity date of financial liabilities at 31 December 2017:

	Payable on demand	Less than 3 months	3 months to 1 year	15 years	More than 5 years	Total
Liabilities						
Non-current liabilities	-	-	-	468	175	643
Current liabilities	-	541	348	-	-	889
Total financial liabilities	**-**	**541**	**348**	**468**	**175**	**1,532**

36.6 Credit risk

Credit risk is the risk that BPD incurs losses as a direct result of default by the counterparty. Credit risk is subject to a layered approval structure and determined based on an assessment by experienced risk assessors. In addition to assessing credit risks, BPD has set up robust processes governing CDD regulations.

Maximum credit risk exposure

The table below shows the maximum credit risk exposure per financial asset. The exposures are shown without the mitigating effects of netting agreements and collateral provided. The amounts below correspond to the carrying amounts of the assets presented, as that amount best reflects the maximum credit risk position. The table covers financial assets only.

Maximum credit risk exposure:

	2018	2017
Long-term loans and receivables	100	138
Short-term loans and receivables	162	155
Total maximum exposure on outstanding loans and receivables	**262**	**293**

Credit risk concentration in the residential property sector is inherent in BPD's operations and market position.

Securities

BPD provides loans to special-purpose entities in which it has an equity interest. It is BPD's policy to demand appropriate collateral before loans are provided.

The main type of security BPD accepts is mortgage collateral. Developments in the value of the property received as collateral are a component of a review policy in which all aspects of a loan disbursement that contribute to the credit risk are reviewed on a regular basis. BPD also receives securities in the form of guarantees. These usually concern counter-guarantees obtained from joint venture partners to offset part of a guarantee provided by BPD to the joint venture's counterparty.

Credit quality

In most cases, BPD's loan portfolio consists of loans to entities managed by BPD itself, such as property companies in which BPD undertakes property development activities with a partner and whose financial accounts are kept by BPD. This means that BPD has a much better and more timely understanding of the borrower's financial situation than if the loan had been granted to an entirely external party, as a bank does.

Quality of outstanding loans:

	Not past due, not impaired				
	Extremely high quality	High quality	Standard quality	Impaired	Total
Financial assets					
Long-term loans and receivables	26	-	74	-	100
Short-term loans and receivables	8	-	154	-	162
At 31 December 2018	**34**	**-**	**228**	**-**	**262**

	Not past due, not impaired				
	Extremely high quality	High quality	Standard quality	Impaired	Total
Financial assets					
Long-term loans and receivables	35	-	103	-	138
Short-term loans and receivables	8	-	147	-	155
At 31 December 2017	**43**	**-**	**250**	**-**	**293**

In 2018 and 2017, there were no outstanding loans that had matured but had not been impaired.

The carrying amount of impaired loans stood at nil before impairment (2017: € 10 million). The fair value of the collateral provided for impaired loans was nil (2017: nil). All collateral involved real estate.

36.7 Operational risk

BPD defines operational risk as the risk of losses caused by inadequate or failing internal processes, people and systems, or by external events. This includes measuring the effects of gaps relating to business continuity, information security, legal affairs, tax affairs, compliance, governance and reputation management.

BPD limits these risks by applying unambiguous and concrete policies and logical procedures to its business processes. Risks associated with business operations are periodically identified and translated into risk indicators that allow BPD to monitor the level of risk. The procedures for identifying operational risks, establishing controls and testing the effectiveness of these controls for business operations in the broadest sense have been formalised in a Business Control Framework.

Dashboards are compiled every quarter to provide insight into gaps in testing controls within the business processes, the position of risk indicators and the classification of operational incidents. They also provide an understanding of BPD's operational risk appetite, the quality of the operational risk management framework and the impact of the quality in terms of economic capital for operational risks. Management reports also address non-financial risks and BPD's non-financial risk appetite.

37 Related parties

BPD's related parties are its subsidiaries, joint ventures, associates and executive directors (see Note 35, Executive remuneration), ultimate parent company Rabobank and other key associates of Rabobank.

BPD engages in some related-party transactions in its normal course of business. These transactions take place at arm's length and at market rates.

In accordance with IAS 24.4, BPD's intragroup transactions are not disclosed in the consolidated financial statements. No provisions for bad debts were formed for related-party loans in 2018 and 2017.

The table below breaks down the transactions that took place in 2018 and 2017, as well as any intercompany balances at year-end 2018 and 2017 between BPD on the one hand and Rabobank, the joint ventures, associates and other related parties on the other.

	Year	Sold to related parties	Purchased from related parties	Receivable from related parties	Payable to related parties
Related parties					
Rabobank*	2018	-	28	24	860
Rabobank*	2017	-	22	57	1,360
Joint ventures	2018	5	-	163	11
Joint ventures	2017	14	37	125	5
Other related parties**	2018	-	-	52	-
Other related parties**	2017	18	-	36	-

* The amounts presented in the columns 'sold to' and 'purchased from' Rabobank relate to interest income and expense on loans and receivables from Rabobank.

** Other related parties include affiliated property companies and various Rabobank associates, such as Achmea.

38 Events after the reporting date

No events with an impact on the financial statements 2018 have taken place after the reporting date.

39 Profit appropriation for 2018

The full profit of € 240 million has been added to equity (2017: € 151 million).

Separate financial statements

Accounting policies

The separate financial statements of BPD have been prepared in accordance with the statutory provisions of Part 9 of Book 2 of the Dutch Civil Code. With effect from 1 January 2017, BPD has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The same accounting policies have been applied in the separate financial statements as in the consolidated financial statements, in accordance with the option provided by Section 362.8 of Part 9 of Book 2 of the Dutch Civil Code. Subsidiaries and entities over which joint control is exercised (together referred to as 'group companies') are stated at net asset value, which is determined based on IFRS as endorsed by the EU.

Pursuant to the option provided in Section 402, Part 9 of Book 2 of the Dutch Civil Code, BPD has published a condensed statement of profit or loss in its separate financial statements.

Basis of preparation

The financial statements are presented in euros, rounded to the nearest million, unless otherwise stated. The euro is BPD's reporting and functional currency.

Separate statement of profit or loss

(in € millions)	Year ended 31 December 2018	2017
Share of profit/(loss) of associates after tax	244	150
Other profit/(loss) after tax	(4)	1
Profit/(loss) for the year	**240**	**151**

Separate statement of financial position (before profit appropriation)

(in € millions)	Note	*At 31 December* 2018	2017
Non-current assets			
Property, plant and equipment		3	2
Associates	A	643	628
Long-term loans and receivables	B	1,185	1,363
Deferred tax assets		-	-
		1,831	**1,993**
Current assets			
Trade receivables		-	-
Short-term loans and receivables		8	8
Current tax assets		4	4
Prepayments and accrued income		7	-
Cash and cash equivalents	C	3	38
		22	**50**
Total assets		**1,853**	**2,043**
Equity	D		
Share capital		23	23
Share premium reserve		468	468
Statutory reserve for associates		30	31
Other reserve		160	(16)
Available for profit appropriation		240	151
		921	**657**
Non-current liabilities			
Non-current liabilities	E	460	557
Long-term provisions		3	8
		463	**565**
Current liabilities			
Current liabilities	E	440	802
Short-term provisions	A	-	1
Other current liabilities		29	18
		469	**821**
Total liabilities		**932**	**1,386**
Total equity and liabilities		**1,853**	**2,043**

Notes to the separate statement of financial position

A. Associates

Movements in the carrying amount of joint ventures and associates were as follows:

(in € millions)	2018	2017
Associates (asset item)	628	581
Associates (recognised within provisions)	(1)	(1)
Change in accounting policy to reflect IFRS 15 as of 1 January 2018*	24	-
At 1 January	**651**	**580**
Associates acquired	-	2
Associates sold	-	(5)
Gains/(losses)	244	150
Dividends	(252)	(100)
Changes during the year	**(8)**	**47**
Consisting of:		
Associates (asset item)	643	628
Associates (recognised within provisions)	-	1
At 31 December	**643**	**627**

* Following the change in accounting policy under IFRS 15, equity saw an increase by € 24 million as at 1 January 2018. For more details, see Section 2.3 (Changes in accounting policies and presentation).

B. Long-term loans and receivables

This item comprises all receivables from group companies that have a term of more than one year. At year-end 2018, an amount of € 1,185 million had been granted to group companies in the form of loans (2017: € 1,363 million). The loans are subject to a floating rate of interest. The interest rates were between 1.75% and 2.30% in 2018 (2017: between 1.75% and 2.15%). Given the floating market interest rate on the loans, the fair value corresponds to the carrying amount.

C. Cash and cash equivalents

Cash and cash equivalents comprise all legal tender including foreign currencies that are freely available.

D. Equity

At year-end 2018, the separate financial statements included a statutory reserve for associates of € 30 million for the share of profit of associates and direct capital gains that cannot be distributed (2017: € 31 million).

Profit appropriation:

Ahead of the adoption of the financial statements by the Annual General Meeting of Shareholders, the Managing Board proposes to add the profit for 2018 of € 240 million has been added to the general reserve.

Movements in equity can be broken down as follows:

(In € 1 millions)	Share capital	Share premium reserve	Available for profit appropriation	Statutory reserve for associates	Other reserves	Total equity
At 1 January 2018 (before change in accounting policies)	**23**	**468**	**151**	**31**	**(16)**	**657**
Change in accounting policies**	**-**	**-**	**-**	**-**	**24**	**24**
At 1 January 2018 (after change in accounting policies)	**23**	**468**	**151**	**31**	**8**	**681**
Added to profit/(loss)	-	-	(151)	-	151	-
Profit/(loss) for the year	-	-	240	-	-	240
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income for the year	**23**	**468**	**240**	**31**	**159**	**921**
Dividend distribution	-	-	-	-	-	-
Other changes	-	-	-	(1)	1	-
At 31 December 2018	**23**	**468**	**240**	**30**	**160**	**921**
At 1 January 2017	23	468	106	31	(122)	506
Added to profit/(loss)	-	-	(106)	-	106	-
Profit/(loss) for the year	-	-	151	-	-	151
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income for the year	23	468	151	31	(16)	657
Dividend distribution	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
At 31 December 2017	23	468	151	31	(16)	657

** For more details on the changes in accounting policies, see Section 2.3 (Changes in accounting policies and presentation).

E. Loans and receivables

These items mainly comprise loans from group companies. The average interest rate on these loans was 2.0% in 2018 (2017: 1.6%). No securities have been provided.

F. Commitments and contingencies

Commitments arising from tenancy agreements and lease contracts:

(in € millions)	**2018**	**2017**
Less than 1 year	4	4
Between 1 and 5 years	9	9
More than 5 years	6	7
Total commitments under operational leases	**19**	**20**

Principal group companies

Unless otherwise stated, BPD wholly owns the group companies

BPD's principal group companies are listed below:

BPD Ontwikkeling B.V., Amsterdam, the Netherlands
BPD Marignan S.A.S., Paris, France (sold in November 2018)
BPD Immobilienentwicklung GmbH, Frankfurt am Main, Germany

A complete list of all group companies as prescribed in Sections 379 and 414, Part 9 of Book 2 of the Dutch Civil Code has been filed with the Chamber of Commerce.

Pursuant to Section 403, Part 9 of Book 2 of the Dutch Civil Code, a significant number of BPD's Dutch group companies are exempt from filing their financial statements with the Chamber of Commerce. General guarantees have been issued for these group companies.

Amsterdam, the Netherlands, 1 May 2019
BPD Europe B.V.

Original signed by:
Ir. W.P. de Boer, CEO
Drs. J.C. Kreikamp, CFRO
Mr. G. Voorhorst, Director of Legal & Compliance

Independent auditor's report

To: the general meeting of BPD Europe B.V.

Report on the financial statements 2018

Our opinion

In our opinion:

- BPD Europe B.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- BPD Europe B.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of BPD Europe B.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of BPD Europe B.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated statement of profit and loss and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the separate balance sheet as at 31 December 2018;
- the separate statement of profit and loss account for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of BPD Europe B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the Annual Report contains other sections consisting of:

- message from the CEO;
- BPD Europe in 2018;
- market developments in 2018 and outlook for 2019;
- internal developments;
- risk management;
- outlook; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The managing board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Managing Board

The Managing Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the managing board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing board should prepare the financial statements using the going-concern basis of accounting unless the managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, the Netherlands, 1 May 2019
PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by:
S. Herwig MSc LLM RA MRE MRICS

Appendix to our independent auditor's report on the financial statements 2018 of BPD Europe B.V.

Supplementary to our independent auditor's report, this appendix addresses in greater detail our responsibilities for the audit of the financial statements and explains what an audit entails.

Auditor's responsibility for auditing the financial statements.

We have exercised professional judgement and have maintained professional scepticism throughout this audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objective is to obtain reasonable assurance that the financial statements are free from material misstatement, whether due to error or fraud. Our audit included:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that a material misstatement is not detected is greater in the event of fraud than in the event of error. Fraud may involve collusion, forgery of documents, deliberate decisions not to record transactions, deliberate misrepresentation or internal control breaches.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Managing Board.
- Drawing conclusions on the appropriateness of the Managing Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that there is any uncertainty of material importance, we are obliged to draw attention to the relevant related notes in the financial statements in our auditor's report. If the notes are inadequate, we must adjust our report. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities to guarantee that we perform sufficient procedures to facilitate an opinion on the financial statements as a whole. Decisive in this process were the geographical structure of the group, the size and/or the risk profile of the group entities or the operations, the business processes and internal controls and the industry in which the company operates. On this basis, we selected group entities for which an audit or review had to be carried out on the financial information or specific items.

We communicate with the Managing Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses in internal controls that we identify during our audit.

Provisions in the Articles of Association governing profit appropriation

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

Article 7.3 Profit or loss

The General Meeting of Shareholders is authorised to appropriate the profit as disclosed in the financial statements and to decide on the payment of any dividends, in so far as the equity exceeds the reserves that must be maintained by law. In calculating the amount to be distributed on each share, allowance will be made only for the amount of the mandatory payments on the nominal value of the shares.

The General Meeting may resolve to depart from the provisions of the first sentence of this paragraph.
A resolution to distribute the profit will have no effect until approved by the Managing Board.

The Managing Board will withhold its approval only if it knows or should reasonably foresee that such distribution will prevent the company from continuing to pay its debts.

Colophon

Published by

BPD Europe B.V.

Publication

This is the Annual Report of BPD Europe B.V.
This report is available in electronic format only and can be downloaded from www.bpd.nl and www.bpdeurope.com

Production

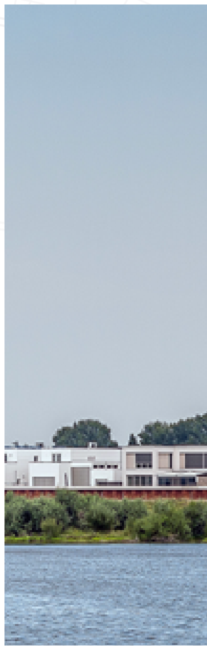
BPD Europe, Volta_thinks_visual, Utrecht

Disclosure

After they have been adopted, the financial statements 2018, the Management Discussion and Analysis and the other information are filed with the Trade Registry of the Chamber of Commerce under number 08024283.

In case of any discrepancies, the Dutch version of the Annual Report 2018 prevails.


De Zuivelfabriek, Eindhoven

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