APG Group NV

2017 Annual Report

tomorrow is today

Table of contents

Key figures

(amounts in millions of euros)

	2017	2016
Key figures for our clients		
Total assets under management	470,476	440,005
Range of return on investments for our clients (excluding interest rate hedge)	5.6% - 7.9%	8.2% - 9.6%
Total number of participants in our pension administration	4,527,435	4,455,522
• Number of which are active participants	1,506,452	1,482,751
• Number of which are retired employees	1,228,286	1,204,191
• Number of which are inactive participants (former participants of a fund who no longer pay any contribution but who nonetheless retain pension entitlement)	1,792,697	1,768,580
Key figures of APG Group		
Group equity	1,187	1,230
Balance sheet total	4,571	4,791
Personnel (at year end, in FTEs)	3,071	3,071
Solvency ratio of APG Group (Solvency II)*	190%	199%
Available capital of APG Asset Management **	177	175
Investments of Loyalis	3,146	3,156
Liabilities of Loyalis	2,918	3,000
Solvency ratio of life insurer Loyalis Leven (Solvency II) ***	175%	166%
Solvency ratio of non-life insurer Loyalis Schade (Solvency II) ***	180%	170%

Excess return on liquid asset classes in which APG invests its clients' assets is between −130 and +211 basis points.

Fund implementation costs per participant decreased between 2% and 14%.

	2017	2016
Turnover of APG Group		
Income from operations	684	674
Insurance income from supplementary products	254	254
Investing income from supplementary products	79	179
Other income	35	37
	1,052	1,144
Operating expenses of APG Group		
Operational charges	674	644
Cost of benefits paid via supplementary products	261	251
Change in insurance liabilities of supplementary products	-89	57
	846	952
Operating result of APG Group	206	192
Net result of APG Group	47	65

* *Solvency ratio of APG Group (Solvency II): As of January 1, 2016, APG Group falls under Solvency II supervision as a mixed financing holding. APG Group uses the standard model to calculate the capital requirement, consistent with APG's status as a mixed financing holding. The solvency ratio for APG Group at year end 2017 was 190% (2016: 199%) and as at the end of the reporting year satisfies the (standard) norm of 100%. Excluding the proposed dividend, the Solvency II ratio at year end 2017 was 223% (2016: 221%). Official reporting to De Nederlandsche Bank on Solvency II group accountability and accompanying notes will take place no later than June 17, 2018, in accordance with the statutory regulations. The 2017 ratio presented was based on the information currently available.*

** *Available capital of APG Asset Management: is the capital available by law calculated based on the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) which apply to APG Asset Management's asset management activities.*

*** *Solvency ratio of Loyalis Leven and Loyalis Schade (Solvency II): At year-end 2017, the solvency ratios (available capital versus capital requirement) under Solvency II were 180% for the non-life insurance business (2016: 170%) and 175% for the life insurance business (2016: 166%), both above the internal norms of the Loyalis insurance business of 150% (2016: 150%). Official reporting on the insurance business' solo entities to De Nederlandsche Bank on the Solvency II accountability and accompanying notes will take place no later than May 6, 2018, in accordance with the statutory regulations. The 2017 ratio presented was based on the information currently available.*

From the Executive Board

Improved services through flexibility and cohesive working

We are pleased to present APG Group's 2017 Annual Report, in which we tell the story of our activities in the past year to our shareholders, our pension fund clients, their member employers and participants, and to APG's employees. Our annual report is also intended for other interested parties.

Our annual report sets out how we ensure that our pension fund clients and their more than 4.5 million participants can have confidence that their accrued pension rights are properly invested, administered, and paid out. It also explains how we apply technological developments in the services we provide, how we prioritize transparency in our work, and how we, together with our clients, respond to participants' personal wishes in the best and most appropriate way possible. The participants who take part in the schemes of our pension fund clients are front and center in all we do and in the new types of service we develop.

The more individual and personalized participants' wishes become, the more we at APG need to work cohesively. In other words: we match one individual participant with one APG. To do this we need employees who are flexible, who grow continuously, and adapt to the developments in their field.

The developments in the market and in society have implications for our organization. Since APG must also continuously grow and adapt, these developments resulted in us formulating an APG-wide mission and ambition with a substantial portion of our workforce in 2016. This mission and ambition gives meaning, direction, and energy. Our mission is: Building your sustainable future together. Our ambition is for pension funds and participants to choose APG as the natural choice when it comes to having control over participants' financial future.

After presenting our mission in early 2017, we elaborated it into a group-wide strategy over the course of the year. Our ambition to become that natural choice for control over participants' financial future means we need to evolve into a fully trusted guide in the pension landscape. This guiding role is our goal with our new strategy. We embarked on an ambitious route in 2017, and our organization is in full development and growth. This annual report explains our culture of continuous development, our mission, and how we took the first steps toward realizing our ambition in 2017.

These included the launch, together with our pension fund clients, of several initiatives targeted at participants, such as the development of the Personal Pension Pot with ABP and the Clear Overview & Insight online module with SPW. Steps were also taken toward preparing APG's business operations to realize its strategy, such as the implementation of the new fiduciary model at Asset Management and the implementation of a new system for our asset management administration. These results are explained further in later sections of this report.

For now we can conclude that in 2017 we achieved an impressive result for the participants of the pension funds for whom we work. The implementation costs per fund participant decreased by between 2% and 14%, for example, and we achieved good returns with asset management. We invest approximately € 470 billion on behalf of our pension fund clients. The returns for our clients, excluding interest rate hedge (change in value due to interest rate changes), ranged from 5.6% to 7.9% in 2017. The returns for the previous five years, excluding interest rate hedge, ranged from 6.5% to 7.4% as of December 31, 2017.

We maximize pension value

APG Group is the largest pension provider in the Netherlands. As a financial services provider, we offer executive consultancy, asset management, pension administration, pension communication, employer services, and supplementary income solutions. Our knowledge of capital management and our intense client orientation enable us to create value for the participants of the pension funds that are our clients. We do this with approximately 3,000 people working via the APG, Loyalis, and Inadmin brands.

APG performs its activities on behalf of the pension funds ABP, bpfBOUW, SPW, Pensioenfondsen Schoonmaak- en Glazenwassersbedrijf (pension funds for the cleaning and glass cleaning industries), PWRI, SPMS, PPF APG and Pensioenfonds Architectenbureaus (pension fund for architectural firms), the latter from 2018, and employers in these sectors. APG services approximately 25,000 employers, administering pensions for one in four people in the Netherlands (about 4.5 million participants). As of December 31, 2017, APG manages approximately € 470 billion in pension assets for some of the pension fund clients.

Insurer Loyalis offers supplementary income solutions for individuals. Inadmin administers defined contribution schemes for premium pension institutions (PPIs), company pension funds, asset managers, and insurers.

APG has offices in Heerlen, Amsterdam, Brussels, New York, and Hong Kong.

As APG is a socially-oriented organization that does not pursue profit maximization, the costs for our clients, and ultimately the participants, can be reduced to a minimum. To safeguard the continuity of our services it is essential that we remain financially sound. Accordingly, APG complies with the (minimum) capital requirements set by regulators, such as DNB and AFM, as well as other relevant legislation and regulations. A certain return is essential to guarantee our continuity and ability to implement strategic changes. At the same time, APG's objective and ambition are to ensure that the organization is guided and managed on the basis of a social return. This social return was determined by surveying the returns of a group of socially-oriented organizations, including Tennet, Schiphol Group, NS, and Eneco.

APG's performance in 2017 was in line with our expectations. APG's turnover for 2017 was € 1,052 million, compared to € 1,144 million in 2016. The € 92 million decrease in turnover compared to 2016 was mainly attributable to the lower investment yields by € 100 million at insurer Loyalis. In 2017, the rising market interest rate by 20–25 basis points resulted in substantially lower investment yields compared to 2016, when there was a decreasing market interest rate (of approximately 30–35 basis points). The turnover from asset management was € 20 million higher than in 2016, as a result of the increased total assets under management. The price reductions implemented for the benefit of our participants caused the turnover from pension administration to decrease in 2017 by € 10 million.

The total operating expenses were € 1,001 million for 2017 (2016: € 1,030 million), € 674 million of which was accounted for by operational charges (2016: € 644 million). The rise in operational charges by € 30 million was caused in particular by higher costs associated with the implementation of the strategy to make APG more flexible, expenditure on major projects such as replacing the system for asset management administration, the implementation of the fiduciary model, and expenditure in connection with ongoing automation. The costs of benefits paid out for 2017 were € 261 million, an increase of € 10 million compared to 2016, due to the expiry of the life-course savings scheme portfolio. There was an additional one-off expense of € 74 million as a result of the write-off of goodwill and client contracts in connection with the continuing pressure on prices in the pension administration market. This was in contrast to the release from the provision for insurance liabilities as a result of the development in the interest rate referred to above. The release for 2017 amounted to € 89 million, compared to the allocation (addition) of € 57 million in 2016.

The above developments in turnover and expenses resulted in an increase in APG's operating result for 2017 by € 14 million to € 206 million (€ 192 million in 2016).

The net result for 2017 was € 47 million (€ 65 million in 2016). Although the business units performed in line with expectations, the above data shows APG's sensitivity to the development of the interest rate and the associated investment results, and change in the provision for insurance liabilities of the insurance business. Additionally, the net result for 2017 was significantly, negatively impacted by the write-off of goodwill and client contracts and a positive correction to the corporate income tax for previous years of € 15 million.

To summarize, the Executive Board believes that, thanks to the efforts and commitment of our people, a satisfactory result was achieved in 2017 both in terms of the formulation and rollout of our strategy, and the operational and financial results that were achieved.

We hope you enjoy reading this annual report, and look forward to receiving any comments or suggestions you may have. These can be mailed to communicatie@apg.nl.

Trends

The past year saw elections in the Netherlands, France, and Germany, the inauguration of President Trump in the United States, and continuing Brexit negotiations.

The real threat of global conflicts increased in 2017, although this evidently had little impact on the financial markets. Persistently low interest rates and the liberal monetary policy pursued by the European Central Bank ensured substantial stability on the financial markets. In addition, good profit growth figures from companies pushed up share prices around the world. These growth figures were largely the result of global economic growth. The high returns on the so-called emerging markets stood out in particular. These markets were additionally helped by the relatively weak dollar, which improved their export position.

Pension funds ended 2017 with higher coverage ratios. That is good news for participants. At the time of writing this annual report, the likelihood that pensions would be reduced had receded. Nonetheless, participants must keep in mind that their pensions will not, or will barely, keep pace with inflation.

The current pension system will remain under great pressure in the medium to long term. The new government is also aware of this, and has ambitious plans for the Dutch pension system. It is exploring the possibilities for a more personal pension, combined with collective risk sharing. It is also examining opportunities for increasing freedom of choice. Specifically, the government, together with employers' and employees' organizations, is examining the possibility of drawing a lump sum on retirement as well as the possibility of merging capital accumulation for retirement and home ownership.

What do our pension fund clients and their participants want?

Above all, the participants of our pension fund clients want to know where they stand. They mainly seek control over their financial future, among other methods, through greater insight into the status of their pension accrual and their own scope for action in that regard.

The services that APG provides to pension fund clients are geared to address these needs. To ensure we continuously improve our services, we need to

become even more flexible and work together even better. Technological developments help us to better inform participants about their own pension accrual. An example is the ability for people to track their pension on their smartphone. We also are preparing to provide excellent service to the funds and participants in this changing environment. In anticipation of a government decision on the future of the pension system, we will continue to employ scenarios which give insight into what the future may bring. We develop these future scenarios in close consultation with our shareholders and pension fund clients. In 2017, we also used these scenarios to develop APG's strategy.

Future scenarios

Scenario analysis involves mapping out a range of different possible visions for the future. A scenario must be challenging, plausible, relevant, and consistent. APG envisages the following potential future possibilities:

A. **Basic scenario** –the current pension system remains unchanged. Limited changes may take place in the pension contract and participants' expectations (evolution not revolution).
B. **Life cycle planning 3.0** – significantly increased life expectancy and low returns lead to a redefinition of life cycle planning.
C. **The fourth industrial revolution** – the rise of robotics results in unprecedented technological possibilities, but also leads to high unemployment and divisions in society.
D. **The fight for the individual** – the need for extensive freedom of choice and the unification of Europe lead to a wholly individualized pension system.
E. **Side-by-side for one's own country** – populism is rampant, leading to protectionism and a significant role for the national government, which protects the current system.

Scenario analysis is explicitly not about predicting the future. As it is difficult (if not impossible) to correctly predict the future, it is better to map out several different visions. These help us to place political, economic and social developments in a framework so we can prepare pension funds and participants for the unexpected.

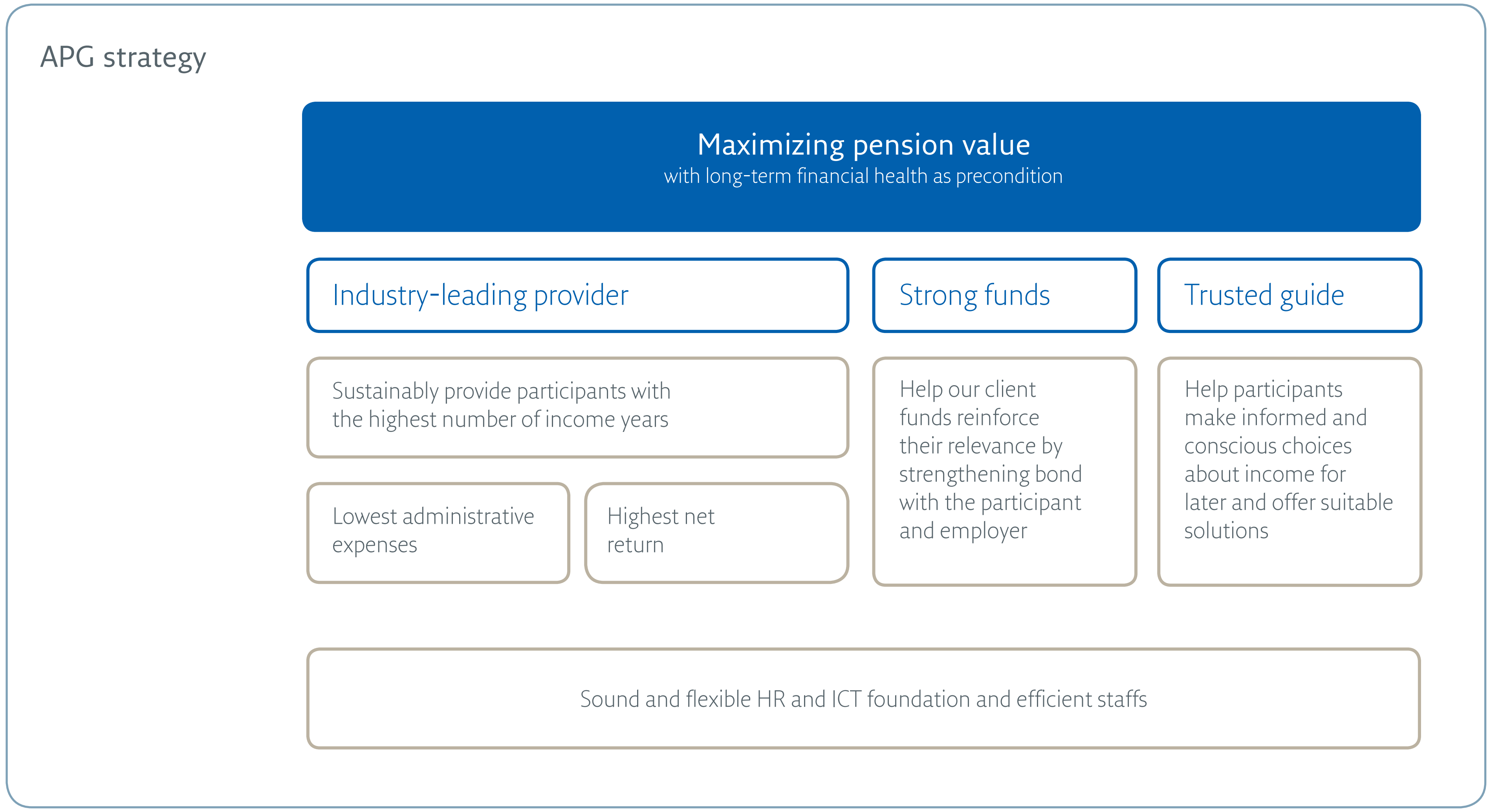
Preparing for the future also applies to APG's own organization. This is why we redefined our mission and ambition in 2016. Mission and ambition give meaning, direction, and energy to our organization.

Our mission

APG plays a leading role in the pension sector. The recalibrated mission which we presented in 2017 is: Building your sustainable future together. Based on collectivism and solidarity, we jointly build a sustainable future for pension funds, participants, employers, our own employees, and society as a whole.

Our aim in this is for APG to be seen as the natural choice for gaining control of your financial future. That is our ambition for 2025. We aim to be the provider that pension funds, employers, and participants naturally turn to for matters concerning income for later. APG is the largest pension provider in the Netherlands and we want to be known for our intense client orientation, leading investment practices, smart simplicity, and innovative strength.

APG's mission also provides guidelines for behavior based on our core values: We connect, we reach out to and engage with our clients, we simplify difficult things, we continuously improve, we are there for each other, and we do not waste.



Our strategy

Our mission and in particular our ambition are the basis for APG's strategy for the coming years. APG developed and elaborated this strategy in 2017. What are our objectives and how do we intend to achieve them?

To realize our ambition we need a financially sound and flexible organization, which can provide improved income for later in a sustainable manner. But that is not all. To continuously improve our services we need to improve the way we work together. Then we can make the funds for whom we work stronger. And we can provide participants with even better insight and overviews on matters relating to their income for the later years.

We have framed this as 'maximizing pension value.' APG continues to work toward providing high-quality services with low administrative expenses for our clients' participants, achieving a high net return on investments, strengthening the funds with superior client satisfaction, and positioning APG in advance as a trusted guide. It is important to note that our strategy focuses on creating long-term value expressed not just in monetary terms, but also in terms of social commitment and social responsibility. Further information on APG's corporate social responsibility can be found on page 20.

The internal side of maximizing pension value concerns our corporate culture, with standards and values on how we conduct ourselves. This is framed in APG's aforementioned core values: we connect, we reach out to and engage with our clients, we simplify difficult things, we continuously improve, we are there for each other, and we do not waste.

Change program: The Making of APG

In 2017, we launched our change program. Under that program we experienced the mission, we developed our strategy, we began implementing that strategy, and we took steps to change our corporate culture. Our change program is entitled *The Making of APG*. This name was chosen to reflect the fact that change has become a constant. APG is therefore is a continuous work in progress, just as the world and the circumstances in which APG operates are also continuously changing.

Our people are the engine driving the change. And to keep that engine running, every employee works continuously on their personal development. In this way APG improves the quality of its services and promotes the sustainable employability of its workforce. That program is called *The Making of You*. The Making of You is one of the results of the constructive Collective Labor Agreement (CLA) negotiations that were conducted and finalized in 2017. It focuses on the sustainable employability of APG's workforce and enjoys the full support of APG's Works Council and the labor unions. Further information on The Making of You can be found on page 12.

The new strategy worked in three ways for pension funds and participants

In this annual report we highlight several results APG achieved in 2017 based on our new strategy. The results are presented under the following headings:

- *Industry-leading provider*
  We provide participants with improved income for later years in a sustainable manner.
- *Strong funds*
  We provide participants and employers with a superior client experience, ensuring they have a high appreciation for their fund.
- *Trusted guide*
  We actively stimulate participants to think about their pension and to make informed, conscious choices for a pension that fits their personal needs and preferences.

Industry-leading provider

APG aims to become the cheapest and most efficient pension provider among the big three pension administration organizations in the Netherlands. Consequently, as in previous years, the focus in 2017 was on lowering costs while retaining high-quality services.

A key indicator for measuring the costs of pension administration is the costs per participant. These costs depend on a variety of factors: the scale of the fund, the number of participant-related changes, the complexity of the pension scheme, the level of service a fund provides to its participants and the efficiency of administration in particular significantly affect the cost per participant. The pension fund type (industry-wide, company, or occupational pension fund) and the possible existence of a turnover tax liability additionally influence the costs of pension administration. Falling numbers of participants and rising costs as a result of amendments to legislation and regulations are also significant factors for several funds. This effect is substantial among smaller funds in particular, as they have none of the benefits of economies of scale. During 2017, the implementation costs per participant for our funds decreased by between 2% and 14%.

The multitude of factors at play complicates efforts to compare pension administration costs. Additionally, pension funds and administrative organizations can exert only partial influence over their pension administration costs. Participation in an external benchmark, such as the CEM Benchmark, can help in judging how a pension fund or pension administration organization is performing in relation to a group of comparable funds, known as a peer group.

According to the CEM Benchmark, in terms of quality APG's clients perform better on average than comparable funds. As regards cost level, they rate close to the average for the peer group as a whole. Our ambition is to maximize pension value for the participants. We also aim to become the cheapest and most efficient pension provider among the big three pension administration organizations in the Netherlands. It is our policy to achieve this by structuring our administration as efficiently as possible through our core qualities of smart simplicity and innovative strength and also, for example, by advising pension fund board members on how to reduce the complexity of their pension scheme. It goes without saying that we also examine whether participants are getting value for money, and therefore what opportunities there are to improve the standard of service to them, through innovations such as the Personal Pension Pot or Clear Overview & Insight.

Saving costs is an essential criterion for providing pension participants with improved income for later years. The other side of the coin is APG's commitment to maximizing its net return through leading investment practices, one of APG's core qualities.

Leading investment practices means the highest responsible net return combined with appropriate risks and attention to responsible investing. Through this we aim to achieve the highest net return for participants while ensuring pension funds remain strong and future-proof.

Both tables below show the returns in APG's asset classes. As no account is taken of additional client-specific products, currency hedging or interest rate risk hedging by clients, the return for individual clients differs from the returns in these tables. Similarly, at € 470 billion, the total assets invested by APG on behalf of clients is higher than is shown in these tables. As these tables were compiled from the APG pool perspective, have no direct relationship with the CEM Benchmark survey, which is drawn up from the perspective of pension funds,.

As an investor of pension assets, APG's goal is to maximize the long-term return for its clients, while also achieving a higher return than the market. This is most clearly shown in the table in the five-year excess return. In all the predominantly liquid asset classes, we outperformed the market during the past five years. Additionally, the return on the predominantly illiquid asset classes has been consistently positive and higher than targeted since inception. These results confirm the effectiveness of our investment proposition.

The returns shown in the above table are after deduction of external costs and expenses. Please note that the returns of APG Hedge Funds, APG Commodities, and APG Absolute Return Strategies are not shown in euros but in US dollars.

The short-term and long-term investment results for the predominantly liquid asset classes in which APG invests its clients' assets are shown in the above table. The table shows the return (left column) and the excess return achieved, after deduction of external management costs (right column), for different periods (2017, the last three years, and the last five years, respectively). The return is expressed in the annual rate of return. The excess return shows the positive or negative return achieved by APG relative to the market and is expressed in basis points per year. The market return is based on the returns of other relevant parties, referred to as benchmarks.

Return asset classes APG

			2017		3-years		5-years	
	Pool currency	Net Asset Value (millions of euros)	Return (procent)	Excess return (basis points)	Return (procent)	Excess return (basis points)	Return (procent)	Excess return (basis points)
Fixed-income securities								
APG Fixed Icome Credits	EUR	63,799	-2.7	91	3.4	84	4.8	81
APG Euro plus treasuries	EUR	17,473	0.4	13	1.4	-7	3.9	3
APG Index Linked Bond	EUR	33,472	1.5	18	2.2	3	1.6	4
APG Long Duration Treasury	EUR	18,284	1.2	8	3.9	88	-	-
APG Emerging Market Debt	EUR	14,264	-0.9	2	5.7	52	-	-
APG Alternative Inflation	EUR	2,080	1.7	61	2.3	66	2.3	81
Equities								
APG Developed Markets Equity	EUR	115,099	9.2	105	10.5	73	14.4	102
APG Emerging Markets Equity	EUR	43,110	23.1	211	10.6	113	7.4	105
APG Equity Minimum Volatility	EUR	15,277	4.0	-130	9.9	-78	13.7	1
Alternative investments								
APG Strategic Real Estate	EUR	30,093	3.0	-	9.8	114	11.3	194
APG Hedge Funds	USD	17,926	5.6	96	4.1	4	4.5	124
APG Commodities	USD	19,663	7.4	136	-5.0	229	-11.3	72
APG Tactical Real Estate	EUR	9,052	3.8	56	7.7	57	11.1	60
APG Absolute Return Strat.	USD	2,270	5.2	62	3.7	-37	1.8	81

The following table shows the investment results on the predominantly illiquid investments. These are investments of a different type than the liquid investments with other, more appropriate, performance criteria.

Investment results illiquid investments

Illiquid investments	Pool currency	Net Asset Value (millions of euros	SI-IRR
APG Private Equity pools	EUR	16,544	19.1
APG Infrastructure pools	EUR	7,219	12.2
APG Opportunity pool	EUR	396	8.0

The internal rate of return since inception (IRR SI) is the annual return since the investments were first made. APG adheres to long-term targets of 7% to 10% in this regard, depending on the type of investment and the inception date.

APG aims to achieve the maximum excess return for the funds' participants while simultaneously seeking to further reduce the costs of asset management for our clients, where possible. As previously noted, the annual CEM Benchmark survey is a key indicator enabling APG to determine how successful we are for our clients. In this survey, the costs per asset class are compared with the excess return achieved relative to peer groups. In other words, the return achieved above the market return. This indicator is used to measure cost effectiveness. It is quite possible that a fund has higher costs than the peer groups due to an active investment style, for example, but that the excess return for the participants far outweighs these extra costs. The figures show that all APG's asset management clients achieved a positive excess return (after deduction of costs and expenses) in 2016 (data for 2017 is not yet available). For clients with a longer benchmark history, this also applies on a five-year basis.

If the costs are viewed more in isolation, it is evident that the costs adjusted for the investment style are lower than the benchmark costs (between 4.1 and 19.9 basis points lower).

Investing more in the real economy

2017 was largely dominated by measures to tie in our investment strategy with APG's overarching strategy. Our investment strategy focuses on three central themes: sustainability, invest-tech, and entrepreneurial and direct investment. In the area of sustainability, we aim to reinforce our leadership position on inclusion policy implementation. Climate change is also an important core theme. In the invest-tech arena, we intend to continue to lead where technology and data applications fit with our long-term, sustainable investor profile. Greater entrepreneurial investment encompasses themes such as investing more, as well as more directly, in the real economy (in the Netherlands, among other countries), more focused investments, and a high degree of active ownership in terms of business strategies as well as in terms of the social performance of companies and organizations.

To enable effective implementation of the investment strategy, APG maintains relations with other large, leading, like-minded parties in the international institutional market. Proactive development of an international network and nurturing relationships contribute to improving APG's efficiency and effectiveness as an asset manager, and as an organization. They also help us to realize our strategic ambitions and objectives.

The launch of an investment partnership in China is a good example of cooperation with other parties. Instead of engaging external managers, we instead opted for a local partnership with E-fund, one of the largest investment firms in China. APG will leverage this strategic partnership to invest sustainably in this growth market. We expect this to enable us to achieve higher returns in the long run for the participants of our pension fund clients.

APG actively explores investment opportunities in the Netherlands, preferably through public–private partnerships. We base our investment decisions on return, risk, cost, and sustainability. This is our four-digit PIN code. APG hopes that the government also will promote the development of opportunities in this field.

As an example of what can be done, APG and ABP have jointly set up the Investing in the Netherlands Steering Group to encourage, coordinate and facilitate investing in the Netherlands. This steering group has already enabled the launch of multiple new initiatives. Just two examples of these are the Schools of Tomorrow project, which encourages investing in sustainably constructed new school buildings, and the development of sustainable, geothermal energy and hydrogen power initiatives into investment propositions. The latter is done in partnership with pension fund PFZW and pension administration organization PGGM. Investing in the Netherlands, solely based on a feeling of national pride, cannot be justified toward the participants of our pension fund clients. At the end of 2017, the value of investments in the real economy of the Netherlands was roughly € 19 billion.

Strong funds

Smart simplicity

In 2017, APG also focused considerable energy and attention on smart simplicity, which is our way of trying to simplify complex matters, such as pension schemes. This also ensures faster, easier insight into, and an overview of, their pension for pension funds and participants.

Simplifying pension schemes is a careful process. APG works on this in close cooperation with the pension fund clients, employer and employee organizations. Of course, we are always mindful of the importance of a proactive approach. If we think that the bounds of feasibility of a pension scheme have been reached because of complexity and future regulations, we let the pension fund clients, and employer and employee organizations know well ahead of time.This gives the funds the opportunity to simplify the scheme.

In 2017, in consultation with employer and employee organizations and ABP, work was undertaken to convert the final pay scheme for military personnel into an average pay scheme. Converting the complex final pay scheme ensures that the pension scheme is also easier to understand for the participants. In addition, it will be easier, and therefore cheaper, for us as the pension provider to administer the scheme. That makes it better for the fund and its participants.

We also modified our systems to make it easier for us to meet the specific wishes of our clients. The trend toward increasing digitization of pension administration also continues to gather pace. Digitization is an essential condition for the on-time provision of the Uniform Pension Statement (UPS), with more than 60% of participants receiving their UPS in digital format.

By adding new functionalities, we are able to increase the ease of use for participants. The Personal Pension Pot is a good example of this. The Personal Pension Pot is an initiative of ABP and APG, which enables participants to track their individual pension accrual. In this way we are continuously enhancing the relevance of pensions and offering the participants an experience on behalf of the funds, which increases appreciation for the fund and APG.

Technology

Technology and systems are the major enablers of our commitment to listen better to our clients and use their comments and feedback to improve our services. APG invested heavily in both in 2017.

The IT environment for several funds, for example, was updated and linked directly to the pension funds' 'My' environments in 2017. This allows changes made by participants in the 'My' environments to be directly processed in APG's systems. We also updated our telephone switchboard to improve the quality and efficiency of our services. The experiment 'Next Best Question' (that is, anticipating the next question a participant might ask), which we implemented, proved a useful tool in this regard.

A new knowledge management system, based on significant life-course moments, such as marriage or change of job, was introduced in the client contact center. This enables our client contact center staff to work with concise, client-specific information. That resulted in a better client experience the first time a participant asked a question (+15%), fewer repetitions, and increased client and employee satisfaction. We also launched experiments in which client contact center staff are given more scope and time to arrange matters for participants in one go. The initial results were positive and the effect on costs was neutral.

Way of working highlights customer orientation

Increasingly, the work we do at APG is less manual in nature. While this boosts speed, it also calls for adjustments to the way we work. In addition to training people, work is increasingly performed in multi-disciplinary teams that address a particular client issue and come up with solutions within a short period. This method of targeted working ensures we retain the robustness and quality of our pension administration operations while at the same time configuring a more dynamic client environment.

Measuring client orientation

APG is keen to ensure that participants are likely to recommend the company and uses the transactional and relational net promotor score (NPS) as a measurement of this. Measuring the NPS centers on the question "How likely are you to recommend APG to family, work colleagues or friends?" We measure this immediately after performing an action (transactional) and with the aid of surveys (relational). Our reference framework in this regard is increasingly focused on other service providers rather than other pension parties. Examples include webstores such as BOL.com, CoolBlue and Wehkamp, and airlines such as KLM. In

this way we raise the bar for the quality of our services. APG's ambition is to grow the transactional and relational NPS annually by 30% and to record a positive result within three years (end of 2020). A baseline measurement was carried out in 2017, resulting in a transactional NPS of −35 as of the end of 2017.

Trusted guide

Pension awareness is about insight into the accrual of a participant's income for later years. It also addresses the possibilities offered and examined by APG to provide insight into how that income is built up. For example: How can APG give the participants of our fund clients greater insight and overview? Do we actually invest in a sustainable manner?

Participants

One high-profile initiative in 2017 was a test of the Personal Pension Pot. This initiative is a co-creation of ABP and its participants with APG, and illustrates the cooperation and support that APG receives from clients for developing new products and services in the interest of participants. A survey carried out by the Neurensics research company found that it delivers increased relevance, insight and trust for participants. The test results underline the importance of simplicity in pension communications. The insights will be incorporated in the further development of the Personal Pension Pot, which will be made available to all ABP participants in 2018.

On February 1, 2018, APG launched a pilot aimed at providing participants of SPW with online insight into their future income and expenditure, to see whether they were properly balanced. The new Clear Overview & Insight module was added to MySPW and was developed by APG in cooperation with SPW. Clear Overview & Insight contributes to APG's 'strong funds' strategic pillar and fulfills the ambitions of both APG and SPW.

Employers

In addition to serving participants of the pension fund clients, APG also seeks to tailor the pension schemes that are provided to meet employers' wishes. The Mybww portals (the 'My' environment for participants of the schemes in excess of the statutory minimum and redundancy pay schemes) were made available last year. We also provided municipal authorities with advice and administrative services for offering the different options in a generation pact.[1]

Clients

Since last year, our pension fund clients have been able to access data that were previously only used internally by APG. This gives them insight into their investments whenever they want, enabling them to make important and well-informed decisions more quickly in their participants' interest.

Society

The Netherlands has one of the best pension systems in the world. Despite this, the average Dutch citizen looks on the system and the sector with distrust. This prompted APG and several other large pension funds and pension administration organizations to join forces to work together on restoring trust and confidence. This collaborative partnership was launched in late 2017 and will be developed further in 2018. Our aim is to initiate a broad movement within the sector, in preparation for jointly entering into dialogue with society.

Responsible investing

We also are increasing pension awareness in relation to capital accumulation. In 2016, we laid the foundation for tightening up our investment process with a new fiduciary model. This model introduces concrete independent allocation of roles among fiduciary management, portfolio management, and risk management. In the new fiduciary model we set out the considerations for each investment proposition we offer in a balanced and explicit manner, from the client perspective, the risk perspective, as well as the investment perspective.

Fiduciary management translates our clients' investment goals into concrete propositions in relation to asset diversification and associated investment mandates. The organizational structure has also been adapted accordingly. The new fiduciary model, which has been fully implemented in the meantime, makes

1. A generation pact is a customized set of agreements between an employer and its employees about variables such as wage, pension, and working hours. A generation pact aims to get more people into work, to enable people to remain in work for longer, and to retain a vibrant workforce.

an important contribution to client orientation and transparency, and gives pension fund clients a voice in the execution by APG of a responsible investment process.

APG successfully pursued the policy of responsible investing during the reporting year, as shown by the IPE award received for the best climate risk management, among other things. Together with pension administration organization PGGM, we also developed a methodology for translating 13 of the 17 UN goals into concrete investment opportunities, or sustainable development investments (SDIs). This special methodology will be developed further in the coming years.

Loyalis and Inadmin

Loyalis

Loyalis recalibrated its strategy in 2017, opting for work-related disability as a core activity. Loyalis focuses on keeping insured individuals fit, healthy, and in work, with the emphasis on avoiding sickness absence. Loyalis views insurance policies and provisions as a safety net. Against the market trend, Loyalis grew its work-related disability portfolio in 2017.

Cost-efficient working practices and more effective use of systems enabled Loyalis to market its products at competitive rates. Loyalis also decided not to develop any new life insurance products. Existing products, such as the surviving dependents' pension, will continue to be serviced and, where necessary, will be updated. This product had been available for many years and no longer met modern requirements. After modification, the product was successively relaunched to clients, with the number of product variants being reduced from twenty-eight to five. This is a good example of APG's core quality of smart simplicity, which prioritizes the participants' interest.

With 2,700 participants as at the end of 2017, the Loyalis ZZP Pensioen pension proposition, for self-employed persons who employ no personnel, will be further developed through APG's innovation organization the Groeifabriek (Growth Factory), with an emphasis on online communication and interaction with clients, among other things. Product development is undertaken in cooperation with investors and other external parties. The possibilities for a guarantee fund, for example, are being examined. Potential plans will be elaborated and translated into a proposition during the course of 2018.

Loyalis was voted best medium-sized insurer by the Dutch Association of Investors for Sustainable Development (VBDO) for its sustainable investing activities. This award is considered an important recognition by those insured with us, as they and Loyalis attach great value to the ethical and responsible use of their paid contributions. Loyalis enjoys a strong position in the sectors that are served by APG and intends to further reinforce and expand this position in the future. One of the main challenges for the coming years is improving client satisfaction, especially among employees/the insured, and increasing the scale of operations. Since the second half of 2017, and together with APG, Loyalis has been surveying which options yield the best opportunities for its targeted growth. This survey is very broad in scope.

Inadmin

Inadmin focuses on PPIs, company pension funds, asset managers, and insurers. To maximize the result of its services, it is important for Inadmin to have the scope to scale up its business process outsourcing (BPO) operation in the near future. Inadmin has also sought internationalization for some time. We are therefore looking for an organization where Inadmin's activities are viewed as a core activity. We are sure that the interests of clients and Inadmin's 150,000 participants will be far better served in this environment.

Vigorous efforts to maximize pension value

To enable APG's strategically desirable flexibility, we encourage innovation on all fronts. In addition to innovations in the pension sector, we also embrace new developments in the field of financial services and for us as an organization.

Cooperation

APG actively seeks cooperation with external parties, such as start-ups and companies in other sectors, in its pursuit of innovation. Together with energy company ENECO and pension administration organization PGGM we are seeking innovative solutions for climate change, for example.

The Brightland Smart Services Campus in Heerlen was established as a collaborative partnership with the Province of Limburg and Maastricht University. Since opening in September 2016, the Brightland Smart Services Campus has successively engaged with companies, knowledge institutes, and start-ups that focus on blockchain technology, artificial intelligence, and climate change. APG is part of this initiative, together with other companies including Accenture and Conclusion. In 2018, developments that benefit the ecosystem in particular are high on the agenda.

Our own Groeifabriek, APG's innovation organization, has its base on the campus, where it also meets up-and-coming young talent on behalf of APG. There are now 20 experiments, information on which can be found at www.groeifabriek.com. They vary from blockchain technology and artificial intelligence to research into making people fit and healthier so they can enjoy their retirement for longer. In this way APG significantly increased its innovative strength in the past year.

In addition to all these collaborative ventures, we also launched the APG Challenge Board in 2017. From 2018, this board will meet four times a year with high-profile people from selected sectors, including the financial sector (Edmond Hilhorst, Rene Frijters, Peter Verhaar, and Annemarie van Gaal). They challenge APG on participant orientation and serving consumers.

What did all this cooperation and inspiration yield in 2017?

Blockchain technology for pension administrations

In 2017, we launched a study, with PGGM, of the potential for applying blockchain technology for pension administrations. This resulted in a prototype in 2017, which used three pension scenarios to simulate a fictional pension fund with 10,000 participants. This study and prototype made clear that blockchain technology can serve as a basis for a shared pension infrastructure allowing pension administration to be delivered flexibly, transparently, and at low cost. Early 2018 sees the start of a joint experiment with PPF APG as a sample fund, which aims to show that blockchain technology is indeed the scalable pension infrastructure of the future.

Improved client contact enabled by artificial intelligence

Various experiments also were conducted around artificial intelligence focusing on its potential for improving the provision of information and support to participants. The goal is to facilitate better, quicker, and more effective communication. Examples of this include: working with chatbots, the Next Best Question (anticipating the next question a participant might ask), natural language processing (NLP), report analyses, and algorithmic emotion recognition.

Sustainable investing using artificial intelligence

APG puts artificial intelligence to work for sustainable investing. In 2018, Asset Management will deploy a team of specialists who joined us from Deloitte to give this further impetus. Last year, this team was at the center of our commitment to a project which involved building algorithms to aid sustainable investments. Additionally, by combining information for different target groups, it can be predicted with high reliability when contact will be made with the pension fund in relation to which topic. These insights will be used to proactively contact pension fund participants, but also to communicate more efficiently and effectively with the participants.

Kandoor.nl, the digital platform for all your financial questions

The Kandoor.nl start-up, which APG launched as an experiment in 2016, is becoming increasingly successful and more widely known. In the reporting year, Kandoor won the Positive Finance Award and reached the final of the Accenture Award as well as being included in the pension guideline of the Money Wise Platform. In 2017, the platform recorded 1 million visitors, more than 20,000 people were helped, and the pension chatbot went live. Kandoor's services have also been actively provided on several websites of pension fund clients (including ABP and bpfBOUW) since last year. Kandoor has also entered into a partnership with the Social Insurance Bank (Sociale Verzekeringsbank). It is a good example of something that started as an experiment and can now be applied within our regular business.

Not everything succeeds

Not all experiments succeed. For example, we closed five experiments, including the Social Awareness Monitor. Its purpose was to allow us to examine how we could monitor the sentiment around investments on social media. Learning ever faster is an important goal of APG. A decision to discontinue something is also part of innovation.

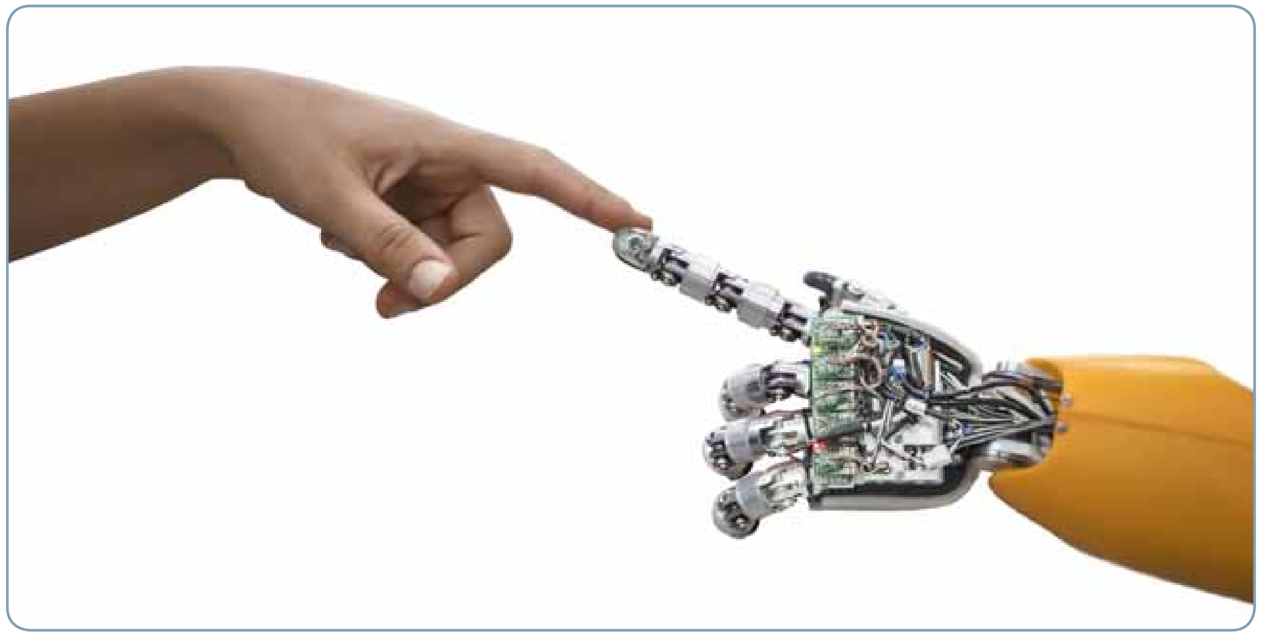
Employee development and remuneration

APG aims to be a good employer. Our core value 'we are there for each other' acts as our guiding principle in this regard. The better our personal development and cooperation, the better the quality of our services to pension funds and participants.

We focus on the long term in this respect, and therefore on the future prospects of our employees. Given the tremendous changes in the labor market, and in particular work in the financial services sector with many activities being automated, those future prospects extend beyond APG. The question is: how and where will you remain working until you retire? And what do you need to do to develop in that regard?

APG and the labor unions discussed these questions at length during the CLA negotiations in 2017. APG's Works Council also was closely involved in these discussions. The constructive CLA negotiations produced a new and updated social plan. One of the results of the negotiations is our commitment to invest in a sustainable employability program for our employees. Within The Making of APG change program, we have called this The Making of You.

By helping employees in their development, APG aims to offer every member of staff clear future prospects. That means building a sustainable future together.



With the help of the newly formed career center and training opportunities provided by HR and management, the first group of employees set out on their own The Making of You path in January 2018.

With this personal employee approach, APG underlines the importance of employees in the change process our company faces. APG recognizes that maximizing pension value for participants places heavy demands on our employees and managers.

How do we configure that at APG?

Strategic personnel planning

In light of the major change process which APG faces, it is important to have a clear and early view of future personnel planning and to compare it with the capacity currently available. This allows the necessary interventions to be assessed and executed. In the coming period we will critically examine the details of personnel planning and respond accordingly. Where external capacity is needed, we will make more conscious and informed choices. APG is thus able to offer its own employees fair chances and opportunities, under the principle: internal...unless.

Our diversity ambitions are also a factor taken into consideration when deciding to fill positions with internal employees in a contracting organization. That is not always easy. We therefore do not exclude the hiring of external staff. However, in the interest of The Making of You and the advancement of internal employees, the number of external staff (to cope with peaks in demand for services or to create flexibility, for example) will form an explicit part of planning, monitoring, and the actions taken in response to them.

Leadership development

APG has developed a leadership profile based on its mission and the change process it faces. The focus is on the (further) development of reflective, connecting, result-oriented managers who take the client as their starting point and are able to engage their staff in the process of change. APG expects its managers to actively commit to their personal development and to ensure that their staff can fulfill their own The Making of You commitment. To help them in this, every manager has undergone a development assessment and been given a development message. This is used to make their own plan for working on their development as a leader.

Our remuneration policy

APG and its subsidiaries are subject to various legislation and regulations relating to controlled remuneration. We mainly offer fixed remuneration, with variable remuneration also being available to a limited group of employees at Asset Management. APG also views the opportunities for employees to develop and the scope of that development as part of the total remuneration package. These development opportunities will be further embedded in our remuneration policy in the coming years. This complete benefits package allows us to continuously refine the message of what type of employer we aim to be and why someone would want to work for us.

Remuneration policy

APG adheres to the Dutch Corporate Governance Code in relation to controlled remuneration.

APG's Executive Board is primarily responsible for the remuneration policy. The Supervisory Board is charged with supervising the implementation of the remuneration policy. It is advised in this by the remuneration committee. The Executive Board and the remuneration committee are supported by decentralized review committees. In these committees, HR, Risk & Compliance, Finance and Legal actively work together on the design, oversight, and monitoring of the remuneration policy. The internal accountant is not represented on these committees and periodically conducts independent investigation into the design, introduction, and application of the remuneration policy.

The remuneration of the individual executive directors is set by the APG Group shareholders. This is an exception to the Corporate Governance Code. The Supervisory Board's remuneration committee submits a proposal to the General Meeting of Shareholders concerning this remuneration. In accordance with the Corporate Governance Code, when drafting this proposal the remuneration committee takes note of each individual executive director's views with regard to the amount and structure of their remuneration in light of APG's performance and the remuneration ratios within APG, among other things. This provision is laid down in the articles of incorporation of APG and is the result of agreements made in that regard in 2017 by the shareholders. This agreement is related to the fact that the mitigated structure regime applies to APG, as a result of which the General Meeting of Shareholders, not the Supervisory Board, has the power to appoint and dismiss the executive directors.

Design of remuneration policy

Our remuneration policy must be such that we are able to attract and retain expert and ethical employees, while at the same time being able to stimulate and facilitate them to continuously develop.

APG is a leading investor that operates globally and is also socially embedded and has social responsibilities in the Netherlands. Our remuneration policy is designed to carefully weigh APG's social position in its role as pension provider of a large share of Dutch society, versus APG's position as a professional asset management company in an international and competitive labor market. Based on this, we select the most appropriate remuneration policy for the different groups within APG.

Terms of employment

APG has a centralized remuneration policy which applies to all employees working in the APG Group. To attract, retain and motivate qualified employees, the total monetary remuneration of staff is related to the remuneration market relevant for the particular business unit and/or job category. A comparative market study is conducted into the remuneration at the various organizational units at APG, including the Executive Board, regularly (every two to three years). Findings from this study are used to critically review the remuneration package.

The remuneration for everyone at APG consists of a fixed salary, good pension provision, a supplementary insurance package, and extensive training and development opportunities.

Remuneration of the Executive Board

To ensure that the remuneration of the Executive Board is competitive and in line with the market, APG carefully reviews both internal and external remuneration ratios. When recruiting new Executive Board members, APG is guided first and foremost by the interest of APG. That is the need to attract an expert and experienced leader who, together with their work colleagues, will be able to steer APG through fundamental changes to the pension system in the coming period. All parties involved are aware that the remuneration of top executives has a private as well as a public aspect. This applies in particular to a company such as APG, where public support is important and it is essential to build trust in the sector.

The monetary remuneration of the members of the Executive Board consists of fixed income and pension. Our Executive Board members are not eligible for variable remuneration. The pension liabilities of the Executive Board members consist of participation in the pension scheme of the ABP pension fund or the Employee Pension Fund APG, and compensation in the amount of the employer contribution on the pensionable income above the capping limit. For the Executive Board members, this scheme is equal to that applicable to all other APG employees.

A carefully considered reference market was defined for determining the market level of the Executive Board's remuneration. The reference market is composed of comparable companies in terms of the nature of business and their relevant positions, resulting in a balanced mix of companies with a social function, commercial financial service providers, administrative organizations, and asset managers.

Since 2017, we have published the ratio between the total remuneration of the chairman of the Executive Board and average employee remuneration. We show this ratio for all the employees of APG, as well as solely for the employees working in the Netherlands. The 2016 data is also reported for the purposes of comparison. For 2017, these ratios are 5.4 (2016: 5.4) and 6.2 (2016: 6.1), respectively.

The same reference group is used for the purpose of determining the market conformity of the remuneration of the Supervisory Board. The Supervisory Board submits to the general meeting a clear and understandable proposal for its own remuneration which is appropriate and not dependent on results, which encourages sound performance of the duties and also reflects the time spent and responsibility of the role.

Variable remuneration

In the asset management sector, variable remuneration is used as part of the total remuneration as a way of attracting and retaining the right employees. Employees of APG Asset Management who work in positions which directly influence the investment results and employees of APG Asset Management's offices abroad may be eligible for variable remuneration. The amount of the variable remuneration is related to the position an employee occupies.

For the remuneration of employees in other countries, we seek a balance between what is acceptable in the Netherlands and what is customary and necessary to retain good employees for APG locally. That requires a larger proportion of variable remuneration and a total remuneration that is higher than in the Netherlands. This is influenced by, among other things, the fact that in these markets essential matters such as pension, unemployment benefit, and other elements of social security largely have to be arranged and paid for by employees themselves.

Performance review system

Performance criteria are determined in consultation between the manager and employee at the start of the year. The performance criteria consist of quantitative and qualitative goals along with individual and collective goals that contribute to the realization of annual plans and the long-term objectives of APG. Within APG, managers and employees, alongside mid-year monitoring and an end-of-year evaluation, are engaged in constant dialogue about employee development and the operating results. This results in greater flexibility and agility, enabling the right priorities to be set at any moment. The performances are reviewed and assessed at the end of the year. In accordance with the system described in the CLA, the performance review and the relative salary position may justify an adjustment of the fixed salary.

Cooperation with the Works Council

The change process which APG faces has significant impact on employees. This makes a strong and active Works Council essential to the achievement of a satisfactory result together. The relationship between the Works Council and the board members in 2017 was constructive and professional, with the board members successfully meeting the Works Council's expectations.

The Works Council was proactively engaged in the different transformation processes and was kept informed in a timely manner. For example, a meeting was organized specially for the Works Council to explain how our mission and ambition translate to our strategy. The Works Council chairman and secretary take part in the strategic consultations with the Executive Board members and executives. There also are regular sessions with the board members to informally discuss matters together, such as the change organization.

The Works Council plays an active role in relation to The Making of You. It is involved in drawing up the scenario document under the new social plan in case of future restructuring, for which two Works Council members sit on subcommittees. In this way the Works Council fulfills its role of timely involvement in the advisory process, and through its advice it can exert influence on the decisions to be taken. In addition, HR matters are on the agenda once a month. The Works Council also has a role in the in-depth corporate strategy sessions and it is able to make proposals.

The Works Council exercised its right of initiative in the past year. One example was the proposal it initiated to reduce the level of external hires in favor of APG's own employees. The board members were asked to come up with a proposal on an ideal shape of the temporary workforce (the "flexible layer"), and how APG can manage this. The Works Council promotes the importance of building and retaining knowledge with the company's own employees, instead of seeing them depart.

In 2017, there was regular consultation between the board members and the Works Council, and nineteen requests for advice were submitted. Of these, nine are still being processed, and one request resulted in negative advice being issued. Seven requests for consent also were issued, of which three are still being processed.

In the reporting year, twelve consultation meetings took place (monthly) between the board members and the Works Council and twelve agenda committee meetings were held between the board members and the executive committee of the Works Council. Three sessions were held, one with the board members and the full Works Council and two with the board members and the executive committee of the Works Council.

The executive committee of the Works Council consulted on a quarterly basis with the Supervisory Board members Edith Snoey and Roger van Boxtel. Among the topics discussed during these meetings were the future of the Dutch pension system, The Making of APG and its spin-off, and various significant organizational changes. Edith Snoey also took part in the annual Works Council training days. These regular and informal consultation meetings are valued on all sides.

In 2017, the Works Council welcomed several younger new members, which brings a new dimension. New members also joined APG's Executive Board. The Works Council issued positive advice regarding the various sitting and new executive directors, and found that the members of the Executive Board cooperate well with one another from the broader perspective of APG. With new Works Council elections due in 2018, the council's composition will also change in the coming year.

Corporate Social Responsibility

In light of the important role APG plays in society providing the pensions for 4.5 million people, we have enshrined corporate social responsibility (CSR) in our daily operations and standing policy. CSR has a clear link with APG's mission: building your sustainable future together. Two of the core values we have formulated – 'we are there for each other' and 'we do not waste' – also show the value we place on responsibility for people and the environment in all aspects of our business operations.

APG carries out a responsible investment policy on behalf of the pension funds that are its clients. In our role as asset manager on behalf of our clients, for example, we make companies accountable for aspects of sustainability and corporate governance. For a detailed description, see APG's Responsible Investing Annual Report at www.apg.nl/en/asset-management/our-beliefs.

We also want our business operations to contribute to a sustainable future. We see it as our duty to use our influence for the good of society. In addition to a responsibility to provide a good pension, we also feel a responsibility to contribute to a world in which the participant accrues and enjoys pension. Moreover, we are convinced that attention to people and the environment in our business operations makes a positive contribution to the functioning of our organization.

Last year, we defined our sustainability themes and, where possible, elaborated them: climate, care and concern for society and regional development, and sustainable employability. We defined these themes based on consultation with our stakeholders, including our clients. We discussed with the relevant business units how we can pursue these themes. In 2018, we will formulate concrete ambitions and determine how to track progress toward realizing them.

Climate

In 2017, we also implemented measures to minimize APG's ecological footprint. We did this through energy efficiency by only using green electricity and gas and by recycling our waste as much as possible. Our participation in the Mine Water Project is an example of an activity that contributes to energy savings.

Care and concern for society and regional development

In 2017, APG again supported several chairs at universities in order to ensure the ongoing development and transfer of pension knowledge in the Netherlands. In doing this, we make it possible for the debate on the current and future system to be based on thorough information. We encourage social commitment among employees through participation in initiatives such as

Project BizWorld, the Green Business Club Zuidas, and Food Bank collection campaigns. As one of the founders of the Brightlands Smart Services Campus established in 2016, we also make an important contribution to the economic development of the South Limburg region. We leverage this facility to provide students in prevocational secondary education (VMBO) with job interview training, for example.

An increasing number of our contracts with suppliers includes a CSR section, with particular emphasis on the environment, human rights, and integrity. We encourage suppliers to consider opportunities in their organization for people with an occupational disability. We also organized an internal meeting to highlight this issue within APG. This focused in particular on exploring what APG can do to comply with the Participation Act (what type of positions, what support, etc.). We also are in contact with specialized agencies, foundations, and other organizations regarding the possibilities for this target group within APG. Additionally, we intend to make the issue a standard part of our recruitment and selection process. Specific requirements concerning the environment and CSR are explicitly included as selection criteria when deciding on new products and suppliers.

Diversity policy

At the end of 2016, APG signed the Diversity Charter, which focuses on increasing diversity and inclusion in the workplace at businesses and organizations. APG followed this by further elaborating our own ambition regarding diversity in 2017. Our goal is for our workforce to better reflect the participant population of the pension funds for which we work. At the end of 2017, the male to female ratio at APG was 64% to 36%. APG rates lower than average in the financial sector and we are aware of the challenge we face in terms of diversity. To help meet this challenge, in 2017 we organized a series of activities to raise awareness about diversity and inclusion and actively engage with this issue. The issue is broader and is viewed as more than just male/female, focusing also on inclusion.

Within APG, the Supervisory Board is working toward adopting a diversity policy in 2018 for the composition of the Executive Board and the Supervisory Board. This means that, at this moment, APG does not yet fully comply with the relevant best practice provisions in the Corporate Governance Code. We are confident that we will be able to report on our diversity policy and its implementation next year.

Taking responsibility

For APG, it is a small step from CSR to taking responsibility. Transparency, regulation, an adequate legal structure, and responsible risk management are essential pillars for our organization.

In that context, we continue this 2017 annual report with a review of the following areas:

- risk management
- regulatory authorities
- corporate governance
- legal structure
- Executive Board
- Supervisory Board
- Shareholders

Risk management

APG uses an integral risk management framework to guarantee ethical and controlled business operations, and to support the management in managing and reporting on risks consciously and responsibly.

Risk management is an integral part of the business operations, and hence the business planning cycle. APG aims for effective and continuous risk management implementation which, in terms of our nature and scope, is consistent with the operating activities and risks, and results in a comprehensive overview of risks. The *In Control Statement* can be found on page 16.

APG is currently working on a tax control framework, a comprehensive fiscal quality system of internal control, and internal and external checks and controls that will ultimately enable tax risks to be identified and managed in a timely manner. It effectively involves demonstrably being in/gaining control of all processes and procedures in relation to which taxation plays a role. The ultimate goal is to ensure the prompt, accurate, and complete filing of tax returns. Transparency, understanding, and trust are important related concepts on which our cooperation with the Tax and Customs Administration is based, and which are intended to result in more effective and efficient tax processes leading to greater peace of mind and scope for business. The signing of the Horizontal Monitoring agreement simultaneously signals a new start and further step along the road to 'being and remaining in control' and the perfection of an even better cohesive tax control framework with continuing close involvement of the Tax and Customs Administration.

APG is a mixed financial holding and falls under the Solvency II regime. The main effects of this directive relate to the solvency requirements for the group, intragroup transactions and concentrations, specific requirements for key functions (risk, compliance, audit, and actuarial), risk management, the own risk solvency assessment (ORSA), and reporting on financial soundness. APG complied with all the related (reporting) requirements in 2017.

APG Integral Risk Management encompasses the risk appetite and strategy, the risk management organization, the risk framework, the risk management process, and the capital requirement.

Risk appetite and strategy

Risk appetite is the maximum negative impact that APG is prepared to accept in aiming for our strategic objectives. APG's risk appetite is determined by seven elements on which risks can have an impact: continuity, reputation, relationship, solvency, integrity, service provision, and customer satisfaction.

The Executive Board determines our overall risk appetite. On the business unit level, risk appetite is further elaborated in tolerance limits and frameworks for specific risks in accordance with APG Integral Risk Management. This is monitored throughout the year. Viewed over the year as a whole, APG's risk exposure remained within the risk appetite.

Risk management organization

The roles and responsibilities for managing and controlling risks are based on the generally accepted *Three Lines of Defense* model. This model is underpinned by adequate governance, in which the risk committees and the Audit and Risk Committee of the Supervisory Board ensure that integral responsibility for risk management is guaranteed.

Risk management process

The risk management process is focused on monitoring the risk profile and effectiveness of the risk management. This is a constant process that involves identifying, evaluating, managing, and monitoring risks. The risk management and compliance function plays a supporting and critically challenging role in this. Risks are evaluated in terms of the risk appetite and supplementary measures are implemented if necessary.

The ORSA is part of the integral risk management and describes APG's strategic risk profile. The five scenarios described on page 7 of this report are used in this process. Multiple future scenarios are drawn up and analyzed to provide insight into the positive or negative impact events have on APG and our entities, and the solvency position of APG and our entities.

Risk categories

APG distinguishes five risk categories, which are detailed below. The definitions of these categories can be found in the list of terms on page 60.

Strategic risks

The government is working on a new pension plan, which focuses on making the system more individualized.

The development of a new pension system is an important strategic risk for APG in relation to how future-proof our current business model is. APG's new strategy is aimed at preparing it for the changing future. Strong customer orientation, innovation, and digital developments play an important role in this. When setting up the control model, the balance between maintaining the quality and continuity of the current service provision on the one hand, and strategic renewal and innovation on the other, is explicitly taken into account.

Financial risks

The financial risks that are related to Loyalis' insurance activities are the most significant for APG. In order to control these risks, an extensive system has been set up based on Solvency II regulations and principles. More information on this is contained in the risk section on pages 28 to 30 of the financial statements.

Because of the separation of APG's assets from those of the pension funds, the financial risks associated with the investments for clients are not at APG's expense and risk.

Operational risks

The complexity of the pension schemes that APG administers for our clients and the impact of strategic innovation processes have a significant influence on the operational risk profile. Complexity increases the risk of errors in administration and puts additional pressure on implementation costs. Control of this risk improved in 2017. A decision-making process and governance were set up on the APG level in relation to the entire portfolio of change initiatives. The threat in relation to information security, including cybercrime, remains as high as ever. APG is constantly making investments to be properly prepared for these risks.

Compliance risks

Topics relating to integrity (such as conflict of interest, remuneration, corruption, and tax ethics) receive a great deal of publicity. Ever higher demands are being stipulated for sound governance, ethical conduct, and an ethical culture. This goes beyond mere compliance with legislation and regulations. APG continues to devote as much attention as ever to compliance and integrity.

The General Data Protection Regulation (abbreviated in Dutch as AVG) comes into force on May 25, 2018. The AVG will replace the European privacy directive and the corresponding national privacy legislation of all the EU countries which was derived from that directive. The AVG and the requirements contained in it have an impact on APG and our clients. APG has set up a program aimed at ensuring that its data processing operations and personal data protection measures satisfy the AVG guidelines in a timely fashion.

Reporting risks

APG's risk management and control systems give a reasonable degree of certainty that APG Group NV's annual report contains no material inaccuracies. The functioning of these systems is tested continuously throughout the year and, based on these results, the Executive Board declared that there were no material risks or uncertainties that are relevant for the expected continuity of APG Group. See also the 'In Control' statement on this page.

Capital requirement

APG aims to have adequate capital available to accommodate financial damage and losses arising from the identified risks. The extent to which the capital is sufficient is determined in part with reference to the regulatory requirements relevant and applicable for each entity.

The solvency capital requirement (SCR) ratio is highly volatile because many factors play a role in the calculation. The developments in deferred taxes and interest rates, for instance, are a source of volatility. Specifically for the non-life insurance business, the SCR ratio is sensitive to the assumptions concerning disability likelihoods and likelihoods in relation to the reentry of partially disabled individuals into the labor market. For the life insurance business, the SCR ratio is sensitive to the assumptions relating to the longevity risk and policy renewals. For the non-life business and the life insurance business alike, changes in cost assumptions result in volatility in the SCR ratio.

APG monitors our capital position and the development in our solvency ratios, as well as the capital position and solvency ratio trends of its subsidiaries. Any measures to be taken are discussed in the risk committee and submitted to the Supervisory Board for approval.

In both 2016 and 2017, APG satisfied the minimum external capital requirements on both the group and business unit levels in order to contend with the risks in current and future circumstances. The internal capital requirements were determined in 2017 in connection with the ORSA performed. Based on the ORSA results, the internal capital requirement (in other words, comfortable Solvency II ratio) is 170% in the event of a minimum capital requirement of € 416 million. As part of the internal capital requirement, an extra buffer of € 100 million is held on the group level to hedge strategic, financial, and operational risks.

In none of the scenarios examined does the Solvency II ratio fall below the external standard norm of 100%. A detailed explanation of APG's solvency can be found in the SFCR document at www.apg.nl/en/who-is-apg/corporate-governance.

'In Control' statement

As the Executive Board of APG Group NV, we are responsible for the structure, existence, and effectiveness of the internal risk management and control systems. The purpose of the internal risk management and control systems is to manage the strategic, financial, operational, compliance and financial reporting risks in realizing APG's objectives. We have explained our key risks, the internal risk management and control systems, and any short-comings in the risk section on pages 22 to 25.

The internal risk management and control systems were set up on the basis of internationally accepted and applied standards, but cannot provide absolute certainty that the financial reporting contains no material inaccuracies or that the systems can fully prevent all errors, incidents of fraud, or noncompliance with relevant legislation and regulations.

The material risks and control measures have been identified and documented in the APG integral risk framework. The Executive Board of APG Group NV monitors the effectiveness of the internal risk management and control systems and has carried out a systematic assessment of the structure and effectiveness of the risk management and control systems at least annually. The monitoring pertains to all material control measures aimed at strategic, operational, financial, compliance, and financial reporting risks. In this process account is taken of, among other things, any ascertained weaknesses, wrongdoing or irregularities, signals from whistleblowers, lessons learned, and findings from the internal audit function and the external auditor. Improvements were made to the internal risk management and control systems where necessary.

Statement from the Executive Board of APG Group NV

The Executive Board of APG Group NV declares that:

- APG Group NV's annual report provides insight into the most important shortcomings in the effectiveness of the internal risk management and control systems. Improvements, both implemented and envisioned, are explained;
- The risk management and control systems give a reasonable degree of certainty that APG Group NV's annual report contains no material inaccuracies;
- APG Group NV's annual report was prepared in accordance with the going concern principle.
- There were no material risks or uncertainties that are relevant for the expectation of the continuity of APG Group NV for a period of 12 months from the preparation of APG Group NV's annual report.

Risk analysis and identified staff

APG performed a risk analysis to identify the remuneration incentives arising from the remuneration policy, and implement control measures. For APG Asset Management, the emphasis of the risk analysis is mainly on the variable remuneration. The remuneration policy includes stricter criteria for employees who can have a material impact on the risk profile of APG, or a business unit of APG. These employees are included on an annual list of identified staff in order to maintain a good overview of the potential risks.

In order to limit the risk of unwarranted granting of variable remuneration, the variable remuneration for some employees is paid out deferred over a number of years, after reassessment of the particular employee's performance. The remuneration is acquired on a prorated basis during a three-year period.

Variable remuneration and remuneration in excess of € 1 million

For the 2017 financial year, a total of € 30.0 million was granted in variable remuneration (2016: € 31.5 million), all of which went to employees of APG Asset Management. Of the total amount in variable remuneration, € 24.2 million (2016: € 24.0 million) relates to the foreign subsidiaries of APG Asset Management.

During the 2017 financial year, five employees (2016: six employees) at APG Asset Management and its foreign subsidiaries were granted total remuneration of € 1 million or more. These five employees work outside the Netherlands. In determining the total remuneration, both financial and nonfinancial benefits granted directly or indirectly to employees were taken into account. This means that not only fixed salary and variable remuneration were included in the total remuneration, but also other personnel costs. The number of employees that receive total remuneration of € 1 million or more in a given year is subject to developments in exchange rates.

Regulatory authorities

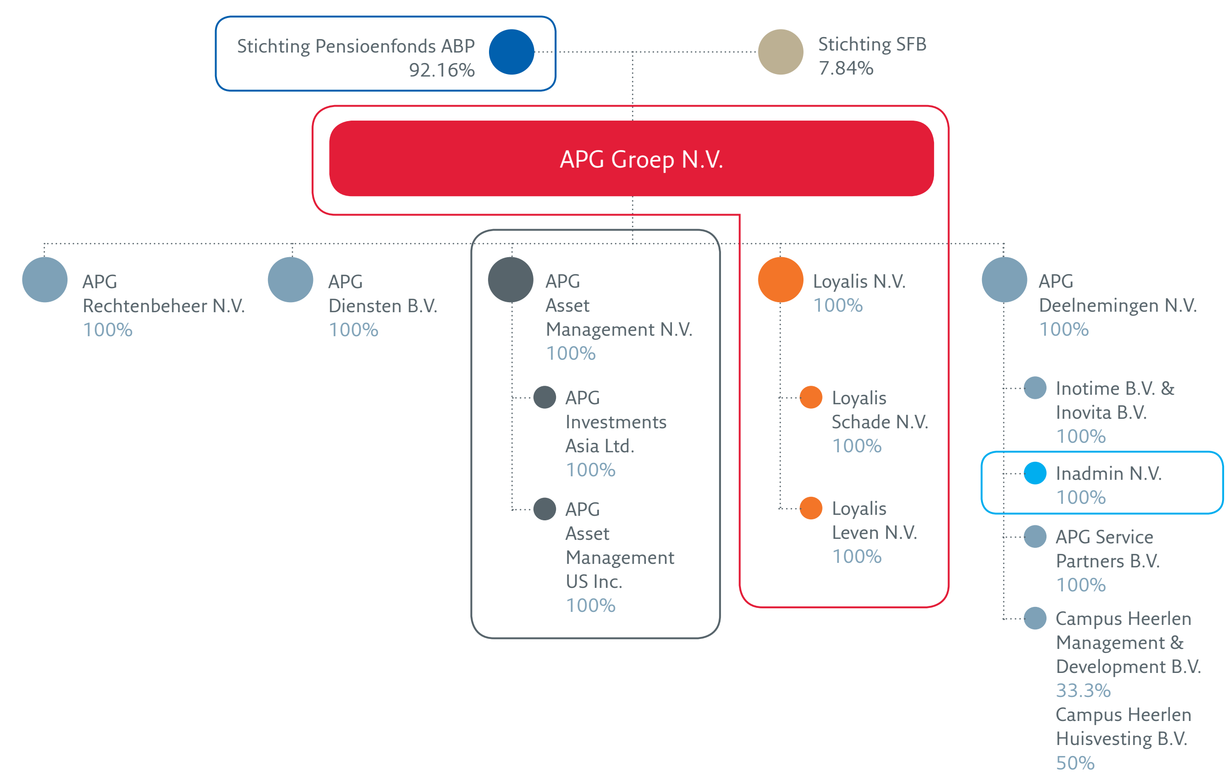
There were developments in relation to the regulatory authorities on both the national and international level in 2017.

On the national level the supervision by, among others, DNB and the AFM increased. A number of regulatory regimes apply at APG:

- The red outline shows the APG entities that fall under the Solvency II guidelines as exercised by the regulatory authority DNB.
- The grey outline shows the entities that are subject to the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRDIV) guidelines, whereby the supervision is exercised by the AFM and DNB. For the solvency requirements, APG Asset Management follows the internal capital adequacy assessments process (ICAAP). The entities APG Rechtenbeheer, APG Diensten, and APG Deelnemingen are included under Solvency II as participating interests of APG Group.
- Inadmin (light blue outline) is a financial services provider whose products and service provision is subject to the supervision of the AFM.
- Shareholder Stichting Pensioenfonds ABP (blue outline) is, as a pension fund, subject to the supervision of the DNB, which stipulates requirements for the services provided by APG and the setup of its processes, among other things.

Based on its vision and an environmental and scenario analysis, in 2017 APG formulated a strategy incorporating strategic objectives focused on the main goal of maximizing pension value while monitoring that long-term financial health remains safeguarded. In the 2017 ORSA, the robustness of the recalibrated strategy was tested with reference to the future scenarios mentioned above and a reverse stress test.

Organizational chart (shortened)



Asset Management also received the AIFMD license in 2017. APG concluded a horizontal monitoring agreement with the Dutch Tax and Customs Administration. This continues APG's proactive cooperation with the Tax and Customs Administration and fulfills its need for transparency and smart simplicity.

In the EU context, a new Pension Funds Directive (IORP II) took effect, incorporating stricter regulations and requirements. The European Commission issued a proposal for a pan-European personal pension product (PEPP), a product for individual supplementary pension saving. Over the course of the year, intensive negotiations were initiated toward strengthening the powers for overarching European supervision in relation to EIOPA (the European regulatory authority that supervises insurers and pension funds) and ESMA (the regulatory authority for the financial markets).

Corporate governance

APG aims for a corporate governance structure that fits with the group's business activities, that satisfies the requirements of stakeholders and is in compliance with relevant legislation and regulations. Good corporate governance is crucial in order to realize our ambitions and be a reliable and professional partner. In addition to the relevant Dutch legislation and regulations, guidelines from regulators, and internal guidelines, APG wants to implement the principles and best practices from the Dutch Corporate Governance Code (hereafter: the Code). APG is not listed on the stock market and is therefore not required to adhere to the principles and best practices of the Code. In view of APG's role and responsibility as a pension administration organization, we have opted to apply the Code on a voluntary basis.

APG largely satisfies the stipulations of the Code to the extent the guidelines apply to APG. Various sections of this report show the extent to which APG does not yet follow the principles and best practice provisions contained in the Code and the reasons for this. The explanation often lies in the fact that the best practice provision has not yet been laid down in regulations or procedures. For instance, the regulations of both the Executive Board and Supervisory Board contain procedures for conflicts of interest. The scope of these procedures does not extend as far as that outlined in the Code. An amendment of the regulations and procedures in line with these best practices provisions is expected in response to the revision of the mission and recalibration of the strategy continued in 2017. The structural and organizational change accompanying this has not yet fully crystallized and will take effect in 2018. In the meantime, APG does operate as much as possible in line with the spirit of the Code. In a few other cases, APG cannot currently satisfy the best practice provision because the actual situation at APG is different.

Corporate governance structure

The company's articles of incorporation were amended on May 5, 2017. This amendment of the articles of incorporation was prompted by the resolution by the Executive Board, Supervisory Board, and shareholders to align a number of governance documents, including the articles of incorporation, with legislation and regulations. This amendment has brought these documents in line with a number of agreements made among the shareholders in relation to the procedures for appointing members of the Executive Board and Supervisory Board, the remuneration of members of the Executive Board, and improving consistency in terminology. These governance documents are published on APG's website under www.apg.nl/governance.

Legal structure

APG provides our services from the following legal entities (see the abbreviated organizational chart).

APG Rechtenbeheer

APG Rechtenbeheer (Rights management) is responsible for executive consultancy, pension administration, and pension communication for our client funds (pension funds, early retirement, and social investment funds) in the public and private sector.

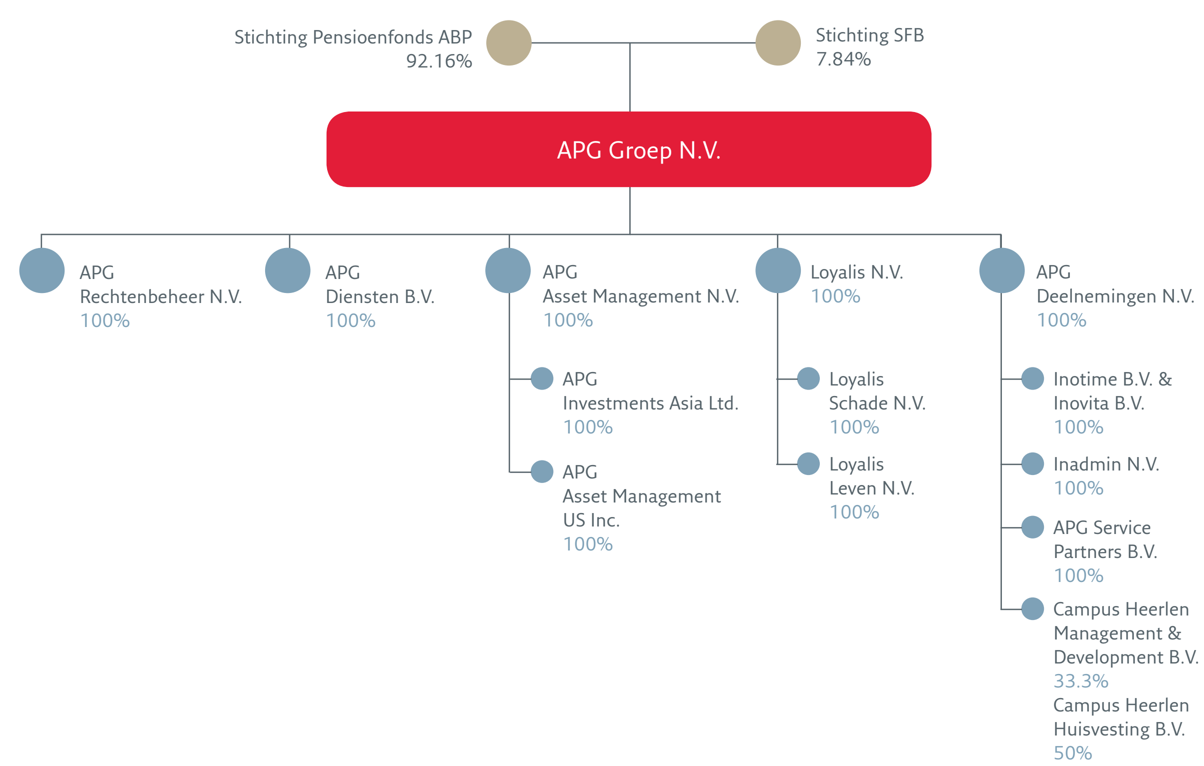
APG Asset Management

APG Asset Management is responsible for managing the investment of pension assets. APG is a long-term investor of pension assets, which calls for a sustainable investment policy. Implementing the sustainable investment policy is an integral part of asset management.

APG Deelnemingen

APG Deelnemingen (Participations) concentrates on innovation and supplementary services for employers. The focus in this is on products and services for individuals and employers. Important pillars are innovation experiments, and the scalability of product solutions and platforms. Employer services are offered via APG Service Partners.

Organizational (shortened)



Loyalis

Insurance business Loyalis has an important role in supplementing pensions and in relation to work-related disability. Loyalis provides insurance solutions for both employers and employees in the sectors that APG serves and also caters for self-employed people employing no personnel with the ZZP Pensioen product.

APG Diensten

APG Diensten (Services) functions as an internal service provider and is responsible for all ICT-related and facilities services.

APG Group

In addition to the Executive Board, APG Group also has various executive departments.

APG Group is a public limited liability company established under Dutch law. The company has a two-tier management structure that consists of an Executive Board and a Supervisory Board. APG applies the mitigated structure regime. Among other things, this means that the General Meeting of Shareholders, not the Supervisory Board, appoints and dismisses the executive directors.

Executive Board

The Executive Board has the duty of managing APG, and by extension it bears collective responsibility for realizing APG's objectives and strategy, and for the trend in results and the social aspects of the business. The Executive Board is also responsible for compliance with all relevant legislation and regulations, risk management, and the company's financing.

APG has set up committees of a functional nature for the performance of duties that have been assigned to a member of the Executive Board. There are three councils: the Finance & Risk Council, the Information Technology Council, and the Strategic Clients Council. The main duties of a council are to prepare the Executive Board's decision-making and monitor cohesion in the decision-making across the business units.

In the context of managing and controlling risks, the Executive Board evaluates the operational developments with the boards of the business units quarterly and looks ahead to the implementation of the strategy. The Executive Board is also assisted by risk committees, both on the level of the business units and on the group level. The APG Group risk committee consists of members of the Executive Board and the managing directors of Group Risk and Compliance, Group Internal Audit, and the CFRO of Loyalis; it meets at least four times per year.

The Executive Board regularly evaluates its own performance. The agenda for 2018 includes the performance of this self-evaluation by the Executive Board supported by an external agency. The agreements on the future form, procedure, and timing of this self-evaluation will be included in the changes to the Executive Board regulations, also on the agenda for 2018.

In consultation with each other, the shareholders, Supervisory Board and Executive Board of APG reached a decision to recalibrate APG's organizational structure. This decision is connected with the changes that are expected to occur in the Dutch pension system. Although the contours of a new system are becoming clearer, the precise changes are not yet known. A clear common theme throughout all the discussions is the need for more insight into the accrual and value of pension on the individual level and the provision of supplementary pension accrual in the second and third pillars. This requires APG to not only strengthen and improve the services we currently provide to funds and sectors, but also to facilitate the provision of services to employers and individual participants. For the Executive Board, this means that all aspects must be dealt with adequately: not only the management of the service provision to funds and sectors, but also a focus on renewal and innovation. This requires a change to the composition of the Executive Board so that both angles of approach receive sufficient attention, and the knowledge and experience necessary for this is on hand.

Therefore, a change is being made to the portfolios of the members of the Executive Board and a fifth member is being added to the Executive Board. Page 59 contains more details about the current members of the Executive Board.

Mark Boerekamp, Eduard van Gelderen, and Angelien Kemna resigned as members of the Executive Board during the year under review, specifically on February 9, 2017, July 1, 2017, and November 1, 2017, respectively. Wim Henk Steenpoorte was appointed member of the Executive Board responsible for Rights Management and Services effective September 14, 2017. Ronald Wuijster, CIO and CEO of APG Asset Management, was appointed executive director as of March 6, 2018 replacing Eduard van Gelderen. Before and after the departure of Angelien Kemna, Jan Nijland served as acting CFRO for a period of nine months. Annette Mosman was appointed CFRO from February 6, 2018. The procedure for filling the position of Executive Board member responsible for the participants and employer business is in progress.

With a female to male ratio of 25% in 2017, the Executive Board did not satisfy the diversity ratio of at least 30% women as contained in the Code. With the proposed appointment of a fifth member of the Executive Board in mind, this ratio will again change.

Realizing long-term value is inextricably connected with the culture at APG and the businesses associated with us. This concerns the standards and values for desirable behavior and ethical conduct contained in the Code of Conduct and the anonymous reporting procedure. In the context of this culture, more attention is being devoted to compliance with the Code of Conduct, for instance via the annual compliance statement, safe reporting of suspicions of wrongdoing and irregularities, and the follow-up on these reports.

The management introduced the anonymous reporting procedure, which allows suspicions of wrongdoing and irregularities to be reported and these reports to be adequately followed up. The Supervisory Board supervises the management in relation to this. The chairman of the Supervisory Board is notified by the management without delay about any reports of suspicions of material wrongdoing or irregularities. The possibility of submitting reports applies for all units of the businesses associated with APG, regardless of whether the activities of the business take place within or outside the Netherlands.

Neither the anonymous reporting procedure for wrongdoing nor the regulations for the Executive Board and Supervisory Board currently provide for the Executive Board to inform the chairman of the Supervisory Board about signals of suspicions of material wrongdoing. The regulations of the Executive Board and Supervisory Board do, however, stipulate that an employee informs the chairman of the Supervisory Board if the wrongdoing or irregularity involves the performance of a member of the Executive Board. The amendment of the regulations of the Executive Board and Supervisory Board in this respect is on the agenda for 2018.

Supervisory Board

The Supervisory Board of APG is charged with supervising the policy of the Executive Board and the performance of its duties, and supports the Executive Board with advice. In performing its duties, the Supervisory Board is guided by the interest of the company and its business. The Supervisory Board supervises the implementation of APG's general remuneration policy and makes proposals for adoption via the company's general meeting of the general remuneration policy that applies for members of the Executive Board and the remuneration of the individual members of the Executive Board. This takes into account the principles of a controlled remuneration policy as laid down in applicable legislation and regulations in this area. In addition, the Supervisory Board also plays a key role when it comes to the appointment and dismissal of Executive Board members, and members of its own board. The formal authority to appoint and dismiss lies with the shareholders, but the Supervisory Board drafts the job profile, makes the selection, and prepares the appointments.

The Supervisory Board consists of seven members in total, two of whom are women. As such, the Supervisory Board just fails to satisfy the diversity ratio of at least 30% women (28.6%).

With the current composition of the Supervisory Board, APG does not satisfy the new Corporate Governance Code, in particular on the point that the chairman of the Supervisory Board may not be a former executive director of the company and must be independent. The current chairman, Bart le Blanc, was an executive director of ABP before becoming a supervisory director at APG (and later chairman of the Supervisory Board). Because ABP holds more than 25% of the shares in APG, ABP qualifies as an affiliated company. This best practice provision did not apply at the time the current chairman was appointed. The other members of the Supervisory Board do satisfy the independence requirements.

The general description of the duties, the number of meetings, the composition, and the resignation schedule are described in the regulations of the Supervisory Board. These regulations are published on: www.apg.nl/en/who-is-apg/corporate-governance.

The Supervisory Board has three committees: the Audit and Risk Committee, the Remuneration and Selection Committee, and the Governance Committee. In the report of the Supervisory Board that follows, more information is given on the composition of the board, and the activities and meetings of the board's committees in 2017.

Shareholders

APG has two shareholders: Stichting Pensioenfonds ABP (92.16% of the shares) and Stichting SFB (7.84% of the shares). In April 2017, the General Meeting of Shareholders determined the results for 2016 and decided on the profit appropriation.

The shareholders were also consulted during the financial year, in particular about impending appointments of Executive Board and Supervisory Board members, and the recalibration of APG's strategy. In line with good corporate governance, the aim is to include shareholders in the system of 'checks and balances' at APG on the one hand, and the long-term value creation on the other. The Supervisory Board's supervision over the management also includes supervision of the relationship with the shareholders.

APG is shareholder of Loyalis, a public interest entity (PIE). In this capacity, APG commits to have the audit and consultancy work performed by the external auditor strictly separated. This is implemented in the service agreement with the external auditor.

Future

The year 2018 – which marks the tenth anniversary of APG's founding – is off to a good start for APG. The pension fund for architectural firms, PFA, joined our client base as of January 1. Preparations were already made in 2017 to ensure as smooth a transition as possible. The contract term ends in 2023, with the option of renewal. APG ensures correct administration of pension rights, collection of pension contributions, and payment of retirement benefits for the PFA.

Until 2020, the focus for APG will be on implementing the strategy – in other words, maximizing pension value. We will remain in dialogue with our shareholders, clients, and the employers concerning our mission and ambition. In the coming year, APG's strategy for distributing our services will be worked out in further detail and the organization will equip itself for the current pension system and the potential changes to it.

After a great deal of preparation in 2017, 2018 will also be a year of numerous implementations. This includes the new system for asset management administration brought into use at the beginning of 2018, which introduces a new way of working.

This year will also see the segregation of pension administration operations for pension fund services (back office) from the operations involved in services for participants and employers. The service level agreements with our clients will also be further aligned with each other where possible.

In terms of personnel and organization, the ongoing creation and shaping of the change organization will be the main focus in 2018. The program entitled The Making of You will be rolled out APG-wide in this context.

Word of thanks

The Executive Board is grateful for the considerable efforts and commitment from the employees, the Works Council, the Supervisory Board and the shareholders. Above all, we would like to thank our clients for their confidence in us.

Amsterdam, March 29, 2018

The Executive Board
Gerard van Olphen, chairman
Annette Mosman
Wim Henk Steenpoorte
Ronald Wuijster

From the Supervisory Board

The future of the Dutch pension system was once again a topic of discussion in 2017. For the sake of its client pension funds and the 4.5 million participants affiliated with these, APG must be prepared for potentially drastic changes. The Supervisory Board's central supervision and advisory duties therefore require close involvement in APG's strategy development. The Supervisory Board also has the task of creating the conditions for good and effective management of the business.

The Supervisory Board was fully involved in the development of APG's new strategic plan, including the discussions with APG employees and other stakeholders such as clients and shareholders. The Executive Board's approach of first defining a framework incorporating the mission, vision, and core values of the company was strongly supported. This now constitutes a firm foundation for the new strategy summarized above, which is fully focused on the ultimate individual pension fund participant. APG's task for the coming period is to successfully implement the strategy and the Supervisory Board will monitor this closely, and support the Executive Board with advice and assistance.

During the year under review, the Supervisory Board also devoted a great deal of attention to the newly adopted, mission-driven APG leadership profile, and the renewal of the company's management based on this.

The Supervisory Board carried out careful and intensive selection and nomination processes in the course of the year for the appointment of three new Executive Board members. With the new management, APG can further improve its performance as a socially-oriented service provider for its client pension funds and their 4.5 million participants.

Participants

For the Supervisory Board, the introduction/development of the Personal Pension Pot is a good example of intense client orientation. Giving participants insight into their individual pension accrual meets an enormous demand on the part of participants. Even more appealing is that the Personal Pension Pot is a good example of successful co-creation between APG and pension fund ABP.

Organization

At the beginning of 2017, APG's mission and ambition were presented and launched via an internal change program called The Making of APG. APG is in the process of transformation, and is in constant flux. The Supervisory Board has been actively included in this in order to bring APG a step further in its service provision. In order to meet the growing individual needs of the participants of its client pension funds, APG employees will have to be more flexible and work together better. We support the way in which the new corporate strategy was formulated: guided by the Executive Board and through APG-wide cooperation. This ensures that the translation of the strategy within the business units and in annual plans enjoys more support and is constantly improved.

The Supervisory Board played an active role in this process as a sounding board for, and adviser to, APG's Executive Board, without losing sight of its role in supervising the management and policy of the business and all the interests involved in it. The Supervisory Board discussed the long-term value creation by the Executive Board, the implementation of the strategy, and the related key risks during both regular and dedicated meetings.

Employees

APG took a significant step forward in 2017 in terms of company culture, in how people treat each other, and by investing in personal development. In view of the changing environment, the topic of sustainable employability is important for an organization like APG. This also took shape in a new CLA last year, which properly provides for people moving from job to job. There is a career center that can be used by all employees.

As a business in the social field of pension administration, good corporate governance is extremely important to APG. A remuneration policy that is in keeping with APG organizational character is the subject of our full attention in this regard.

The Supervisory Board, the individual committees, and the individual Supervisory Board members were evaluated externally in 2016. This prompted a number of actions in 2017 that help us better perform our role. Following on from these actions, there was extensive discussion between the Supervisory Board and Executive Board on tightening up the two-tier corporate governance system. Team building sessions for the Supervisory Board and Executive Board were scheduled (both separately and together), and the allocation of duties between the Supervisory Board and our committees was recalibrated. Meetings of the Supervisory Board and committees were organized differently, with the focus on discussion and opinion forming. It was decided that the quality of the decision-making process in the meetings of the Supervisory Board and committees would be regularly evaluated and strengthened. The assessment cycle for the Executive Board was also updated.

We believe implementing these changes is very important for optimizing our performance.

Because of the changes in the members of the Executive Board during 2017, the external evaluation of the Executive Board on both the individual and collective level was postponed to 2018. The Supervisory Board approved this decision.

Good governance

The Supervisory Board focuses mainly on the corporate strategy, risk management and governance, personnel developments, effective and efficient business operations, and the culture and performance of the Executive Board and the Supervisory Board. The Supervisory Board aims to follow the best practices in these areas. After all, this is also the standard that the client pension funds demand of the companies in which they invest – via APG.

The key themes discussed by the Supervisory Board in 2017 were the regular topics such as the financial developments in the company, the progress of strategic projects, the performance of the individual business units, the developments in the pension sector, and administration and ICT. Various HR-related topics, such as leadership development and The Making of You were also discussed, not only with the Executive Board but also with the Works Council. Extensive attention was also devoted to the group's corporate strategy and the openness and transparency on this strategy in talks with the client pension funds and shareholders. The organizational structure and management was recalibrated, and the relationship with shareholders evaluated, partly in light of the new Corporate Governance Code.

Relationship with the regulatory authorities

APG Group and subsidiaries of APG have different, direct supervision relationships with DNB and the AFM. In many areas there is also indirect supervision via the client pension funds, which are themselves subject to direct supervision. In short: there is an intensive and complex supervision network.

Together with the Executive Board, the Supervisory Board opts for a constructive and proactive relationship with the regulatory authorities, as far as both the direct and indirect supervision is concerned.

In this context, delegations from the board had contact with the supervision teams of DNB and the AFM on several occasions during the year, to discuss strategic topics and board member appointment processes. Attention was also focused on culture and behavior in the organization.

Organization of the Supervisory Board and meetings

When the 2017 annual report was drawn up, the Supervisory Board comprised the following people (see page 91 for personal details): Bart Le Blanc (chairman), Pieter Jongstra (vice-chairman), Edith Snoeij, Maes van Lanschot, Roger van Boxtel, Claudia Zuiderwijk, and Dick van Well.

The Supervisory Board met eight times for formal meetings in 2017. As a rule, these meetings were attended by all members of the Supervisory Board and the members of the Executive Board. During 2017, Maes van Lanschot and Roger van Boxtel each missed one meeting and Dick van Well missed two. The meetings took place in either Amsterdam or Heerlen.

In addition to the regular meetings, the Supervisory Board – as a whole or in the form of a smaller delegation – met several times in 2017 to consult with Executive Board members and/or relevant APG employees about, among other things, the mission, the strategy, the composition of the Executive Board, and the recruitment of new Executive Board members. The Supervisory Board also met alone several times, without the Executive Board or other APG employees.

The Supervisory Board has three committees: the Audit and Risk Committee, the Remuneration and Selection Committee, and the Governance Committee. All the committees extend a standing invitation to all other members of the Supervisory Board to attend their meetings. Use was made of this option several times in 2017.

Audit and Risk Committee

The Audit and Risk Committee consists of Pieter Jongstra (chairman), Maes van Lanschot, and Claudia Zuiderwijk. The committee met eight times in 2017, with full attendance at every meeting, with the exception of Maes van Lanschot (who missed one meeting). The committee's reports and important points for attention are shared with the Supervisory Board.

There was discussion of the translation of the strategy from a financial perspective partly in relation to capital, risk, and return requirements, the impact of Solvency II and the related ORSA on APG, the progress of strategic projects, the annual report, the risk management system and compliance, quarterly reports on finance, risks and internal audits, the annual plan of APG Group Risk & Compliance, the annual plan of the internal accountant and the audit approach, and recommendations and reports from the external auditor. The meetings of the Audit and Risk Committee were also attended by the chairman and chief finance and risk officer of the Executive Board, the external auditor and internal accountant, as well as the managing directors of Group Risk & Compliance and Group Finance. The Audit and Risk Committee met separately with the external auditor twice in 2017 and twice with the internal accountant. Both meetings took place without the members of the Executive Board.

Remuneration and Selection Committee

The Remuneration and Selection Committee consists of Edith Snoeij (chairman), Bart Le Blanc, Claudia Zuiderwijk, and Dick van Well. This committee's reports and important points for attention are shared with the Supervisory Board. This committee met ten times in 2017, and also held a number of meetings on, among other things, the composition of the Executive Board and the recruitment of the new members of the Executive Board. Every committee member was in attendance at every meeting, with the exception of Claudia Zuiderwijk (who missed one meeting).

The key topics in the meetings of the Remuneration and Selection Committee included the evaluation of the Executive Board, the remuneration policy for the Executive Board, the update of APG's transformation process in relation to culture and behavior, and leadership.

Governance Committee

The Governance Committee comprises Pieter Jongstra (chairman), Edith Snoeij, and Roger van Boxtel. This committee met twice in 2017; Roger van Boxtel missed one meeting. This committee's reports and important points for attention are shared with the Supervisory Board. This committee's focus is to advise on compliance with national and international governance guidelines and practices, compliance with internal governance documents (regulations, agreements with shareholders, etc.), the (self) evaluation by the Supervisory Board, permanent education of the Supervisory Board, and reporting and contact in relation to the external regulatory authorities. The most important topics in the Governance Committee's meetings in 2017 included: contact with the regulatory authorities, the analysis of the new Corporate Governance Code, the evaluation of APG's governance structure, the permanent education days program, and the external evaluation of the Supervisory Board.

Supervision at Loyalis, APG Asset Management, and APG Treasury Center

In addition to the Supervisory Board committees mentioned above, certain members of the board hold a specific role at subsidiaries or affiliates of APG which operate under their own license from DNB or the AFM: Loyalis, APG Asset Management, and APG Treasury Center.

At Loyalis, Supervisory Board member Roger van Boxtel holds a special role for the development of the insurance business within APG Group. Maes van Lanschot and Bart Le Blanc serve on the supervisory boards set up at APG Asset Management and Treasury Center.

This strengthens the Supervisory Board's overview on the group level of divisions which have a separate license and supervision structure, without the statutory supervision duties of the supervisory boards of the particular subsidiaries becoming eroded.

In the year 2017, large transition projects were implemented at APG Asset Management and Treasury Center in the areas of fiduciary management for the client pension funds and the setup of the treasury and trading activities. The strategy discussion at Loyalis runs parallel to the strategy development of the APG Group.

The Supervisory Board members involved reported regularly on their findings to the Supervisory Board of APG Group.

Evaluation and permanent education

An external evaluation of the Supervisory Board was started in the fall of 2016. An evaluation report was prepared based on interviews with the members of the Supervisory Board, members of the Executive Board, direct reports, and representatives of the shareholders, supplemented with a questionnaire.

Permanent education sessions took place for the Supervisory Board on two separate days in 2017. External speakers have brought the supervisory directors up to date on, among other things, foreign trends in asset management, communication to participants and innovation, a Management Drives assessment, and directors' and officers' liability.

Changes on the Executive Board

Gerard van Olphen has been chairman of APG's Executive Board for two years now. His focus in the year 2017 was mainly on carrying out APG's mission, developing and pursuing a related corporate strategy, recalibrating APG's organizational structure and management, the approach to strategic projects, and change within APG (culture and behavior). His focus was also on forming a new Executive Board following the departure of Mark Boerekamp, Eduard van Gelderen, and Angelien Kemna.

The Supervisory Board welcomes three new members on the Executive Board.

After an interim period as executive director, Wim Henk Steenpoorte succeeded Mark Boerekamp on the Executive Board as of September 14, 2017. Ronald Wuijster, CIO and CEO of APG Asset Management, was appointed executive director as of March 6, 2018 and replaces Eduard van Gelderen. Annette Mosman joined the Executive Board as successor to Angelien Kemna on February 6, 2018. The board thanks Mark Boerekamp and Eduard van Gelderen for their great efforts and commitment over the past years. Angelien Kemna took her leave after serving two four-year terms on the Executive Board. As chairman of the Board of Directors of APG Asset Management, she first streamlined the investment policy and piloted the company through the difficult years of the financial crisis. More recently Angelien served as APG's CFRO. The board is very grateful to Angelien for her contribution to APG. The board also thanks Jan Nijland, who did a superb job as acting CFRO up to the arrival of Annette Mosman.

The Supervisory Board would like to express our confidence in the team currently serving on the Executive Board and in the further implementation of the strategy.

2017 annual report and financial statements

The Supervisory Board approves the annual report from the Executive Board and the 2017 financial statements, as well as the auditor's report. The Supervisory Board proposes to the shareholders that they adopt this report and the annual figures, and approve the dividend proposed.

Amsterdam, March 29, 2018

The Supervisory Board
Bart Le Blanc, chairman
Pieter Jongstra, vice-chairman
Edith Snoeij
Maes van Lanschot
Roger van Boxtel
Claudia Zuiderwijk
Dick van Well

Financial statements APG Group NV 2017

Consolidated balance sheet as at December 31, 2017

Before profit appropriation In thousands of euros

Assets	12-31-2017	12-31-2016
Fixed assets		
Intangible fixed assets (1)	301,733	453,950
Tangible fixed assets (2)	22,369	23,579
Financial fixed assets (3)	152,563	148,577
	476,665	626,106
Investments insurance business (4)	3,146,229	3,156,431
Current assets		
Receivables, prepayments, and accrued income (5)	283,459	289,401
Receivables from reinsurance (6)	42,590	35,799
Cash (7)	621,653	683,200
	947,702	1,008,400
Total assets	4,570,596	4,790,937

Liabilities	12-31-2017	12-31-2016
Group equity (8)		
Equity capital	1,186,742	1,229,953
	1,186,742	1,229,953
Provisions		
Insurance liabilities (9)	2,918,888	2,999,934
Deferred taxes (10)	1,589	25,313
Other provisions (11)	87,609	103,961
	3,008,086	3,129,208
Long-term liabilities (12)	10,911	23,767
Current liabilities and accrued liabilities (13)	364,857	408,009
Total liabilities	4,570,596	4,790,937

Consolidated profit and loss account for 2017

In thousands of euros

	2017	2016
Net turnover		
Insurance premiums (14)	254,437	254,189
Investment results (15)	78,857	179,262
Income from services to third parties (16)	683,801	673,390
Other operating income (17)	34,988	36,878
Total operating income	1,052,083	1,143,719
Change in provision for insurance liabilities (18)	-88,693	57,281
Payments (19)	261,395	251,353
Costs of outsourced work and other external costs (20)	149,469	119,623
Personnel costs (21)	382,310	376,821
Amortization and depreciation on intangible and tangible fixed assets (22)	90,114	90,721
Other changes in value in intangible and tangible fixed assets (23)	74,875	–
Other operating costs (24)	131,692	133,968
Total operating expenses	1,001,162	1,029,767
Operating result	50,921	113,952
Interest income and similar yields (25)	130	479
Interest charges and similar costs (26)	3,030	9,446
Result before taxes	48,021	104,985
Taxes (27)	1,043	-41,659
Result from participations (28)	-1,785	1,182
Group result after taxes	47,279	64,508

Consolidated cash flow statement for 2017

In thousands of euros

	2017	2016
Cash flow from operating activities		
Operating result	50,921	113,951
Adjustments for:		
• Amortization and depreciation on intangible and tangible fixed assets (22)	90,114	90,724
• Other value impairments in intangible and tangible fixed assets (23)	74,875	–
• Net investments for commercial purposes for own account (4)	13,321	-36,903
• Net investments for commercial purposes at the risk of policyholders without guarantee (4)	-3,119	-100,019
• Changes in working capital:		
- Decrease in receivables, prepayments, and accrued income (5)	5,943	-67,094
- Increase in receivables from reinsurance (6)	-6,791	5,246
- Decrease in current liabilities and accrued liabilities, corrected for corporate income tax (13)	-34,569	62,118
• Change in gross insurance liabilities for own account (9)	-89,156	-40,651
• Change in insurance liabilities for policyholders' risk without guarantee (9)	8,109	92,431
• Change in other provisions (11)	-16,351	-53,696
Cash flow from business operations	*93,297*	*66,107*
Interest received	165	479
Interest paid	-3,030	-4,690
Corporate income tax paid	-52,513	-94,426
Cash flow from operating activities	37,919	-32,530
Cash flow from investing activities		
Investments in fixed assets	-11,725	-12,879
Expenditure in connection with capital contributions to non-consolidated participating interests	–	-3,160
Cash flow from investing activities	-11,725	-16,039
Cash flow from financing activities		
Dividend paid out	-88,000	-44,000
Settlement of separation of the administrative organization	–	-238
Cash flow from financing activities	-88,000	-44,238
Net cash flow	-61,806	-92,807
Share price differences and exchange differences on cash	259	267
Change in cash	-61,547	-92,540
Opening balance of cash (7)	683,200	775,740
Closing balance of cash (7)	621,653	683,200
Change in cash	-61,547	-92,540

Accounting Policies

Introduction

Activities
As a financial services provider, APG Group NV (APG Group) provides executive consultancy, asset management, pension administration, pension communication, and employer services. The company also offers supplementary income solutions for individuals on the pension market.

Group relations
The financial statements are based on the legal entities of APG Group. APG Group was founded on February 29, 2008, is registered in the commercial register under number 14099616, and has its registered office at Oude Lindestraat 70, 6411 EJ in Heerlen.

At the end of 2017, APG Group had five wholly owned subsidiaries: APG Rechtenbeheer, APG Asset Management, Loyalis, APG Deelnemingen, and APG Diensten. APG Group has a number of indirect capital interests. The complete structure is shown in the list of capital interests. This list has been included as part of the notes to the company financial statements on page 50.

APG Group has two shareholders: General Pension Fund for Public Employees (ABP), which holds 92.16% of the shares, and Stichting Sociaal Fonds Bouwnijverheid (Stichting SFB), which holds 7.84%.

Continuity
These financial statements have been prepared on a going concern basis.

General
The financial statements pertain to the 2017 financial year ending on the balance sheet date of December 31, 2017 and have been prepared on the basis of generally accepted financial reporting policies in the Netherlands and the statutory provisions concerning financial statements contained in Title 9, Book 2 of the Dutch Civil Code. Article 2:402 of the Dutch Civil Code was applied for the format of the company profit and loss account. Consequently, it is sufficient to report the result from participations and the other result after deduction of taxes on the company profit and loss account as an individual item. These financial statements have been prepared on a going concern basis.

All amounts in the financial statements are shown in thousands of euros, APG's functional currency, unless stated otherwise.

Comparison with the previous year
The accounting policies have not been changed with respect to the previous year.

Estimates
Making accounting estimates is unavoidable when preparing the financial statements. This is especially the case in determining the value of some of the investments, the provision for insurance liabilities, and the other provisions. The accounting estimates used are further explained in the relevant sections. It may subsequently be found that the reported value differs from the actual value. Such a deviation is recognized as soon as it is known.

The insurance business observes prudential rules when maintaining provisions for insurance liabilities. The insurance business bases these as much as possible on the recommendations from the Association of Insurers.

If there is a change in an accounting estimate, this is stated in the note to the particular part of the item in the financial statements.

Basis for consolidation
Capital interests in entities in which APG Group can exercise predominant control of management and financial policy are included in the consolidated financial statements by application of the integral method of consolidation. Intercompany transactions and financial liabilities between consolidated entities are eliminated. The results and the identifiable assets and liabilities of acquired entities are included in the consolidated financial statements from the date of acquisition. The date of acquisition is the point in time when predominant control can be exercised within the relevant entity. The entities included in the consolidation continue to be consolidated until they are sold. Deconsolidation takes place at the moment that decisive control is transferred. In that case, the relevant company is recorded as a financial fixed asset.

A list of consolidated entities is included as part of the notes to the company financial statements. Joint ventures are not consolidated, but are included under the financial fixed assets. The accounting principles of group companies are adjusted as necessary to ensure consistency with the applicable accounting policies of APG Group.

All entities over which APG Group exercises dominant or joint control, or significant influence, are designated as related parties. The entities that can exercise dominant control over APG Group are also designated as related parties. The members of the Executive Board under the articles of incorporation and other key officers in the management of APG Group are also related parties.

Recognition
An asset or liability is recognized on the balance sheet at the moment contractual rights or liabilities arise with regard to that instrument. An asset is recognized on the balance sheet when it is likely that the future economic benefits will accrue to the company and the value of the asset can be reliably determined. A liability is recognized on the balance sheet when its settlement will most probably be accompanied by an outflow of funds and the amount of the outflow can be reliably determined.

An asset or liability is no longer recognized on the balance sheet if a transaction results in the transfer to a third party of (virtually) all rights to economic benefits or risks in relation to the asset or liability.

Yields are recognized in the profit and loss account if an increase in the economic potential related to an increase in an asset or a reduction in a liability has taken place and the size of this can be reliably determined.

Expenses are recognized if a decrease in the economic potential related to a decrease in an asset or an increase in a liability has taken place and the size of this can be reliably determined.

Foreign currency translation
Monetary assets and liabilities in foreign currency are converted into the functional currency at the exchange rate applicable on the balance sheet date. The exchange rate differences arising from settlement and conversion are credited or debited to the profit and loss account, unless hedge accounting is applied. Nonmonetary assets that are carried at acquisition price in a foreign currency are converted at the exchange rate in effect on the transaction date.

Upon consolidation, the balance sheets of group companies prepared in a functional currency other than the euro are converted into euros at the exchange rate in effect on the balance sheet date. Results in foreign currency are converted at the average exchange rate during the year under review. Currency differences concerning the value of group companies included in the consolidation are recognized in the reserve for conversion differences.

Derivative financial instruments and hedge accounting

Derivative financial instruments are valued at the lower of cost price or market value, unless hedge accounting is applied. APG Group has concluded currency forward contracts to hedge the currency risk on the financing in foreign currency of the foreign subsidiaries. These currency forward contracts are valued at cost price, whereby cost price hedge accounting is applied. As long as the hedged item under cost price hedge accounting is not recognized on the balance sheet, the hedge instrument is not revalued. If there is an ineffective component of the hedge transaction, this component is recognized in the profit and loss account. Internal derivatives based on back-to-back agreements between APG Group and APG Asset Management are recognized in APG Group's company financial statements on the basis of cost price or market value, whichever is lower.

Valuation differences that arise in the valuation of the currency forward contracts that are designated as a hedge of the net investment in foreign subsidiaries are recognized directly in the reserve for conversion differences, as part of the equity capital. The ineffective part is recognized in the profit and loss account.

APG Group has documented its hedging strategy in writing. The assessment of whether, when using hedge accounting, the derivative financial instruments are effective in setting off the currency results of the hedged items is documented in writing using generic documentation. Hedge relationships are terminated if the respective derivative instruments expire or are sold.

Risk section

This section discusses the quantitative risks and sensitivity analyses for APG Group. The activities relating to pension administration and communication, asset management, and executive consultancy take place at the expense and risk of the clients and hence primarily involve operational risks. The operational risks are explained as part of the balance sheet items to which they relate. The insurance business mainly runs financial risks connected with the insurance activities and related investment activities.

Solvency II, which came into force with effect from January 1, 2016, states the risks for the insurer and plays an important role in the risk policy of the insurance business. The financial risks based on the standard model of the Solvency II framework are explained one by one here, to the extent they are material. The following are distinguished as significant financial risks:
- actuarial and insurance risks
- market risk

Actuarial and insurance risks

The insurance risk is the risk that future payments and costs cannot be covered by premiums, investment yields, and available provisions. The key risks for the insurance business are the longevity risk (for annuity insurances), the disability risk (for work-related disability insurances), the premium and loss provision risk, the surrender risk, and the cost risk.

A liability adequacy test (LAT) is mandatory for assessing the valuation. The LAT involves making a comparison between the balance sheet provision and the market value provision, whereby the latter is equated with the technical provisions (consisting of the best estimate and the risk margin) under Solvency II. At year-end 2017, the difference between the two, the 'excess value,' was 93 million for the life insurance business and 128 million for the non-life insurance business.

Table 1 provides insight into the impact of the key risks on the excess value if the material insurance risks manifest, based on the shocks from the Solvency II standard model.

Table 1
Impact on the excess value before taxes
(in millions of euros)

	Life 2017	Life 2016	Non-life 2017	Non-life 2016
• Effect of 20% decrease in mortality rates/increase in longevity risk	-50.4	-52.8	-6.0	-5.0
• Effect of increase in disability likelihoods by 35% (first year) / 25% (permanent)	n.a.	n.a.	-104.3	-93.2
• Premium and loss provision risk	n.a.	n.a.	-88.4	-90.2
• Effect in the event of en masse surrender shock of 40%	-53.8	-63.4	-19.4	-18.2
• 10% cost increase and one percentage point increase in cost inflation	-34.1	-34.7	-8.5	-12.6

The key risks are explained in more detail below.

The **longevity risk** is the probability of a loss due to the fact that insured individuals receiving a regular (temporary or lifelong) payment receive that payment for a longer period of time than assumed when the provision was made. Under Solvency II, this risk is quantified as the increase in the provision (relative to the best estimate) required to be able to absorb 20% of an integral decline in the mortality rates.

The **disability risk** is the risk of losses or detrimental changes in the value of the insurance liabilities resulting from changes in the level, the trend, or the volatility of the frequency or weight of insurance claims due to changes in the invalidity and illness ratios.

The life insurance business does not offer any products with additional work-related disability coverage and consequently has no sensitivity to the work-related disability risk.

The key risk for the non-life insurance business is the work-related disability risk. This is the risk of losses resulting from differences between the actual and assumed work-related disability, and the actual and assumed trend in expectations concerning work-related disability. The unemployment risk also plays an important role for work-related disability insurances with partial cover. There is no separate shock for this in the SII standard model. Part of the **premium and loss provision risk** is the employment risk.

The **surrender risk** (unnatural decrease in life insurance) pertains to premature termination of insurance other than as a result of manifestation of the insured risk (death). If the surrender value plus the surrender costs settled amount to less than the provision released plus the actual costs incurred, there is a positive result. But surrender also means there is less future cost coverage and less result on mortality.

The unnatural decrease risk in the life insurance portfolio is mainly a factor for the NPAP portfolio. The decrease in the impact on the excess value at the life insurance business for 2017 compared to 2016 (see Table 1) is a result of the rationalization of the NP product.

With effect from 2016, a premium provision was added for AOV. This results in there being a surrender shock at the non-life business as well. The increase in the impact on the excess value at the non-life insurance business compared to 2016 (see Table 1) is the result of the calculation method, whereby three years of new premiums – instead of one year – is included for collective contracts.

The **cost risk** is the risk of losses or a detrimental change in the value of the insurance liabilities resulting from changes in the level, the trend, or the volatility of the costs incurred for performing insurance contracts. This gives rise to the risk that the future continuous costs will be higher than the bases used in determining the best estimate for the technical provisions, while the cost markup in the premiums cannot be increased. Sensitivity to the cost risk is measured in accordance with the specifications of the Solvency II standard formula.

Market risk

Market risk is defined as the effect that changes in market prices have on the value of the assets and liabilities and by extension, on the interest result. The remainder of this section only pertains to the group of products that are for the insurance business's own account and risk. The categorization of risk factors as set out in Solvency II is used here. The most important market risks to which the insurance business is exposed are: interest rate risk, share risk, real estate risk, and spread risk.

Interest rate risk

Interest rate risk is defined as the risk that the value of a financial instrument will fluctuate because of changes in the market interest rate. The insurance business has an interest rate risk on the assets side as well as the liabilities side of the balance sheet. On the assets side of the balance sheet, the insurance business has fixed-rate investments which change along with the interest rate. On the liabilities side, the liabilities are discounted with the risk-free rate: the DNB interest term structure excluding the ultimate forward rate (UFR).

Interest rate risk arises due to a difference in the interest rate sensitivity of the investments and the liabilities. This interest rate risk is considered to be undesirable by the insurance business. The interest rate policy is therefore based on a policy of interest rate risk immunization by means of swaps. With immunization, the swaps are purchased in such a way that the interest rate sensitivity of the fixed-income portfolio plus the swaps is virtually identical to the interest rate sensitivity of the liabilities. The balance sheet of the insurance business is not entirely immune to changes in the interest rate (non-parallel shifts on the interest rate curve). The so-called hedge ratio for the insurance business as a whole is 98% (2016: 100%).

The insurance business makes use of derivatives in order to hedge and manage the interest rate risk. Table 3 shows the net asset value of the derivatives positions of the insurance business in relation to the outstanding exposure.

The swap portfolio is used to align the interest rate sensitivity of the investments with the interest rate sensitivity of the liabilities. This hedges the lion's share of the interest rate risk. The remaining interest rate risk is regarded by the insurance business as acceptable. The swap portfolio is monitored constantly and adjusted if necessary. The outstanding interest rate risk is reported in the monthly risk reporting. For the sake of efficient portfolio management, the asset managers mainly use futures and swaps, within risk frameworks. The increase in the swap interest rate (10 year +22 basis points) caused the market value of interest rate swaps to decrease in 2017. The notional of the interest rate swaps was increased significantly while the notional of the interest rate futures show the opposite picture. This shift took place within the fixed-income securities portfolio. The manager hoped this would reduce the sensitivity to changes in the swap interest rate.

Table 2: Effect of a one percentage point change in the market interest rate on the result before taxes
(in millions of euros)

	Decrease 1%-point in market interest rate 2017	Increase 1%-punt in market interest rate 2017	Decrease 1%-point in market interest rate 2016	Increase 1%-point in market interest rate 2016
Life				
• investments	73.1	-73.1	72.8	-72.8
• liabilities	-132.7	132.7	-145.9	145.9
• interest rate swaps	58.5	-58.5	75.5	-75.5
Impact on result	-1.1	1.1	2.4	-2.4
Non-life				
• investments	51.3	-51.3	48.6	-48.6
• liabilities	-55.2	55.2	-58.6	58.6
• interest rate swaps	2.1	-2.1	8.2	-8.2
Impact on result	-1.8	1.8	-1.8	1.8

Table 3: Derivatives positions at the end of the financial year
(in millions of euros)

	Fair value 2017	Underlying value 2017	Fair value 2016	Underlying value 2016
Futures	2.8	-352.9	-0.5	-3.3
Forwards	0.2	-30.3	0.0	-89.4
Swaps	6.4	363.5	28.5	232.0
Total	9.4		28.0	

Equity risk

Equity risk is inherent to all assets and liabilities whose value is sensitive to fluctuations in equity prices. The insurance business does not invest for its own account and risk in exchange-traded equities because the accompanying volatility no longer matches the desired risk profile of the insurance business. Exchange-traded equity investments are nonetheless still undertaken for clients' accounts and risk since these can be part of an investment mix selected by the client.

At the end of 2017, the insurance business had a private equity portfolio for its own account and risk of € 9.5 million (2016: € 20.0 million).The decrease

Table 4: Real estate exposure
(in millions of euros)

	2017	2016
Residential	132.5	110.6
Retail	–	32.8
Infrastructure	35.5	32.1
Real estate total	**168**	**175.5**

Table 5: Real estate risk
(incl. leverage, in millions of euros)

	2017 Total	2017 As a %	2016 Total	2016 As a %
Residential	-39.9	-30.1%	-34.9	-31.6%
Retail	–	-0.0%	-11.1	-33.8%
Infrastructure	-11.2	-31.5%	-9.3	-28.9%
Real estate total	**-51.1**	**-30.4%**	**-55.3**	**-31.5%**

with respect to the previous year relates to the sale of undertakings or interests in companies the proceeds of which were paid out to the insurance business, as well as an increase in the value of the remaining portfolio. The impact of a decrease in the private equity price of 50.9% (2016: −47.6%), the current Solvency II shock, would result in a decrease in value of € 4.8 million (2016: −€ 9.3 million).

Real estate risk

Real estate risk is the sensitivity of the value of investments and liabilities to changes in the market value of real estate.

The insurance business invests in Dutch real estate via a limited number of unlisted companies. It also invests in infrastructure via an unlisted external investment vehicle. The total stake was reduced as a result of the combination of the sale of retail units and the increase in value in residential and infrastructure.

The real estate risk is measured in accordance with Solvency II. The effect of a 25% decline in the value of the real estate is calculated here, taking into account any leverage in the real estate funds (particularly in residential and retail). Infrastructure has been shocked by 30% since 2015.

As shown in Table 5, the amount of the shock rose in residential and infrastructure. This was caused by increases in value in the underlying real estate.

Spread risk

Spread risk is the risk that the level of the credit spreads above the risk-free rate changes. There are various definitions of the risk-free rate: in this context, spreads are specified in relation to the swap curve.

The fixed income securities portfolio is widely diversified across debtors, securities, and regions. The emphasis, however, is on European banks and financial institutions. Almost all of these investments (99.3%) are in investment grade debtors. The market value of the total portfolio is € 2.0 billion (2016: € 2.1 billion).

With regard to the creditworthiness of the fixed-income securities portfolio according to rating (using the ratings of S&P or Moody's), 85% belongs to Class A and higher (2016: 87%).

The fixed-income securities portfolio is primarily invested in Europe. More than 81% of the government portfolio is invested in the government bonds of northern European countries. The portfolio does not contain any government loans from Greece or Portugal. The exposure to local government authorities and state businesses in Italy and Spain amounts to € 42 million (2016: € 24 million).

The sensitivity to the spread risk, measured according to Solvency II, increased on balance in 2017 (negative € 81 million; negative 4.0%) compared to 2016 (negative € 72 million; negative 3.4%) as the result of shifts in the portfolio. The manager sold government bonds and bought back government-related corporate bonds for these. Under Solvency II, capital does not need to be maintained for government bonds, while this is the case for government-related corporate bonds.

Accounting principles for the valuation of assets and liabilities

Fixed assets

Intangible fixed assets (1)

The intangible fixed assets are carried at acquisition price or manufacturing cost, net of straight-line amortization. The amortization term is based on the expected economic life. An assessment is carried out on every balance sheet date to determine whether there is any indication that a fixed asset may be subject to an impairment. If there are indications that the recoverable value (in terms of the higher of value in use or realizable value) is lower than the book value, an impairment is recognized chargeable to the profit and loss account and this is explained in the notes. The reversal of earlier impairments is also recognized via the profit and loss account. An impairment loss for goodwill is not reversed in a subsequent period. Upon the acquisition of a company, all identifiable assets and liabilities of the particular company are recognized on the balance sheet at fair value on the acquisition date, unless it concerns a 'common control' transaction (common control transactions involve the purchase or sale of equity in group companies, and these are reported at book value). The acquisition price consists of the monetary amount or equivalent that is agreed for the acquisition of the acquired company. Goodwill arising on acquisition is measured on initial recognition as the difference between the purchase price and (its share in) the current value of the identifiable assets and liabilities.

Research costs are recognized in the profit and loss account. Expenditure for development projects is capitalized as part of the manufacturing cost if it is likely that the project will be commercially and technically successful (i.e., if it is probable that economic advantages will be achieved) and the costs can be reliably determined. A statutory reserve equal to the capitalized amount has been formed under the equity capital for the capitalized development costs. The amortization of the capitalized development costs starts as soon as commercial production has started and takes place over the expected future economic useful life of the asset.

Tangible fixed assets (2)

Tangible fixed assets are carried at acquisition price, net of straight-line depreciation or at lower value in use. Depreciation takes place on the basis of the expected useful economic life, taking into account any residual value. An assessment is carried out on every balance sheet date to determine whether there is any indication that a fixed asset may be subject to an impairment. If there are indications that the recoverable value (in terms of the higher of value in use or realizable value) is lower than the book value, an impairment is recognized chargeable to the profit and loss account and this is explained in the notes. The reversal of earlier impairments is also recognized via the profit and loss account.

Financial fixed assets (3)

Loans provided are carried at fair value on the initial recognition. After the initial recognition, loans provided are carried at amortized cost price, based on the effective interest method. In the absence of premiums/discounts, this is the face value.

Participations are valued at net asset value. This valuation stops as soon as this net asset value has become zero or lower. If the company stands as guarantor for all or part of the debts of participations, or there is an actual obligation to provide participations with financial support, a provision is created for this. Participations in which APG Group does not have significant influence are included under financial fixed assets and are valued at the lower of acquisition price or market value.

Deferred tax assets, including receivables arising from loss compensation, are recognized on the balance sheet to the extent it is likely that there will be future fiscal gains against which temporary differences and non-compensated fiscal losses can be set off. The calculation takes into account rates in effect in coming years to the extent that these have already been set. Valuation takes place at face value. Insofar as the deferred tax asset is of a short-term nature, it is included under the receivables, prepayments, and accrued income.

An assessment is carried out on every balance sheet date to determine whether there is any indication that a fixed asset may be subject to an impairment. If there are indications that the recoverable value of the financial fixed assets is lower on a long-term basis than the book value, an impairment is recognized and this is explained in the notes.

Investments insurance business (4)

The purchase and sale of investments is recognized on the transaction date, i.e., the date on which the company enters into the obligation to purchase or sell the asset. On initial recognition, investments are carried at fair value, which is the cost price of the acquired asset. Transaction costs are recognized in the profit and loss account. Changes in fair value are included in the profit and loss account in the period in which they occur.

The investments can be subdivided into three categories, specifically:

- real assets
- fixed-income securities
- other investments

Valuation of real assets

Some of the investments in real assets (financial assets) are valued on the basis of listed market prices (Level 1).

For unlisted investments (real estate investments, for instance), estimates are used (Level 2). Where estimates are used, they are based on evidence from independent third parties, whereby this value is based on the fair value of the underlying investments. Although such valuations are sensitive to estimates, it is assumed that changes in one or more of the assumptions to reasonably possible alternative assumptions will not significantly change the fair value.

Fair value measured at Level 3 uses market variables for the asset which are not observable. Input variables that cannot be observed may be used if observable input variables are not available. This way, fair value can still be measured at the reporting date in situations in which there is no, or almost no, active market for the asset or liability. The measurement is then based on the best estimate by management, which would normally use the market to measure the value of the financial instrument.

Valuation of fixed-income securities

Most of the investments in fixed-income securities (bonds) are valued on the basis of listed market prices (Level 1).

For unlisted and inactive fixed-income securities, observable market data is used (Level 2). Fair value measured at Level 2 uses inputs other than listed prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specific (contractual) term, a Level 2 input variable must be observable for practically the entire duration of the asset or liability.

Valuation of other investments

These investments are derivatives held to hedge risks in the provisions as well as in the investment portfolio. Some of these are listed (futures) and can therefore be categorized as Level 1. Daily observable valuations (Level 2) are available for the other investment forms in this category.

Swaps are valued daily, using models based on generally accepted principles, by discounting the most current expected cash flows with current interest rate curves.

All changes in the value of these derivatives are recognized directly in the profit and loss account as a charge or credit to the investment income in the category of other investments.

Current assets

Receivables, prepayments, and accrued income (5)

Receivables, prepayments, and accrued income are included at fair value on initial recognition. After initial recognition, the receivables are valued at amortized cost price. This value usually corresponds to the face value less any provisions deemed necessary for bad debts.

Receivables from reinsurance (6)

Receivables from reinsurance are included at fair value on initial recognition. After initial recognition, the receivables are valued at amortized cost price. This value usually corresponds to the face value less any provisions deemed necessary for bad debts.

Cash (7)

Cash is valued at face value.

Group equity (8)

The equity capital is explained in the notes to the company financial statements.

Provisions

Insurance liabilities (9)

The provision for insurance liabilities is made up of the provision for life insurance liabilities and the provision for non-life insurance liabilities.

Life insurance liabilities

The provision for life insurance liabilities comprises the provision for periodic benefits already in payment and deferred, the provision for pension insurance contracts, the provision for unit-linked insurance (with and without guarantees), and the provision for end value guarantees.

The provision is valued at the present value of the expected future cash flows.

– Periodic benefits already in payment and deferred
The mortality rates used in the provision for periodic benefits already in payment and deferred for the most important life insurance contracts are based on the generation tables published in 2016 by the Actuarial Association, in the first instance corrected with an age-related factor. The resulting corrected table is then multiplied by product and sex-related correction factors. For the unindexed annuities, this table is multiplied by 94% for men and 80% for women, and for indexed annuities by 121% for men and 122% for women.

Annual indexation is taken into account when determining the expected cash flows. This does not apply for the new policies from 2013 onward, for which management has decided not to create an indexation provision because of the low interest rate.

The resulting cash flows are then converted to present value using a current risk-free yield curve; this is based on the DNB interest term structure excluding the UFR. Finally, the provision is increased by supplements for future administrative expenses, with it being presumed that the current level of expenses constitutes a realistic assumption for future costs and expenses, adjusted for inflation.

– Unit-linked insurance
The entire premium less coverage for initial costs is periodically credited to the investment balance. The deduction of costs and risk settlement takes place monthly. The total provision for the insurance at any given moment is the value of the investment balance. The provision is determined with reference to the number of units and the share price in effect at that time. The investment yield is settled in the insurance by means of share price changes. The administrative expenses are financed from the product and/or term-dependent withholding from the investment yields.

The mortality rates used in the risk settlement are appropriate to Loyalis NV's client population. The mortality rates largely correspond to the 2000-2005 mortality tables of the Actuarial Association, with an age step-back for men and women of three years;

The provision is increased by supplements for future administrative expenses, with it being presumed that the current level of expenses constitutes a realistic assumption for future costs and expenses, adjusted for inflation.

– Other
The provision for end value guarantees is calculated based on the present value of the guarantee capital with the risk-free interest term structure, excluding UFR, as a discount rate.

The provision for pension insurance contracts is the present value of the insured pensions with the current risk-free interest term structure as a discount rate.

Non-life insurance liabilities
The main non-life insurance contracts concern work-related disability insurance policies. The provisions for these non-life insurance policies are based on the estimated amounts of the benefits ultimately payable in respect of all claims arising prior to the balance sheet date, regardless of whether they have already been reported at that date, along with the associated (future) administrative expenses.

A significant delay can occur in relation to the reporting of claims, since the benefit does not start payment until years after the first day of illness.

The provision for non-life insurance liabilities can be divided into a portion related to reported claims that have been granted (periodic benefits) and a portion related to claims incurred but not reported (IBNR).

A markup for future administrative expenses applies for both provisions, with it being presumed that the current level of expenses constitutes a realistic assumption for future costs and expenses, adjusted for inflation.

– Provision for periodic benefits
The mortality tables used for the provision for periodic benefits are based on the generation tables published in 2016 by the Actuarial Association, which, based on the analysis of the assumptions, have been adjusted by a factor of 270% for men and for women. Annual indexation is taken into account when determining the expected cash flows. This does not apply for the underwriting years from 2013 onward, for which the management has decided not to create an indexation provision because of the low interest rate. The resulting cash flows are then converted to present value using a risk-free interest term structure excluding UFR, at the end of the reporting year.

– IBNR provision
The entire risk premium is reserved in an IBNR (incurred but not reported) provision. For actual claims, a transfer takes place from the IBNR provision to the provision for periodic benefits described above.

The total provision comprises the sum of the IBNR and the provision for periodic benefits. If the actual claims experience deviates from the claim that can be financed with the risk premiums, an extra amount must be added to the provision in the interim, or part of the IBNR provision can be released. An estimate of the IBNR provision is made based on detailed analyses.

Deferred taxes (10)
The provision for deferred taxes includes the deferred tax liabilities resulting from (temporary) differences between commercial and fiscal assets. The calculation takes into account rates that apply for coming years, to the extent that these have already been set. Valuation takes place at face value. Insofar as the deferred tax liability is of a short-term nature, it is included under payables.

Other provisions (11)
General
The other provisions concern liabilities or losses which will most likely have to be settled or taken, and the size of which can be reliably estimated. The size of the provision is determined by estimating the amounts necessary to settle the particular liabilities and losses as of the balance sheet date and are carried, insofar as they are long term, at the present value of the expected future expenses. The discount rate used is based on the year-end interest rate for investment-grade Dutch corporate bonds, taking into account the remaining duration of the provisions.

Personnel-related provisions
Personnel-related provisions, including the restructuring provision, insofar as they are long term, are valued at the present value of the expected future expenses, taking into account the relevant actuarial bases. The discount rate used is based on the year-end interest rate for investment-grade Dutch corporate bonds, taking into account the remaining duration of the provisions. Short-term personnel-related provisions are created on the basis of the face value of the expenditure that is expected to be necessary to settle the liabilities and losses.

Other personnel-related provisions
The other personnel-related provisions, including the provision for leave and long-service anniversaries, are stated at the present value of the expected payments during the employment relationship. The calculation of the provision takes into account, among other things, expected salary increases and the likelihood of the employee remaining with the employer. When discounting to present value, the market interest rate

of investment-grade Dutch corporate bonds is used as the discount rate.

Other provisions
The other long-term provisions, including the provision for the separation of the administrative organization and the provision for major maintenance, are included at present value. The discount rate used is based on the year-end interest rate for investment-grade Dutch corporate bonds, taking into account the remaining duration of the provisions. Short-term provisions are created on the basis of the face value of the expenditure that is expected to be necessary to settle the liabilities and losses. The addition to the provision for major maintenance is determined on the basis of the estimated maintenance amount and the intervals at which recurring major maintenance activities are performed.

Long-term liabilities (12)
The long-term liabilities are initially valued at fair value. After initial recognition, the long-term liabilities are valued at amortized cost price. This value usually corresponds to the face value.

Current liabilities and accrued liabilities (13)
Current liabilities and accrued liabilities are valued at fair value on initial recognition. Current liabilities and accrued liabilities are subsequently valued at amortized cost price. This value usually corresponds to the face value.

Accounting principles for determination result

General
The items included on the profit and loss account are largely a function of the accounting policies in respect of the investments and the provision for insurance liabilities used in the preparation of the balance sheet. Both realized and unrealized results are accounted for directly in the result.

Yields, expenses, and payments are attributed to the period to which they relate.

Net turnover
Insurance premiums (14)
The insurance premiums are the premiums and single premiums relating to the financial year, including the addition to the provision for indexation granted on benefits based on the policy terms and conditions. All premiums attributable to the financial year are recognized, with the exception of the premiums for surviving dependents' pension (ANW) and term life insurance. The ANW and term life insurance premiums received in advance are added to the provision for unearned premiums. Reinsurance concerns the term life portfolio and the Disability Pension Supplement Plan and amounts to a percentage of the benefits.

Investment results (15)
Net investment income comprises the dividend on real assets and interest income from fixed-income securities for the financial year, fair value changes in investments and derivatives, and gains and losses on the sale of investments and derivatives.

The dividend on investments in real assets is treated as a gain on the ex-dividend date. Interest income is recognized in the period to which it relates.

Changes in value represent the difference between on the one hand, the book value at the end of the year or the proceeds from sale during the year and on the other, the book value at the end of the preceding year or the acquisition price during the year.

Income from services to third parties (16)
The fees received from third parties for administrative activities for pension administration and asset management, less any discounts, are attributed to the period to which they relate.

Other operating income (17)
The income from other services provided to third parties is recognized less discounts and taxes levied on turnover. Income from services provided is recognized prorated to the performance delivered, based on the services provided up to the balance sheet date as a proportion of the total services to be provided.

Operating expenses
Provision for insurance liabilities (18)
The provision for insurance liabilities consists of the change in the provision for insurance liabilities, as this arises from the way in which these are valued on the balance sheet, as well as indexation from profit sharing granted on the basis of the policy terms and conditions.

Claim handling costs are not included here and are reported under the operating expenses.

Payments (19)
Payments are attributed to the period to which they relate.

Personnel costs (21)
Wages, salaries and social security contributions are recognized in the profit and loss account based on the terms of employment insofar as they are payable to the employees. The pension schemes are recognized in accordance with the liabilities method, on the basis of the applicable pension agreements; the pension contributions due for the financial year are recognized in the profit and loss account as an expense.

Amortization and depreciation on intangible and tangible fixed assets (22)
Amortization or depreciation is recognized from first taking into use onwards, proportionate to the expected economic useful life, taking any residual value into account, according to the straight-line method.

Other operating costs (24)
Operating costs are attributed to the period to which they relate.

Interest income and similar yields (25)
Interest income and similar yields are attributed to the reporting year, where necessary taking into account the effective interest rate of the relevant assets. The interest income is income from current accounts and deposits, insofar as this is not considered part of the investment income.

Interest charges and similar costs (26)
Interest charges and similar costs are attributed to the reporting year where necessary, taking into account the effective interest rate of the relevant liabilities.

Taxes (27)
The taxes on the result are calculated on the result before taxes in the profit and loss account with due consideration for the available losses from previous financial years that may be offset (insofar as these are not included as part of the deferred tax assets) and tax-exempt profit components, and after adding any non-deductible costs. Temporary differences resulting from differences in commercial and fiscal valuation are expressed in (the development in) the deferred tax liability or asset.

In addition, changes in the deferred tax assets and deferred tax liabilities arising from changes in the applicable tax rates are taken into account.

Result from participations (28)
The result from participations is determined based on the change in the net asset value.

Leasing
Lease contracts whose economic benefits and disadvantages are not for the account and risk of the company are classified and reported as operational leases. The lease obligations are recognized in the

profit and loss account over the contractual lease period on a straight-line basis, taking into account any reimbursements received from the lessor.

Financial instruments

When using cost price hedge accounting, the first valuation and the basis for recognizing the hedge instrument on the balance sheet and determining its result depends on the hedged position. If the hedged position is recognized on the balance sheet at cost price, the derivative is also carried at cost price. As long as the hedged item in the cost price hedge has not yet been recognized on the balance sheet, the hedge instrument is not revalued. The ineffective component of the hedge transaction is recognized directly in the profit and loss account.

APG Group has documented its hedging strategy in writing. The assessment of whether, when using hedge accounting, the derivative financial instruments are effective in setting off the currency results of the hedged items is documented in writing using generic documentation. Hedge relationships are terminated if the respective derivative instruments expire or are sold. APG Group carries out a quantitative effectiveness test at least at every formal reporting event as well as upon inception of the hedge relationship.

Accounting principles for determination cash flow statement

The cash flow statement is prepared in accordance with the indirect method and provides insight into movements in the balance sheet item of cash. Cash flows in foreign currency are converted at the average exchange rate.

Notes to the consolidated balance sheet

In thousands of euros

Fixed assets

Intangible fixed assets (1)

The intangible fixed assets include the goodwill calculated upon the acquisition of business activities and capital interests, and the value of the client contracts and insurance portfolio identified with this acquisition. This item also includes purchased software.

The movement in these items is as follows.

	Goodwill	Cliënt contracts	Insurance portfolio	Software	Total 2017	Total 2016
Opening balance	176,004	248,585	20,732	8,629	453,950	531,377
Investments	–	–	–	5,176	5,176	5,251
Amortization	-17,228	-43,384	-17,771	-4,354	-82,737	-82,681
Decreases in value	-33,128	-41,479	–	-49	-74,656	–
Other changes	–	–	–	–	–	3
Closing balance	125,648	163,722	2,961	9,402	301,733	453,950
Cumulative purchase value	326,675	629,702	177,707	62,742	1,196,826	1,193,691
Cumulative amortization and decreases in value	-201,027	-465,980	-174,746	-53,340	-895,093	-739,741
Book value	125,648	163,722	2,961	9,402	301,733	453,950
Amortization rates	5-10 %	5-10 %	10 %	20-25 %		

The economic life of the intangible fixed assets, with the exception of purchased software, is based on the period over which future economic benefits from underlying contract agreements with a long term are derived. Of the goodwill recognized at year end 2017, € 125.6 million has a remaining economic life of approximately ten years. Of the client contracts recognized at year end 2017, € 163.7 million has a remaining economic life of approximately five years.

The price reductions implemented for the benefit of our participants resulted in a long-term decrease in the value of the goodwill and client contracts by € 74.6 million in 2017. Based on the assessment at year end 2017, the recoverable value (i.e., the value in use of the goodwill and client contracts) of APG Rechtenbeheer NV is an estimated € 77.0 million less than the book value. € 74.6 million of this loss relates to the goodwill and client contracts attributed to the cash-generating unit.

A discount rate of 7.5% was taken into account when estimating the recoverable value at year end 2017. The cash flow forecasts were based on the management's market expectations for the future.

The software includes intangible fixed assets which have been fully amortized, but which are still in use. There are no intangible fixed assets with limited ownership rights and no intangible fixed assets have been furnished as security for debts, nor are there any liabilities due to the acquisition of intangible fixed assets.

Tangible fixed assets (2)

The tangible fixed assets comprise the furniture and fittings, data processing equipment, and other tangible fixed assets.

The movements in this item are as follows.

	Furniture and fittings	Data processing equipment	Other	Total 2017	Total 2016
Opening balance	6,958	11,673	4,948	23,579	23,890
Investments	1,187	6,635	213	8,035	7,628
Disposals	–	–	-1,023	-1,023	-77
Depreciation	-1,249	-5,379	-749	-7,377	-8,040
Changes in value	–	-219	-	-219	–
Other changes	-75	-48	-503	-626	178
Closing balance	6,821	12,662	2,886	22,369	23,579
Cumulative purchase value	27,792	50,743	7,938	86,473	84,950
Cumulative depreciation and decreases in value	-20,971	-38,081	-5,052	-64,104	-61,371
Book value	6,821	12,662	2,886	22,369	23,579
Depreciation rates	< 20 %	20-25 %	10 %		

No securities have been furnished.
The item 'other' includes leasehold improvements.

Financial fixed assets (3)

The financial fixed assets include a deferred tax asset resulting from differences between commercial and fiscal valuations, participations that are not consolidated and other financial fixed assets.

The list of participations not included in the consolidation is included in the notes to the company financial statements on page 50.

The movement in these items is as follows.

	Deferred tax assets	Loan	Participa-tions	Other	Total 2017	Total 2016
Opening balance	139,770	2,720	2,900	3,187	148,577	134,642
Purchases and benefits/allocations	1,533	200	1,100	856	3,689	4,779
Sales and repayments	-1,459	–	–	-340	-1,799	-1,127
Result from participation	–	–	-1,785	–	-1,785	–
Changes in value	–	–	–	351	351	112
Other changes	3,974	–	–	-444	3,530	10,171
Closing balance	143,818	2,920	2,215	3,610	152,563	148,577

The item participations concerns the participations of Campus Heerlen Huisvesting BV and Campus Management & Development BV. In the case of both participations, there is no predominant control and it was decided to value both participations at net asset value.

The deferred tax asset mainly relates to temporary differences between the commercial and fiscal valuation of the goodwill created as a result of the detaxation in 2008 (and agreed on with the Tax and Customs Administration), and of the investments and insurance liabilities of the insurance business.

The deferred tax asset is offset against the fiscal results in future years. A deferred tax asset is created for losses from the past that may be offset if and insofar as these tax losses can be expected to be able to be used to offset positive results within the time frames that apply to these. The differences that can be offset and losses not included amount to € 0.2 million (2016: € 0.2 million).

Investments insurance business (4)

The investments of the insurance business are held both at the business's own expense and at the expense and risk of policyholders. The unlisted securities included in these investments concern indirect real estate investments, infrastructure funds, and private equity and mortgage funds. The fixed-income securities are bonds. The other investments consist of the overlay fund (a type of umbrella fund for taking derivatives positions across the entire portfolio). Forward exchange contracts and interest rate swaps are included in the overlay fund.

Fair value hierarchy

Investments are valued at fair value. These are categorized based on the following hierarchy.

Published prices in active markets (Level 1)

Fair value measured at Level 1 only uses listed prices (unadjusted) in active markets for identical assets and liabilities. An active market is one in which transactions take place with sufficient frequency and volume so that prices are regularly available. Examples are equities, bonds, and investment funds listed on active markets.

Investments that belong to this category are:
1. Liquid fixed-income securities
2. Listed investment funds
3. Futures

Measurement method based on (significant) observable market inputs (Level 2)

Fair value measured at Level 2 uses inputs other than listed prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 involves the following input variables:
- Listed prices for similar (i.e., not identical) assets/liabilities in active markets;
- Input variables other than listed prices observable for the asset, in particular market data based on income, yield curves, and observable market data (income is based on loss-adjusted cash flows based on customary parameters, such as volatility, early redemption spreads, loss ratio, credit risks, and default rates);
- Input variables arising mainly from or confirmed by observable market data by correlation or other means (market-confirmed inputs).

Investments that belong to this category are:
1. Interest rate swaps
2. Currency forward contracts

When valuing interest rate swaps, the future exchange of cash flows, which are based on a fixed interest rate, or a variable interest rate that can be derived from a swap interest rate observable in the market, is discounted with the swap interest rate observable in the market.

The value of currency forward contracts can be derived from the difference between the exchange rate agreed on in the contract at which cash flows can be exchanged in the future and the current exchange rate.

Measurement method not based on (significant) observable market inputs (Level 3)

Fair value measured at Level 3 uses market variables for the asset which are not observable. Input variables that cannot be observed may be used if observable input variables are not available. This way, fair value can still be measured at the reporting date in situations where there is no, or almost non, active market for the asset or liability. The measurement is then based on the best estimate by management, which would normally use the market to measure the value of the financial instrument. Examples include certain private equity investments and private placements.

Investments that belong to this category are:
1. Private equity
2. Unlisted investment funds (real estate, infrastructure, and mortgages)

The fair value of these investments is based on the non-observable net asset value provided by the manager of the investment. The manager in turn uses valuation models in which a significant portion of the input variables that are decisive for the determination of value is not observable in the market.
See the section on risk for a sensitivity analysis concerning this.

In summary, the fair value hierarchy can be depicted as follows:

Market Values	Level 1 2017	Level 1 2016	Level 2 2017	Level 2 2016	Level 3 2017	Level 3 2016	Total 2017	Total 2016
Real assets	137,403	132,630	-	-	164,247	200,910	301,650	333,540
Fixed income	2,450,979	2,516,885	-	-	285,691	185,444	2,736,670	2,702,329
Other	2,834	2,033	6,595	28,461	90,167	84,309	99,596	114,803
Total investment portfolio	**2,591,216**	2,651,548	**6,595**	28,461	**540,105**	470,663	**3,137,916**	3,150,672

The table above shows the total investment portfolio including derivatives with a negative value which are stated under the other investments (2017: € 8.3 million; 2016: € 5.8 million).

Shifts to a different fair value determination category took place within the investments. Based on the nature of their valuation, mortgage funds shifted from Level 2 to Level 3. Comparative figures have been adjusted accordingly.

Movements in the investments of the insurance business are as follows:

	Real assets	Fixed-income securities	Other investments	Total 2017	Total 2016
For own account					
Opening balance	195,738	2.304,169	38,806	2,538,713	2,327,748
Purchases and sales	-31,593	20,998	4,871	-5,724	64,474
Development in value	12,986	11,461	-32,050	-7,603	146,491
Closing balance	**177,131**	**2,336,628**	**11,627**	**2,525,386**	2,538,713
Derivatives with negative value	-	-	8,309	8,309	5,046
Net position of investments	**177,131**	**2,336,628**	**19,936**	**2,533,695**	2,543,759
For policyholders' risk with guarantee					
Opening balance	39,453	250,280	22,806	312,539	469,946
Purchases and sales	-8,605	3,218	-4,852	-10,239	-177,369
Development in value	2,936	-2,053	6,489	7,372	19,962
Closing balance	**33,784**	**251,445**	**24,443**	**309,672**	312,539
Derivatives with negative value	-	-	2	2	393
Net position of investments	**33,784**	**251,445**	**24,445**	**309,674**	312,932
For policyholders' risk without guarantee					
Opening balance	98,350	147,879	53,191	299,420	199,500
Purchases and sales	-21,069	4,355	2,014	-14,700	87,260
Development in value	13,455	-3,636	8,320	18,139	12,660
Closing balance	**90,736**	**148,598**	**63,525**	**302,859**	299,420
Derivatives with negative value	-	-	1	1	320
Net position of investments	90,736	148,598	63,526	302,860	299,740
Total investment portfolio	**-**	**-**	**-**	**3,146,229**	3,156,431
Of the closing balance:					
Listed	-	-	-	2,599,530	2,961,377
Not listed	-	-	-	546,699	195,054

Current assets

Receivables, prepayments, and accrued income (5)	12-31-2017	12-31-2016
Accounts receivable	15,829	25,455
Receivables from related parties	167,901	180,835
Amounts not yet invoiced	28,013	24,657
Taxes and national insurance contributions	6,397	13,757
Corporate income tax	22,758	–
Accounts receivable from investments	10,292	7,958
Receivable insurance premiums	12,275	12,580
Other receivables and accrued income	19,994	24,159
Total	283,459	289,401

The receivables from related parties mainly pertain to the services provided to the mutual investment funds on account of management by APG Group. The mutual investment funds are investment communities in which assets are brought together by multiple clients with common investment goals, and the management is performed by APG Group.

The receivables do not include any items with a remaining term of more than one year. No securities have been furnished and no interest was received on the receivables.

Receivables from reinsurance (6)	12-31-2017	12-31-2016
Reinsurance portion of provisions	41,640	33,994
Receivables from reinsurance	950	1,805
Total	42,590	35,799

This item includes the receivables from reinsurance accruing to the insurance business.
The term of the reinsurance portion is virtually identical to that of the respective insurance liabilities.

Cash (7)	12-31-2017	12-31-2016
Bank balances in current account	398,798	425,769
Deposits	190,000	231,626
Cash from investments	32,855	25,805
Total	621,653	683,200

A sum of € 4.8 million of the cash (2016: € 11.3 million) may not be freely disposed of. The cash from investments may similarly not be freely disposed of.

No further security has been furnished, nor have any supplementary terms and conditions been entered into.
In view of the nature of the deposits (short term), the interest rate risk is very low. The deposits are with well-known financial institutions. This is why the credit risk is limited.

Group equity (8)

	12-31-2017	12-31-2016
Equity capital	1,186,742	1,229,953
Group equity	1,186,742	1,229,953

The composition of APG Group's equity capital is explained in the notes to the balance sheet in the company financial statements.

Capital and dividend policy

The principal aim of APG Group's capital policy is to maintain good creditworthiness and healthy solvency as well as to support the insurance activities. The guiding principle in the capital policy is that all business operations must be financed using the company's own resources, thereby satisfying the statutory requirements stipulated for this.

Solvency

The solvency standard is expressed in the solvency ratio. The solvency ratio is actual equity capital over capital requirement, multiplied by 100%. APG uses the standard Solvency II model to calculate the capital requirement.

Solvency is reported on periodically. Measures (or tighter measures) may be taken depending on the level of the (expected) solvency. APG Group's solvency ratio was 190% at year-end 2017 (2016: 199%) based on Solvency II. Excluding the proposed dividend, the Solvency II ratio at year end 2017 was 223% (2016: 221%).

Official reporting to De Nederlandsche Bank on the solvency figures and accompanying notes will take place no later than June 17, 2018, in accordance with the statutory regulations. The ratio presented was based on the information currently available.

Capital requirement

In calculating the capital requirement for APG Group, the capital requirement of APG Asset Management based on MiFID was taken into account, along with the capital requirement for insurance business Loyalis based on Solvency II. From the group perspective, the market risk, counterparty credit risk, and diversification within the APG Group were also considered. APG Group's capital requirement based on Solvency II was € 429 million at year end 2017 (2016: € 408 million).

Available capital

The regulated participations APG Asset Management (MiFID) and insurance business Loyalis (Solvency II) are included in the calculation of the available capital in the manner prescribed by the legislator. The other participations, as well as the company assets and liabilities of APG Group, have been adjusted based on Solvency II. These adjustments mainly relate to the intangible fixed assets, deferred taxes, and off-balance sheet liabilities.

Based on this calculation, APG Group's available capital at year end 2017 was € 813 million (2016: € 811 million) (excluding the proposed dividend, the available capital at year end 2017 was € 958 million (2016: € 899 million)). The available capital was based entirely on market values. The capital consists of 95% Tier 1 capital (2016: 95%) and 5% Tier 3 capital (capital from active tax positions).

The available capital is determined by the actual capital, taking into account maximum Tier 3 capital of 15%.

Movements in group equity

The movements in the group equity and insight into the total result (group result and direct movements) are as follows.

		2017		2016
Opening balance		1,229,953		1,208,896
Group result after taxes	47,279		64,508	
Conversion differences foreign participation	-2,490		506	
Total result		*44,789*		*65,014*
Dividend paid out in cash	-88,000		-43,957	
Total direct movements in relationship with the shareholders		*-88,000*		*-43,957*
Closing balance		**1,186,742**		1,229,953

Provisions

Insurance liabilities (9)

The insurance liabilities relate to life insurance and non-life insurance. Some of the non-life insurance liabilities are reinsured. The reinsurance portion of the provision for non-life insurance in the amount of € 41.6 million (2016: € 34.0 million) is included under the receivables from reinsurance. The total liability is included under the provision for insurance liabilities.

	12-31-2017	12-31-2016
Provision for life insurance	2,005,770	2,106,950
Provision for non-life insurance	913,118	892,984
Total	**2,918,888**	2,999,934

Movements in the provision for insurance liabilities are as follows.

	For own account	For policy-holders' risk without guarantee	For policy-holders' risk with guarantee	Total 2017	Total 2016
Opening balance	2,034,587	293,189	672,158	2,999,934	2,948,154
Premium and other allocations	182,075	17,494	40,980	240,549	232,716
Interest added	-25,758	19,298	15,474	9,014	130,185
Profit sharing/indexation	–	–	–	–	-1,704
Release for expenses	-11,222	-3,071	-6,382	-20,675	-17,256
Release for payments	-143,559	-23,683	-104,574	-271,816	-222,078
Changes to assumptions	3,694	–	–	3,694	3,211
Other changes (expiry and surrender)	-42,074	-1,929	2,191	-41,812	-73,294
Closing balance	**1,997,743**	**301,298**	**619,847**	**2,918,888**	2,999,934

The provision for life insurance liabilities comprises:

	12-31-2017	12-31-2016
Periodic benefits already in payment and deferred	914,057	961,748
Pension insurance contracts	161,559	170,520
Unit-linked insurance with guarantees	619,847	765,957
Unit-linked insurance without guarantees	301,298	199,387
Risk insurance	9,009	9,338
Total	**2,005,770**	2,106,950

Changes in accounting estimates for Life

Research into the mortality rates within the portfolio prompted an adjustment of the mortality rates. The published AG2016 generation table serves as the basis. This table is corrected with age-related, product-related and sex-related factors. The effect of this change resulted in an increase in the provision by € 4.3 million in 2017.

The provision for non-life insurance comprises:

	12-31-2017	12-31-2016
Insurance policies for work-related disability	903,282	881,813
Sick pay	6,875	7,738
Other	2,961	3,433
Total	**913,118**	892,984

The provisions for these non-life insurance policies are based on the estimated amounts of the benefits ultimately payable in respect of all claims arising prior to the balance sheet date, regardless of whether or not they have already been reported at that date (incurred but not reported – IBNR), along with the associated (future) administrative expenses.

Changes in accounting estimates for non-life

Research into the mortality rates within the work-related disability portfolio prompted adjustment of the mortality rates for 2017. The new basis will be the AG2016 generation table (M/F 270%/270%). The effect of the change is a limited decrease in the provision. Loyalis also adjusted the outflow likelihoods for WGA-ERD. This results in a decrease in the provision by € 0.7 million.

Deferred taxes (10)

The provision for deferred taxes chiefly stems from the difference between the fiscal valuation of the intangible fixed assets, as far as the insurance portfolio is concerned. The allocation in 2016 arises from the deviating fiscal valuation of a personnel-related provision created in the past. In 2017, this portion of the deferred tax became immediately owed corporate income tax.

	2017	2016
Opening balance	25,313	12,759
Allocations	370	18,208
Release	-18,208	–
Utilized	-5,886	-5,654
Closing balance	**1,589**	25,313

Of the provision for deferred taxes, € 5.6 million (2016: € 5.2 million) has an expected term of less than one year.

Other provisions (11)

Movements in other provisions are as follows:

	Personnel-related provisions	Restructuring provision	Provision for separation of the administrative organization	Other	Total 2017	Total 2016
Opening balance	32,732	64,882	5,115	1,232	103,961	157,657
Allocations	5,825	13,961	–	2,031	21,817	51,868
Withdrawals	-7,163	-15,432	–	-2,142	-24,737	-67,546
Release	-2,263	-8,410	-1,348	–	-12,021	-38,293
Other changes	-1,369	–	–	-42	-1,411	275
Closing balance	**27,762**	**55,001**	**3,767**	**1,079**	**87,609**	103,961

€ 21.0 million (2016: € 18.4 million) of the total amount is expected to have a term of more than five years.
€ 28.9 million is expected to be settled in 2018 (2016: € 33.5 million).

Personnel-related provisions

This provision was created for liabilities following long-term personnel remunerations (long-service awards, bonus plan), liabilities arising from redundancies and (former) employment contracts (unemployment benefit (WW)), and a provision for a mortgage facility for former employees.

Restructuring provision

This provision was created to cover the costs of reorganizations related to the employer-facilitated voluntary departure schemes and redundancy analogous to the various stages of the change programs within the group. In 2017, an allocation in the amount of € 13.9 million was made (2016: € 36.5 million). This restructuring provision is created when a detailed plan of the reorganization is formalized and this has been announced to those affected. Withdrawals from the provision take place at the moment the particular expenditure related to voluntary departure and redundancy takes place. It emerged in 2017 that the total expected expenditure for the reorganization was lower than originally estimated, which resulted in a release of € 8.4 million.

Provision for separation of the administrative organization

This provision includes the unavoidable costs for temporary partial vacancy of the Basisweg office building, taking into account the likelihood of subletting. Effective from mid-2013, the building was partially sublet. The term of the provision coincides with the term of the lease, which runs to the end of 2020.

Other provisions

The other provisions concern a provision for major maintenance that was created for the future costs of major maintenance.

Long-term liabilities (12)

	2017	2016
Opening balance	23,767	23,767
Drawn down	–	–
Repayments	-12,856	–
Closing balance	**10,911**	23,767

At the initiative of the lender, a repayment at nominal value of € 12.9 million took place in 2017. Of the closing balance, an amount of zero relates to financing by related parties (2016: € 12.9 million). An amount of € 10.9 million of the closing balance has a remaining term of more than five years (2016: € 10.9 million). The interest rate is 7.25% per annum (2016: 5.4% to 7.25% per annum). No security has been furnished. The fair value of the long-term liabilities is € 23.4 million (2016: € 38.9 million).

Current liabilities and accrued liabilities (13)

	12-31-2017	12-31-2016
Debts arising from investments	1,464	822
Payments payable	20,221	20,160
Amounts received in advance	12,104	18,435
Amounts invoiced in advance	17,278	14,000
Accounts payable	20,639	33,409
Vacation pay and vacation days	23,642	24,070
Other personnel-related liabilities	30,164	34,014
Taxes and national insurance contributions	28,000	27,863
Corporate income tax	1,819	9,938
Amounts owed to related parties	158,997	171,572
Amounts not yet paid	24,062	26,245
Invoices still to be received	4,284	5,073
Liabilities in connection with pensions	5	1,285
Liabilities relating to derivatives	6,811	12,699
Rent reduction for office building	972	1,449
Other liabilities	14,395	6,975
Total	364,857	408,009

The liabilities relating to derivatives include a sum of € 1.5 million (2016: € 6.9 million) in cash collateral received to hedge the settlement risk of currency forward contracts. These were concluded to finance the future costs of the activities of the foreign participations. The accounts payable include a sum of € 14.8 million (2016: € 14.7 million) in debts to the Dutch Tax and Customs Administration.

Of the rent reduction for an office building, a sum of € 0.3 million relates to 2018 and € 0.7 million relates to the years 2019 to 2022, inclusive (2016: in total € 1.4 million).

The current liabilities do not include any other items with a remaining term of more than one year (2016: zero). No interest has been paid on the current liabilities.

Off-balance sheet liabilities and assets

At the balance sheet date, liabilities under current rental agreements in the amount of € 100.0 million are outstanding (2016: € 122.3 million), of which € 22.8 million is due within one year (2016: € 23.1 million), € 60.9 million is due between one and five years (2016: € 77.1 million) and € 16.3 million is due after five years (2016: € 22.1 million). € 15.1 million in rental costs are reported for the reporting year (2016: € 16.1 million).

In 2015, APG Group entered into long-term contracts with two contract parties for the purchase of professional services. This ensues from the founding of the Brightlands Smart Services Campus in cooperation with Maastricht University and the Province of Limburg. The liabilities in connection with these contracts total € 91.2 million (2016: € 102.0 million), of which € 10.8 million is due within one year of the end of the financial year (2016: € 10.8 million), € 44.4 million is due between one and five years (2016: € 43.2 million) and € 36.0 million is due after five years (2016: € 48.0 million). Minimum purchasing volumes were agreed on in the contracts. If the actual purchase volumes realized are lower than the minimum volume applicable at that time, APG Group is required to pay 25% of the difference. In the event of early termination by APG Group, termination compensation amounts have been agreed on, depending on the time of termination. The maximum potential liability arising from this is € 4.0 million.

The liabilities under long-term car lease contracts are € 8.1 million (2016: € 8.3 million), of which € 3.5 million is due within one year of the end of the financial year (2016: € 3.6 million) and € 4.6 million is due between one and five years (2016: € 4.7 million). There are no liabilities due after five years. € 5.4 million in lease costs are reported for the reporting year (2016: € 4.2 million). The lease company determined the lease liability on the basis of the depreciation plus a surcharge for fuel, insurance, maintenance, and taxes.

The liabilities arising from maintenance and other contracts are € 17.4 million (2016: € 19.4 million), of which € 9.4 million (2016: € 11.7 million) is due within one year of the end of the financial year and € 8.0 million (2016: € 7.7 million) is due between one and five years. There are no liabilities due after five years.

At the end of the reporting year, the group had entered into investment obligations relating to data processing equipment and software in the amount of € 0.2 million (2016: € 0.6 million).

Specifically for the insurance business's investments in private equity and infrastructure, future commitments have been entered into for a total amount of € 6.1 million (2016: € 6.0 million).

The liabilities arising from derivatives concluded to hedge the financing of the foreign subsidiaries amount to € 92.0 million as of the balance sheet date (contract price). The fair value of these derivatives on the balance sheet date is negative € 2.0 million (2016: positive € 5.8 million). The liabilities have a term of less than 1 year. The contract conditions include the exchange of collateral to hedge the settlement risk.

There are a number of fiscal entities at the APG Group, specifically for corporate income and turnover tax. Within such a fiscal entity, the companies are jointly and severally responsible for each other's tax debts. The taxes are attributed to each company according to each company's share in the total tax as if the companies were independently liable for the tax.

With regard to the performance results from investments made under old mandates at a former subsidiary, there is still an entitlement to payments yet to be received (carried interest notes; 2017: € 0.3 million, 2016: € 0.2 million). The amount of the payments to be received in future is uncertain.

Notes to the consolidated profit and loss account

In thousands of euros

Net turnover

Insurance premiums (14)	2017	2016
Life insurance		
Own expense and risk	88,024	101,958
Policyholders' risk	18,273	11,785
	106,297	113,743
Non-life insurance		
Own expense and risk	148,140	140,446
Policyholders' risk	-	-
	148,140	140,446
Total	254,437	254,189

Investment results (15)	Real assets	Fixed-income securities	Other investments	Total 2017	Total 2016
Dividends	18,249	–	–	18,249	16,704
Interest	–	36,437	6,264	42,701	45,727
Changes in value	29,376	-1,904	-9,565	17,907	116,297
	47,625	34,533	-3,301	78,857	178,728
Result from financial transactions	–	–	–	–	534
Total	47,625	34,533	-3,301	78,857	179,262
For own account	*30,106*	*28,373*	*-13,421*	*45,058*	*146,053*
For policyholders' risk with guarantee	*3,507*	*4,444*	*4,017*	*11,968*	*20,005*
For policyholders' risk without guarantee	*14,012*	*1,716*	*6,103*	*21,831*	*12,670*
	47,625	34,533	-3,301	78,857	178,728
Result from financial transactions	–	–	–	–	534
Total	47,625	34,533	-3,301	78,857	179,262

The result from financial transactions comprises, among other things, costs relating to the purchase and sale of investments as well as currency gains/losses.

Income from services to third parties (16)	2017	2016
Asset management	449,047	429,387
Pension administration	234,754	244,003
Totaal	683,801	673,390

Other operating income (17)

This includes realized yields other than the yields arising directly from the administration contracts with pension funds and asset management for third parties. This item also includes the commissions and profit sharing received from reinsurers.

Segmented information on net turnover

Net turnover	2017	2016
Asset management	454,434	434,690
Pension administration	233,890	242,737
Insurance business	335,201	435,981
Supporting companies	156,208	165,966
APG Group company	36,210	39,119
Eliminations	-163,860	-174,774
Total	1,052,083	1,143,719

The segmented information is mainly in accordance with the legal structure of APG Group, whereby segmentation takes place into APG Asset Management, APG Rechtenbeheer, Loyalis, and supporting services.

Operating expenses

Change in provision for insurance liabilities (18)

For an explanation of this item, see the overview of movements in the provision for insurance liabilities in the notes to the balance sheet (9).

Payments (19)

This includes the payments made to policyholders. This involves sums to be paid out for life insurance in the amount of € 201.0 million (2016: € 193.3 million) and non-life insurance in the amount of € 64.0 million (2016: € 61.9 million) less reinsured life insurance amounts totaling € 0.0 million (2016: € 0.0 million) and non-life insurance in the amount of € 3.6 million (2016: € 3.8 million).

Costs of outsourced work and other external costs (20)

This item includes, among other things, the costs of hiring external personnel, auditor's costs, and consultancy costs.

Personnel costs (21)	2017	2016
Wages and salaries	279,445	282,833
Pension charges	28,019	26,555
Social security charges	28,411	29,655
Other personnel costs	46,435	37,778
Total	382,310	376,821

Employee pension scheme
The pension scheme for a large number of employees is administered by Stichting Pensioenfonds ABP (the General Pension Fund for Public Employees). The pension rights are accrued based on career average pay and the number of years of service, with conditional indexation. The pension scheme for the majority of the remaining employees is administered by Stichting Personeelspensioenfonds APG. The pension rights are accrued based on career average pay and the number of years of service, with conditional indexation. APG Group has no obligation to make additional contributions in the event of shortfalls in these pension funds other than the payment of future contributions. Based on this so-called defined contribution scheme, it is sufficient for the company to report the contribution as a cost.

Specific schemes apply for most employees abroad.

Number of employees
The group employed an average of 3,238 people in 2017 (2016: 3,371), divided into the following segments.

	2017	2016
Management and staff	283	308
APG Rechtenbeheer	1,175	1,281
APG Asset Management	720	694
Loyalis	234	239
APG Deelnemingen	210	207
Supporting units	616	642
Total	3,238	3,371

In 2017, an average of 163 employees were employed abroad (2016: 157). These employees all work at APG Asset Management.

Remuneration of Supervisory Board members and Executive Board members (in euros)
The remuneration of Supervisory Board members and Executive Board members is determined by the General Meeting of Shareholders.

Supervisory Board	Fixed compensation	Compensation for committee membership	Employer's charges and taxes	Total 2017	Total 2016
Bart Le Blanc	45,203	10,045	11,602	66,850	63,525
Pieter Jongstra	35,158	15,068	10,547	60,773	63,875
Edith Snoeij	30,135	12,556	8,965	51,656	52,142
Maes van Lanschot	30,135	12,556	8,965	51,656	49,503
Roger van Boxtel	30,135	5,023	7,383	42,541	44,713
Claudia Zuiderwijk	30,135	10,045	8,438	48,618	51,100
Dick van Well *	30,135	3,773	7,121	41,029	4,538

* from November 14, 2016

Effective April 1, 2017, the fixed compensation as well as compensation for committee membership for the Supervisory Board was increased by the CLA increase of 0.6%. The effect of the increase based on the CLA was largely offset by a reduction in employer's charges in 2017.

Unlike the situation in 2016, the compensation for committee membership for Bart Le Blanc and Maes van Lanschot covered a full year in 2017. Dick van Well's remuneration for 2016 was based on his appointment during the course of 2016. The fixed compensation reported for 2017 covers a full year; the compensation for committee membership covers three quarters.

Executive Board	Direct salaries	Compensation for lower pension accrual	Personnel costs	Pension charges	Total 2017	Total 2016
Gerard van Olphen *	502,094	55,774	9,779	18,460	586,107	448,183
Angelien Kemna **	391,145	42,967	8,148	22,212	464,472	525,003
Wim Henk Steenpoorte ***	110,914	12,354	2,896	5,171	131,335	-
Eduard van Gelderen ****	339,878	36,834	4,890	9,866	391,468	691,540
Mark Boerekamp *****	75,951	5,373	1,090	1,999	84,413	551,775

* from March 9, 2016
** until November 1, 2017
*** from September 14, 2017
**** until July 1, 2017
***** until February 9, 2017

The column 'direct salaries' contains the fixed annual salary, the vacation allowance, and year-end bonus. The salaries were increased by 0.6% effective April 1, 2017 in accordance with the CLA. The column 'compensation for lower pension accrual' stems from a generic scheme at APG Group on the basis of which the reduction in the employer pension contribution due to the capping of pension accrual on salary (in 2017: pension may be accrued on salary of up to € 103,317) accrues to the employee. The column 'personnel costs' contains the employer's charges; the column Pension charges contains the charges for pension contributions.

Wim Henk Steenpoorte joined the Executive Board of APG Group on September 14, 2017 and was assigned the portfolio of rights management and services.

Angelien Kemna's (second) term as member of the Executive Board/CFRO of APG Group ended on November 1, 2017.

Mark Boerekamp resigned from the Executive Board with effect from February 9, 2017. Severance pay of € 200,000 was agreed on upon termination of the employment contract. This amount comprises all fixed components of his pay, specifically his monthly salary, vacation allowance, year-end bonus, and compensation for lower pension accrual. The severance pay is equal to five months' salary and as such is less than the maximum permitted severance pay of one annual salary stipulated by the Remuneration Policy (Financial Enterprises) Act. The costs of the continued payment of his salary until August 1, 2017 were charged to the 2017 financial statements.

Eduard van Gelderen stepped down as a member of the Executive Board effective July 1, 2017. The employment was ended at Eduard van Gelderen's initiative. No compensation was provided upon termination of the employment contract.

There are no early retirement schemes for the members of the Executive Board.

No loans, advances, or guarantees have been provided to current or former members of the Executive or Supervisory Board.

Amortization and depreciation on intangible and tangible fixed assets (22)	2017	2016
Amortization of intangible fixed assets	82,737	82,681
Amortization due to impairment	74,875	-
Depreciation of tangible fixed assets	7,377	8,040
Total	164,989	90,721

Other changes in value in intangible and tangible fixed assets (23)

The price reductions implemented for the benefit of participants resulted in a long-term decrease in the value of the goodwill and client contracts by € 74.6 million in 2017.

Other operating costs (24)	2017	2016
Accommodation costs	40,596	40,937
Automation costs	67,426	67,833
Other	23,670	25,198
Total	131,692	133,968

The item 'other' includes, among other things, postage charges, office supplies, telephone charges, and other tangible expenses.

Interest income and similar yields (25)

The interest income is the income realized from current accounts and deposits.

Interest charges and similar costs (26)

The financial charges are mainly interest charges on long-term liabilities. Of the interest charges and similar costs reported, €0.6 million (2016: €0.7 million) pertains to relations with related parties.

Taxes (27)

The taxes in the consolidated profit and loss account can be specified as follows.

	2017	2016
Current period		
- current year	-32,994	-39,025
- adjustments to previous years	14,340	-
Change in deferred taxes		
- temporary differences	19,697	-2,634
Total	1,043	-41,659
Effective tax burden as %	-2.2%	39.7%

The change in the deferred tax assets and liabilities during 2017 relative to 2016 is mainly due to differences in the commercial and fiscal valuations of the investments, and the insurance provisions of the insurance business. In 2017, an adjustment for previous years was included here, arising from the deviating fiscal valuation of a personnel-related provision created in the past.

The effective tax rate deviates 27.2 percentage points from the applicable tax rate of 25.0%. This is primarily due to an adjustment for previous years arising from the deviating fiscal valuation of a personnel-related provision created in the past and because of deviating foreign tax rates.

Result from participations (28)

The result from participations is the result from participations not included in the consolidation.

Notes to the consolidated cash flow statement

The cash flow statement has been prepared in accordance with the indirect method. For the composition of cash, see the notes to the consolidated balance sheet.

Interest on cash is included under the interest received or paid. These items are considered operational activities and are therefore recognized as such.

The investments relate to investments in furniture and fittings, data processing equipment, and software.

The cash flow from financing activities includes the dividend payment in the course of the financial year as well as several settlements with Stichting Pensioenfonds ABP (the General Pension Fund for Public Employees).

Other notes

Transactions with related parties

Transactions with related parties take place under market conditions.

Some of the office buildings are leased from Stichting Pensioenfonds ABP under market conditions. The total contract term is 12 years and 8 months, commencing January 1, 2008. The costs amounted to € 8.0 million in the reporting year (2016: € 8.1 million) and will amount to € 6.3 million for 2018. The future liabilities arising from this contractual relationship are included under the lease obligations entered into as included in the category of off-balance sheet liabilities.

Stichting Pensioenfonds ABP, APG Group, Loyalis and its subsidiaries, APG Rechtenbeheer, APG Asset Management, APG Deelnemingen and its 100% subsidiaries (except Inotime and Inovita), and APG Diensten together form a fiscal entity for turnover tax. This means that the company is jointly and severally liable for the turnover tax liabilities of the fiscal entity as a whole.

With regards to corporate income tax, APG Group forms a fiscal entity together with APG Deelnemingen and its 100% subsidiaries (except Inotime and Inovita), APG Diensten, APG Asset Management, APG Rechtenbeheer, and Loyalis and its subsidiaries. This means these legal entities are jointly and severally liable for each other's tax liabilities. The corporate income tax of the fiscal entity is attributed to each of the companies belonging to the fiscal entity according to each company's share in the total corporate income tax.

Independent auditor's fees

KPMG Accountants is the independent auditor of APG Group and its subsidiaries as of the 2016 financial year. The auditor's costs are reported in 'costs of outsourced work and other external costs.'

In millions of euros	2017	2016
Audit of the financial statements	1.0	0.8
Other audit assignments (including work in relation to ISAE 3402)	2.3	2.3
Consultancy services in relation to tax matters	–	–
Other non-audit services	–	–

The auditor's fees for the audit of the financial statements are the costs that are attributable to the financial year.

The other audit assignments include € 1.3 million for audit-related work for reports to clients of APG Group in the context of the services provided by APG Group.

Events after the balance sheet date

No events with significant financial consequences for the legal entity and its group companies occurred after the balance sheet date.

Company financial statements

Company balance sheet as at December 31, 2017 (before profit appropriation)

In thousands of euros

Assets	12-31-2017	12-31-2016
Fixed assets		
Intangible fixed assets (1)	3,377	21,310
Tangible fixed assets (2)	1,084	1,189
Financial fixed assets (3)	1,032,794	1,063,046
	1,037,255	1,085,545
Current assets		
Receivables, prepayments and accrued income (4)	182,324	185,691
Cash (5)	221,499	241,573
	403,823	427,264
Total assets	1,441,078	1,512,809

Liabilities	12-31-2017	12-31-2016
Equity capital (6)		
Paid-up and called-up share capital	705,297	705,297
Share premium	416,380	416,380
Statutory reserves	4,148	6,638
Other reserves	13,638	37,130
Undivided result for the financial year	47,279	64,508
	1,186,742	1,229,953
Provisions (7)	27,124	64,636
Long-term liabilities (8)	10,911	23,767
Current liabilities and accrued liabilities (9)	216,301	194,453
Total liabilities	1,441,078	1,512,809

Company profit and loss account 2017

In thousands of euros

	2017	2016
Result from participations after taxes	61,017	110,361
Other result after taxes	-13,738	-45,853
Result after taxes	47,279	64,508

Accounting policies

The company financial statements have been drawn up in accordance with the statutory provisions of Title 9, Book 2 of the Dutch Civil Code and the authoritative statements from the Annual Reporting Guidelines published by the Dutch Accounting Standards Board. The accounting policies for valuation and for the determination of the result for the company financial statements and the consolidated financial statements are the same, with the exception that participations in group companies are valued in accordance with the equity accounting method on the basis of net asset value.

For the accounting policies for the valuation of assets and liabilities and for the determination of the result, see the notes to the consolidated balance sheet and profit and loss account.

To the extent items from the company balance sheet and company profit and loss account are not further explained below, see the notes to the consolidated balance sheet and profit and loss account.

Notes to the company financial statements

In thousands of euros

Fixed assets

Intangible fixed assets (1)

The intangible fixed assets include the insurance portfolio identified with the acquisition of a capital interest and software purchased.

The movements in this item are as follows.

	Insurance portfolio	Software	Total 2017	Total 2016
Opening balance	20,732	578	21,310	38,503
Investments	-	–	–	645
Amortization	-17,771	-162	-17,933	-17,838
Decreases in value	-	-	-	-
Closing balance	2,961	416	3,377	21,310
Cumulative purchase value	177,707	645	178,352	178,352
Cumulative depreciation and decreases in value	-174,746	-229	-174,975	-157,042
Book value	2,961	416	3,377	21,310
Amortization rates	10 %	20-25 %		

Tangible fixed assets (2)

The tangible fixed assets comprise the furniture and fittings in the sense of purchased art as well as data processing equipment.

The movements in this item are as follows.

	Furniture and fittings	Data processing equipment	Total 2017	Total 2016
Opening balance	818	371	1.189	779
Investments	–	–	–	453
Disposals	–	–	–	–
Depreciation	–	-105	-105	-43
Changes in value	–	–	–	–
Closing balance	818	266	1,084	1,189
Cumulative purchase value	818	414	1,232	1,232
Cumulative depreciation and decreases in value	–	-148	-148	-43
Book value	818	266	1,084	1,189
Depreciation rates	n.a.	20-25 %		

No securities have been furnished.

Financial fixed assets (3)

The item financial fixed assets concerns participations and a deferred tax asset.
The movements in this item are as follows.

	2017	2016
Opening balance	1,063,046	1,073,521
Investments	–	4,410
Disposals	–	-
Result for the financial year	61,017	110,361
Dividend paid out	-105,882	-125,754
Other changes	14,613	508
Closing balance	1,032,794	1,063,046

The closing balance includes a deferred tax asset of € 8.0 million.

Current assets

Receivables, prepayments, and accrued income (4)	12-31-2017	12-31-2016
Receivables from group companies	136,720	142,915
Other receivables and accrued income	45,604	42,776
Total	182,324	185,691

The receivables, prepayments, and accrued income mainly relate to claims on group companies and prepaid amounts. These have a term of less than one year.

No securities have been furnished and no interest was received on the receivables.

Cash (5)	12-31-2017	12-31-2016
Bank balances in current account	121,499	129,073
Deposits	100,000	112,500
Total	221,499	241,573

Of the cash, there is none that cannot be freely disposed of (2016: € 6.9 million).

Equity capital (6)

	12-31-2017	12-31-2016
Paid-up and called-up share capital	705,297	705,297
Share premium	416,380	416,380
Statutory reserves	4,148	6,638
Other reserves	13,638	37,130
Undivided result for the financial year	47,279	64,508
Total	1,186,742	1,229,953

The movements in equity capital are shown in the overview below:

	Paid-up and called-up share capital	Share premium	Statutory reserves	Other reserves	Undivided result for the financial year
Opening balance	705,297	416,380	6,638	37,130	64,508
Changes due to profit appropriation	–	–	–	64,508	-64,508
Change in statutory reserves	–	–	–	–	–
Dividend paid out	–	–	–	-88,000	–
Result for the financial year	–	–	–	–	47,279
Other changes	–	–	-2,490	–	–
Closing balance	705,297	416,380	4,148	13,638	47,279

Paid-up and called-up share capital

The paid-up and called-up share capital is the capital subscribed upon incorporation of the company consisting of 650,000,000 ordinary shares, each with a nominal value of € 1. Furthermore, in 2011 upon the acquisition of the minority interests in APG Rechtenbeheer NV (previously APG Algemene Pensioen Group NV) and Loyalis NV, 55,297,170 new ordinary shares were issued, each with a nominal value of € 1.

Share premium

The share premium paid upon incorporation, as well as the share premium paid as a result of capital contributions and withdrawals, the contribution of a subsidiary at fair value as well as share premium from the conversion of loans from shareholders into equity capital in the context of the recapitalization of APG Group, were included as share contribution in previous years.

Statutory and other reserves

The statutory and other reserves include direct changes in capital related to the acquisition and reallocation of subsidiaries from previous years in the amount of € 1.6 million (2016: € 1.2 million). A reserve for conversion differences in the amount of € 2.5 million (2016: € 5.0 million) is also included for the foreign participations. The changes in the statutory reserve for conversion differences is reported under other changes.

Undivided result for the financial year

This reports the result for the year under review.

Share premium, other reserves and the undivided result for the financial year can, in principle, be freely disposed of. The stipulations from regulators for group companies can result in restrictions on the extent to which the equity capital or APG Group's equity capital may be distributed. These stipulations may require that the equity capital of group companies be at a certain level. APG Group takes the stipulations from regulators into account in determining the potential for paying a dividend.

Proposal for the appropriation of the result

In accordance with the policy adopted, a proposal will be submitted to the General Meeting of Shareholders that a dividend in the amount of € 145.0 million be paid out: € 47.3 million from the net result and the remaining sum of € 97.7 million from the freely distributable reserves.

Provisions (7)

	Deferred taxes	Personnel-related provisions	Restructuring provision	Total 2017	Total 2016
Opening balance	23,384	10,798	30,454	64,636	53,471
Allocations	–	76	674	750	39,392
Withdrawals	–	-4,738	-6,773	-11,511	-9,295
Release	-22,705	-826	-3,220	-26,751	-18,932
Closing balance	679	5,310	21,135	27,124	64,636

This provision for deferred taxes stems from the differing fiscal valuation of the insurance portfolio that is included under intangible fixed assets. The allocation in 2016 arises from the deviating fiscal valuation of a personnel-related provision created in the past. In 2017, this portion of the deferred tax became immediately owed corporate income tax.

Long-term liabilities (8)

	2017	2016
Opening balance	23,767	23,767
Benefits	-	-
Repayments	-12,856	-
Closing balance	10,911	23,767

At the initiative of the lender, a repayment at nominal value of € 12.9 million took place in 2017.

Of the closing balance, an amount of zero relates to financing by related parties (2016: € 12.9 million). An amount of € 10.9 million of the closing balance has a remaining term of more than five years (2016: € 10.9 million). The interest rate is 7.25% per annum (2016: 5.4% to 7.25% per annum). No security has been furnished. The fair value of the long-term liabilities is € 23.4 million (2016: € 38.9 million).

Current liabilities and accrued liabilities (9)	12-31-2017	12-31-2016
Accounts payable	3,219	3,107
Debts to group companies	203,312	165,970
Taxes and national insurance contributions	7,417	6,563
Liabilities in connection with pensions	–	117
Vacation pay and vacation days	1,781	1,963
Other personnel-related liabilities	271	70
Other liabilities	301	16,663
Total	216,301	194,453

No interest and/or securities apply with respect to the debts to group companies.

The current liabilities and accrued liabilities do not include any items with a remaining term of more than one year.

Off-balance sheet liabilities and assets

The liabilities arising from derivatives concluded to hedge the future costs of the foreign subsidiaries of APG Asset Management NV amount to € 92 million on the balance sheet date (contract price). The liabilities have a term of one year. Liabilities between APG Group NV and APG Asset Management NV directly related to this have been formalized by means of back-to-back agreements.

Liability statements

The company has issued liability statements for a number of subsidiaries included in the consolidation, as referred to in Article 2:403 of the Dutch Civil Code and Article 2:408 of the Dutch Civil Code. The liability statements concern APG Diensten BV in Amsterdam, APG Rechtenbeheer NV in Heerlen, APG Deelnemingen NV in Heerlen, and APG Service Partners BV in Heerlen.

Liability of fiscal entity

There are a number of fiscal entities at the APG Group, specifically for corporate income and turnover tax. Within such a fiscal entity, the companies are jointly and severally responsible for each other's tax debts. The taxes are attributed to each company according to each company's share in the total tax as if the companies were independently liable for the tax. This means that each subsidiary will reimburse the parent company for its share in the tax owed prorated to each party's taxable profit before the application of the loss set-off rules as stipulated in the Corporation Tax Act.

Number of employees

APG Group NV employed an average of 283 people in 2017 (2016: 308), all working in the Netherlands.

Remuneration of Executive Board members

For an explanation of the remuneration of Executive Board members, see the consolidated financial statements.

List of capital interests

The following capital interests (100% interests) are included in the consolidation:

APG Rechtenbeheer NV	**Heerlen**
Loyalis NV	**Heerlen**
Loyalis Leven NV	Heerlen
– Loyalis Leven VRF I BV *	Heerlen
– Loyalis Leven VRF II BV *	Heerlen
Loyalis Schade NV	Heerlen
– Loyalis Schade VRF I BV *	Heerlen
– Loyalis Schade VRF II BV *	Heerlen
Loyalis Diensten BV	Heerlen
Loyalis Kennis en Consult BV	Heerlen
Loyalis Sparen & Beleggen NV	Heerlen
Cordares Advies BV	Amsterdam
APG Asset Management NV	**Amsterdam**
APG Asset Management US Inc	Delaware
– Fairfield Residential I, LLC	Delaware
– Fairfield Residential II, LLC	Delaware
APG Investments Asia Ltd	Hong Kong
APG Diensten BV	**Amsterdam**
APG Deelnemingen NV	**Heerlen**
InAdmin NV	Heerlen
Cordares Vastgoed BV	Amsterdam
– Cordares Basisweg Beheer V BV	Amsterdam
Inotime BV	Rotterdam
Inovita BV	Rotterdam
APG Service Partners BV	Heerlen
Entis Holding BV	Amsterdam
– Entis BV	Utrecht

Capital interests not included in the consolidation:

Campus Heerlen Huisvesting B.V. (capital interest 50%, held by APG Deelnemingen NV)	Maastricht
Campus Management & Development B.V. (capital interest 33%, held by APG Deelnemingen NV)	Maastricht

* Due to the restructuring at Vesteda, Loyalis Leven NV and Loyalis Schade NV have held the participations in Vesteda via a dual BV structure since February 1, 2012. No change is envisaged in a material sense. The principal reasons for the restructuring are greater transparency of the structure and simplification of the process of entry and exit by participants, thereby realizing an improvement in the liquidity of the fund.

Amsterdam, March 29, 2018

Supervisory Board	Executive Board
Bart Le Blanc, chairman	Gerard van Olphen, chairman
Pieter Jongstra, vice-chairman	Annette Mosman
Edith Snoeij	Wim Henk Steenpoorte
Maes van Lanschot	Ronald Wuijster
Roger van Boxtel	
Claudia Zuiderwijk	
Dick van Well	

Other information

Other information

Profit appropriation scheme under the articles of incorporation

The profit appropriation takes place in accordance with Article 36 of the articles of incorporation. This article stipulates that APG Group NV can only distribute profit insofar as the equity capital exceeds the paid-up and called-up portion of its capital, increased by the reserves that must be maintained pursuant to law.

Independent auditors report

To: General Meeting of Shareholders and Supervisory Board APG Groep N.V.

Report on the accompanying financial statements 2017

Our opinion
In our opinion the accompanying consolidated financial statements give a true and fair view of the financial position of APG Groep N.V. as at 31 December 2017 and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited
We have audited the financial statements 2017 of APG Groep N.V. (the Company), based in Heerlen.

The financial statements comprise:
1. the consolidated and company balance sheet as at 31 December 2017;
2. the consolidated and company profit and loss account for 2017; and
3. the consolidated cash flow statement for 2017; and
4. the notes comprising a summary of the accounting policies and other explanatory information

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

We are independent of APG Groep N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Audit approach

Summary

- Materiality
  - Materiality of € 10 million
  - 1% of operating income (excluding income from investments)
- Group Audit
  - 97% of operating income
  - 98% of assets
- Key issues
  - Valuation of goodwill and client contracts
  - Valuation of insurance obligations of life and non-life business
  - Valuation of investments of insurance business
- Unqualified opinion

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 10 million (2016: € 10 million). The materiality is determined with reference to the relevant benchmark, that is total operating income excluding investments revenues (approximately 1%). We consider the total operating income excluding investments revenues as the most appropriate benchmark as this is a stable benchmark that reflects the activities of APG Groep N.V. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory board that misstatements in excess of € 500 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

APG Groep N.V. is the parent company of a group of entities. The financial information of this group is included in the financial statements of APG Groep N.V.

Our group audit mainly focused on significant group components, i.e APG Asset management N.V., APG Rechtenbeheer N.V. and Loyalis N.V., as well as the non-significant entity APG Diensten B.V. The group components APG Asset Management NV and Loyalis NV were audited on the basis of lower materiality used for their statutory audits. We used other KPMG auditors for the audit of the Loyalis NV and APG Asset Management NV units and performed the audit of the APG Rechtenbeheer NV and APG Diensten BV units ourselves. These units represent 97% of the operating income and 98% of the assets.

We sent the other KPMG auditors instructions indicating the significant audit areas including relevant risks for material misstatements, such as the valuation of goodwill and client contracts, the valuation of insurance liabilities, and the valuation of the investments of the insurance business as well as the information to be reported by other KPMG auditors. We discussed the reports received with the relevant KPMG auditor. Finally, we reviewed the files.

Based on these procedures at the components, combined with additional audit procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group to express an opinion on the financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, but they are not a comprehensive reflection of all matters that have been discussed.

We have determined our audit procedures with respect to these key matters in the context of the audit of the financial statements as a whole. Our findings regarding the individual key matters should be seen in that context and not as separate opinions on these key matters.

Valuation of goodwill and client contracts

Description

The 2017 financial statements include intangible fixed assets. These intangible fixed assets include goodwill and client contacts. These items were valued at acquisition price less annual amortization. APG must determine whether there are indications that an impairment must be recognized. The continuing pressure on prices in the pension market is regarded by APG as a trigger for an impairment indication of these assets. APG performed an impairment test for APG Groep NV's cash flow generating units Rechtenbeheer and Asset Management by determining the value in use. This test involves significant estimates by the management, therefore increasing the risk that incorrect assumptions may have been used and an impairment is incorrectly calculated. As a result of the particular nature and significant size of these items, as well as the potentially significant impact they could have on the financial statements, we consider this a key audit matter of our audit. Page 30 of the financial statements contains an explanation of the principles adhered to and page 35 outlines the key starting points and risks for valuing the intangible fixed assets. The notes also contain the impact of the impairment on goodwill and client contracts.

Our approach

Our audit procedures performed on the analysis prepared by APG consisted of, among other things, evaluating procedures and control measures in relation to the significant estimates, such as the estimated cash flows.

We also performed substantive procedures, such as:
— testing whether the method is in accordance with the accounting principles
— testing whether the assumptions used, such as the terminal growth rate, discount rate and expected return, are consistent with market data, such as the average EBITDA of other similar companies. In this context, the specialist engaged externally by APG provided us with insight into the references used to substantiate the assumptions involved in determining the cash flows;
— evaluating the reliability of the management forecasts by comparing forecasts from the previous year to the actual results;
— testing the plausibility of the financial forecast with reference to APG's business plans and the data available, such as client contracts (rate agreements) and recurring cash flows. In cooperation with our own valuation specialists, we evaluated the method and assumptions used to calculate the free cash flows.

Finally, we assessed the scenario analyses, along with the sensitivity of the assumptions to changes in the input variables. In this context, we performed specific procedures on the calculation of the cash flow generating unit Rechtenbeheer because of the lower value in use compared to the book value and the recognition of the impairment in the financial statements.

We also focused on the adequacy of the explanation and risks as included in the notes to the financial statements on page 35 and in the explanation contained in note 1.

Our observation

We confirm the method as appropriate and find that the assumptions have been adequately substantiated. As such, we find that the valuation was determined in a neutral manner.

Valuation of insurance liabilities of the life insurance and non-life insurance business

Description

The insurance liabilities for the life insurance and non-life insurance business amount to € 2.919 million. This includes € 2.006 million in liabilities for life insurance and € 913 million in liabilities for non-life insurance. When valuing the insurance liabilities, APG must make assumptions for economic and actuarial parameters and use complex actuarial models.

For the related liability adequacy test, in order to be able to determine whether the liabilities included are sufficient, assumptions must be made in relation to, among other things, incurred but not reported (IBNR) and payments, the application of the future interest rate, work-related disability, portfolio development, life expectancy, and future costs. In view of the major impact the valuation of the technical provisions has on the company's results, this constitutes a key audit matter. Note 9 of the financial statements and the risk management section on pages 28 and 29 of the financial statements contain an explanation of the key starting points and risks for valuing the insurance liabilities.

Our approach

Our audit procedures comprised, evaluating the procedures and control measures in relation to the significant assumptions concerning future interest rates, life expectancy, and cost levels. We also tested the internal control measures to safeguard the reliability of basic data used in the calculations (such as the IBNR) and carried out additional detailed audits of these, such as samples on benefits and claim payments.

With the assistance of our actuarial specialists, we audited the insurance liability and related liability adequacy test with reference to qualitative and quantitative analyses, and calculations drawn up internally. In this process, we tested the calculations performed internally, including the actuarial and economic assumptions used, such as the interest rate curve, mortality rates, survival likelihoods, portfolio developments, and cost projections, against empirical data, market data, and estimated versus actual outcomes from the past.

We also focused on the adequacy of the explanation and risks as included in the notes to the financial statements under note 9 and in the risk management section contained on pages 28 and 29.

Our observation

We found that the insurance liability for life insurance contracts is determined in a balanced manner and that the insurance liability for non-life insurance is determined cautiously. We consider the explanation of the insurance liabilities as set out in the financial statements and the risks as contained in the risk management section to be sufficient.

Valuation of the ‘Level 3’ investments

Description

The investments reported in APG Groep NV’s financial statements are a significant balance sheet item. It is indicated on page 37 of the notes to the financial statements that the valuation for € 540 million of the investments (11% of the balance sheet total) is based on the management’s best estimate, so-called Level 3 investments. The determination of the market value of these investments is (more) complex and involves subjective estimates. This therefore is a key audit matter. APG has outsourced the management and accounting of these investments to APG Asset Management and the Level 3 investments concern investments in open-end funds managed by third-party asset managers.

Our approach

For the Level 3 investments, we use the control measures that have been set up at the asset manager and which are part of the ISAE 3402 Type II report (whereby an unqualified assurance report from the auditor was issued). These relevant control measures are focused on the reliable supply, and adequate evaluation, of periodic performance figures. We performed procedures on the relevant internal control measures described in this report to test the effective design and implementation thereof. We also confirmed the reconciliation between the financial accounting and the current financial reports from fund managers.

We audited the valuation of this asset class against the most recent financial statements audited by another independent auditor. In this process we audited consistency with APG’s valuation principles with respect to those of the investment fund. And we established whether the statement from the other independent auditor is (un)qualified.

In those cases where financial statements provided with an unqualified audit opinion were not available on time, we determined the reliability of the market valuation as issued by the fund managers by testing the estimates made by these fund managers in previous years against the audited financial statements that became available later in the year.

Our observation

Our audit procedures indicated that the valuation of the Level 3 investments is acceptable.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information as well, which consists of:

- the report of the Executive Board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- the report of the Supervisory Board.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as 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 through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these 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 the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the other information, including the report of the Executive Board and the other information pursuant to Title 9, Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the board and the Supervisory Board for the financial statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as the Executive Board is determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

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

The Supervisory Board is responsible for exercising supervision on the financial reporting process of APG Groep NV.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered 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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities in relation to the audit of financial statements can be found on the website of the Netherlands Institute of Chartered Accountants (NBA) at: www.nba.nl\NL_algemeen_01. This description constitutes part of our audit opinion.

Amstelveen, March 29, 2018

KPMG Accountants NV.

J.J.A. van Nek RA

Personal details

Below are the personal details of the members of the Supervisory Board and members of the Executive Board, specifying their principal position and relevant ancillary positions. The composition of the Works Council is also included.

Members of the Supervisory Board

Bart Le Blanc (man, 1946), chairman

Most important (ancillary) positions:

- Chairman Investment Committee United Nations, Office for Project Services (UN-OPS), Copenhagen/ New York
- Member of the supervisory board at ETC Nederland BV
- Member of the board at Stichting Instituut GAK
- Non-executive director, Andreas Capital Group SA, Luxembourg

Nationality: Dutch
First appointment: July 22, 2014
Memberships: Member of the Supervisory Board at APG Asset Management NV and member of the Supervisory Board at APG Treasury Center BV.

Pieter Jongstra (man, 1956), vice-chairman

Most important (ancillary) positions:

- Chairman of the Netherlands Institute of Chartered Accountants (NBA)
- Member of the board and treasurer at Stichting Ondersteuning Nederlandse Bachvereniging [Dutch Bach Association Support Foundation]
- Treasurer and jury member of Koning Willem I Stichting [King Willem I Foundation]
- Treasurer of Stichting voor de Jaarverslaggeving [Foundation for Annual Reporting] (via position as chairman of NBA)

Nationality: Dutch
First appointment: February 4, 2015

Edith Snoeij (woman, 1956)

Most important (ancillary) positions:

- Member of the board Huis voor Klokkenluiders [Whistleblowers Safe Haven]
- Member of the board at KPN Pension Fund (executive)
- Chairman of the supervisory board at PNO Media pension fund
- Chairman of the supervisory board at PMA pension fund
- Chairman of the supervisory board at Stichting Waarborgfonds en Kenniscentrum Ruimte-OK [Guarantee Fund and Knowledge Center for Childcare and Education Foundation]
- Member of AGFA Committee (Advisory Committee on Fundamental Rights and Professional Duties of Public Servants) and the AMAR Committee at CAOP (General Military Regulations)
- Board member at Stichting Expertisecentrum Oefenen.nl [Expertise Center Oefenen.nl]
- Board member at Stichting Bestuur Bijzondere Leerstoelen [Foundation for Endowed Chairs]

Nationality: Dutch
First appointment: April 26, 2012
Second appointment: April 26, 2016

Maes van Lanschot (man, 1952)

Most important (ancillary) positions:

- Chief financial officer at TropIQ Health Sciences BV
- Managing director at Landgoed Zwijnsbergen BV

Nationality: Dutch
First appointment: May 15, 2013
Second appointment: May 15, 2017
Memberships: chairman of the Supervisory Board at APG Asset Management NV and chairman of the Supervisory Board at APG Treasury Center BV

Roger van Boxtel (man, 1954)

Most important (ancillary) positions:

- President-director NS
- Chairman of the supervisory board at Museum De Fundatie
- Chairman of Stichting Geschiedschrijving Gorinchem [Gorinchem Historiography Foundation
- Member of the board at VUmc Alzheimerstichting [VU Medical Center Alzheimer Foundation]
- Member of the advisory board at ECP
- Member of General Members' Meeting of Ajax
- Member of the executive committee of VNO-NWO (in connection with position as CEO at NS)

Nationality: Dutch
First appointment: July 16, 2015

Claudia Zuiderwijk (woman, 1962)

Most important (ancillary) positions

- Chairman of the board at the Chamber of Commerce
- Member of the supervisory board of KPN NV
- Board member and jury member at Koning Willem I Stichting [King Willem I Foundation] (via position as president of Chamber of Commerce)
- Member of Forum Smart Industry (via position as president of Chamber of Commerce)

Nationality: Dutch
First appointment: July 27, 2015

Dick van Well (man, 1948)

Most important (ancillary) positions:

- Member of the supervisory board at Dura Vermeer Groep NV
- Member of the supervisory board, chairman of the selection, remuneration and appointments committee, and member of the audit committee at Stedin Netbeheer BV
- Member of the supervisory board at Avenue Beheer BV
- Member of the advisory board at LSI Project Investment NV
- Adviser to Groene Groep
- Member of the supervisory board at Rijnmond-Bouw BV
- Independent chairman of the board at Stichting Administratiekantoor PPF Participatie Fonds
- Member of the board at Nationaal Programma Rotterdam Zuid
- Chairman of the IkZitopZuid Foundation
- Chairman of the supervisory board at Kikx Holding BV
- Director of the Stichting Continuïteit Feyenoord [Feyenoord Continuity Foundation]

Nationality: Dutch
First appointment: November 14, 2016

Members of the Executive Board

Gerard van Olphen (man, 1962)
Principal position: chairman of the Executive Board
Ancillary activities:
- Member of the supervisory board at Hartstichting [Dutch Heart Foundation]
- Member of the board at Duisenberg School of Finance

Nationality: Dutch
First appointment: March 9, 2016

Annette Mosman (woman, 1967)
Principal position: Member of the Executive Board/CFRO
Ancillary activities:
- Board member and treasurer at the NOC*NSF Association
- Member of the supervisory board and audit committee at Stichting Jeroen Bosch Ziekenhuis [Jeroen Bosch Hospital Foundation]
- Member of the supervisory board, chairman of the audit committee and investment committee at Stichting KWF Kankerbestrijding [Dutch Cancer Society]

Nationality: Dutch
First appointment: February 6, 2018

Wim Henk Steenpoorte (man, 1964)
Principal position: Member of Executive Board/ responsible for APG Rechtenbeheer NV and APG Diensten BV
Ancillary activities:
- Chairman of the supervisory board at De Vereende NV
- Chairman of the supervisory board at DAP Holding NV
- Member of the supervisory board at Intersolve BV
- Chairman of the board at Sivi

Nationality: Dutch
First appointment: September 14, 2017

Ronald Wuijster (man, 1966)
Principal position: Member of the Executive Board
Ancillary activities:
- Chairman of the asset management committee of the Pension Federation
- Member of the accreditation committee at DSI

Nationality: Dutch
First appointment: March 6, 2018

Composition of the Works Council

Noelle Alberts-Savelsbergh
Peter Brouns (chairman)
Hylke Bijma
La Toya Cramer
Aiesha Dahman
Henk van Eijsden
Laurens Eskens
Henk Franssen
John Geurts (vice-chairman)
Alexander de Heus
Gerard Hinssen
Martijn Kleijer
Richard Lavalle
Nabila el Ouariachi
Guus Smeets
Wim Stroucken
Faoud Tajjiou (secretary)
Carla Voss-Martinow (deputy secretary)
Hedo Wieringa

Definitions

- AG2016: The forecasted life expectancy in the Netherlands according to the Actuarial Association (AG).
- Consumer: Persons who, in general, might use the services in the field of pension in the future.
- Compliance risk: The risk of material financial losses, damage to APG's reputation and sanctions imposed by regulatory authorities resulting from the failure to comply with legislation and regulations and/or unethical conduct.
- CRR/CRD IV: The European Capital Requirements Regulation and updated Capital Requirements Directive (referred to jointly as CRD IV).
- Participants: Persons affiliated with APG's clients
- Defined benefit (DB): A pension system based on the fixed payment that will be provided upon retirement. With a salary-service period scheme or defined benefit scheme, the amount of the pension payment is determined in advance and the contribution is determined based on the number of years available to accrue pension and what the investment yield from this is.
- Defined contribution (DC): A pension system based on the fixed contribution that will be paid for the accrual of pension. With a defined contribution scheme, the level of the contribution is fixed while the amount of your pension payment is not. The amount of the latter depends on how many years you have paid contribution and what the investment yield from this is.
- Ecosystem: The environment for the innovation process in which various parties make a contribution to the cyclical nature of starting on a small scale, creating a structure, investing, experimenting with a focus on the target group, evaluating and making a go/no go decision to reinvest.
- Financial risk: The risk of an undesired event with an impact on APG's balance sheet or profit and loss account resulting from variations in market inputs or insurance claim likelihoods beyond the company's control.
- Financial assessment framework (FTK): The rules aimed at ensuring there is enough cash on hand are laid down in the financial assessment framework. This is part of the Pensions Act.
- Governance: A company's conduct: how it goes about its work, with whom it does business and under what conditions.
- IORPII: The European Commission started a revision of the IORP in 2014. The aim of this IORP II directive is: more transparency, more cross-border activities, better management, better protection of the participant, and more long-term investments in the European economy. Under the Dutch presidency, the Council of the European Union and the Parliament reached a compromise on the IORP II directive on June 30, 2016. After this directive is published, the Member States have 24 months to transpose it into national legislation.
- 'My' environment: Online environment with personal pension data via the pension institution which is only accessible using a personal login code.
- MIFID: Markets in Financial Instruments Directive, intended to improve competitiveness on the European financial markets by creating a single European market for investment services and activities.
- Net pension: As of January 1, 2015, pension accrual via the employer (in the second pillar) is capped at the maximum pensionable salary of € 100,000 gross. For the income in excess of that amount, employees can voluntarily make supplementary contributions via a net pension scheme (in the second pillar), whereby the premium payments (paid from the net salary) and the return are exempt from investment yield tax (box III). The net pension payment is not taxed.
- Operational risk: The risk of losses due to external incidents, failing (internal or outsourced) processes and IT systems, or undesirable behavior on the part of employees. Operational risks can result in undesirable consequences for our clients. The outsourcing risk connected with this for clients is part of the integral risk management at APG.
- Pension provider: If a pension fund is the head, the pension provider is the hands. The pension fund comes up with the plans, which are all carried out by the pension provider. A pension provider often does this for several pension funds simultaneously. This makes it less expensive and more efficient.
- Pension administration: All administrative and communication services that APG provides to employers and participants as an administrative organization on behalf of the client pension funds (pension providers according to Section 1 of the Pensions Act).
- Solvency II: The new risk-based supervisory framework for insurers that came into force on January 1, 2016. The framework consists of the Solvency II directive (2009/138/EC) and the further details in the form of the Delegated Regulation, technical standards, and guidelines.
- Strategic risk: The risk that strategic objectives will not be achieved because of changes in the areas of competitive relations, political decision-making, stakeholders, reputation and/or business climate, or the organization's capacity to adapt to these changes.
- Reporting risk: The risk that due to errors in the administrative processes or systems, inaccuracies appear in the reporting products.

For more pension-related terms, see also the websites below:
www.pensioenaan.nl/pensioen-abc/
www.pensioenfederatie.nl/paginas/losse-paginas/openbaar/dossiers-a-z