APG Groep NV

2016 Annual Report

tomorrow is today

APG Group Profile

As a financial services provider, APG Group offers its clients services such as executive consulting, asset management, pension administration, pension communication, employers services and supplementary income solutions. APG Group services approximately 40,000 employers, administering pensions for one in five families in the Netherlands (about 4.5 million participants). It offers its services via the APG, Loyalis, and Inadmin brands.

APG performs it's activities on behalf of (pension) funds and employers in the sectors of education, government, construction, cleaning and glass cleaning, housing associations, energy and utility companies, sheltered employment and medical specialists. As of year-end 2016, APG managed approximately €440 billion in pension assets for the pension funds in these sectors.

The company also offers supplementary income solutions for individuals on the pension market via insurer Loyalis. The administration of defined contribution schemes for Premium Pension Institutions (PPIs), company pension funds, asset managers and insurers is carried out by Inadmin.

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

Vision of the future

Consumers expect more transparency, freedom of choice, and accountability both in general and from the financial sector in particular. Increasing digitization and computerization will have an impact on working methods and service provision in the sector. The pension system will be under growing pressure in the years to come, and it will gradually but drastically change to afford more latitude for individual consumer choice. Pension funds and participants are facing the problems of missed indexation and possible reductions. A constant factor is the ongoing pressure on implementation costs from pension funds so that they can realize as much future income as possible for participants.

Mission and ambition

APG Group (hereafter: APG) plays a leading role in the pension sector. It is our job to focus on the future. ‘Building your sustainable future together’ is our mission in this. This means that we actively work with all our stakeholders to ensure the continuity of the pension (based on collectivism and solidarity) and its ability to stand up to future developments in the long term.

In combination with our vision for the future, we feel that we bear some responsibility for many people’s grip on their financial future, with attention to individual wishes and respect for the world that we all share. Based on this mission, we have defined our ambition as follows: ‘APG is the natural choice to gain in control of your financial future.’

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This document can only be used for reference; it is a translation into English of an original Dutch document.
In the event of any discrepancy between the two texts, the Dutch text shall prevail.

Key figures

(amounts in millions of euros)

	2016	2015
Key figures for our clients		
Assets under management	440,005	406,413
Range of return on investments for clients (excluding interest rate hedge)	8.2% - 9.6%	1.6% - 3.2%
• Total number of participants in the pension administration	4,455,522	4,449,077
• number of which are active participants	1,482,751	1,453,942
• number of which are retired employees	1,204,191	1,184,722
• number of which are inactive participants	1,768,580	1,810,413
Key figures of APG Group		
Group equity	1,230	1,209
Balance sheet total	4,791	4,752
Personnel (at year-end, in FTEs)	3,071	3,265
Solvency ratio of APG Group (Solvency II)*	199%	n/a
Available capital of APG Asset Management**	175	169
Investments of Loyalis	3,156	3,020
Liabilities of Loyalis	3,000	2,948
Solvency ratio of insurance business Loyalis (Solvency I)	n/a	413%
Solvency ratio of life insurer Loyalis Leven (Solvency II) ***	166%	n/a
Solvency ratio of non-life insurer Loyalis Schade (Solvency II) ***	170%	n/a
Turnover of APG Group		
Income from operations	674	684
Insurance income from supplementary products	254	253
Investing income from supplementary products	179	22
Other income	37	44
	1,144	1,003
Operating expenses of APG Group		
Operational charges	644	627
Cost of benefits paid via supplementary products	251	300
Change in insurance liabilities of supplementary products	57	-129
	952	798
Operating result of APG Group	192	205
Net result of APG Group	65	44

** 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 uses the standard model, as prescribed by law, to calculate the capital requirement. The Solvency ratio for APG Group at year-end 2016 was 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 2016 was 221%.
Official reporting to De Nederlandsche Bank on Solvency II group accountability and accompanying notes will take place no later than July 3, 2017, in accordance with the statutory regulations. The 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 2016, the solvency ratios (available capital versus capital requirement) under Solvency II were 170% for the non-life insurance business and 166% for the life insurance business, both above the internal norms of the Loyalis insurance business of 150%.
Official reporting by the solo entities of the insurance business to De Nederlandsche Bank on the Solvency II accountability and accompanying notes will take place no later than May 22, 2017, in accordance with the statutory regulations. The ratio presented was based on the information currently available.

Report of the Executive Board

Introduction

In general, 2016 was an eventful year with a number of global developments such as Brexit, the Ukraine referendum in the Netherlands and the presidential election in the United States. The economic implications of these developments are still not clear for the financial markets, our clients, or APG. The pension markets were in flux. Throughout the year, APG actively participated in a constructive dialogue on a new pension system, in which the topics of transparency, freedom of choice, and risk sharing were high on the agenda.

The pension system will undergo changes in the next several years. Uncertainty – about the envisioned timelines and impact of these changes for our clients and their participants, as well as for APG as a financial services provider – posed a challenge in 2016. In order to be as prepared as possible for these developments, 2016 was largely dominated by a strategic recalibration at APG. The organization was made optimally flexible in order to adequately respond to changing desires and developments in the market. In doing so, we naturally viewed circumstances from the perspective of our clients and their participants.

Tying in with the strategic recalibration and new mission 'Building your sustainable future together', APG defined three focus areas: Pension management, Asset Management and the Change organization. APG will be concentrating group-wide on these focus areas in order to guarantee internal cohesion, reinforce cost consciousness, and optimize existing service provision to clients.

A good pension is not possible without a good return accompanied by acceptable and responsible risk. Despite the fluctuating economic situation, we look back on a good year for investments. The returns for our clients ranged from 8.2% to 9.6% (2015: 1.6% - 3.2%), excluding interest rate hedge. The good returns for 2016 also contributed to higher investment yields at insurer Loyalis.

A new fiduciary model for Asset Management was developed in 2016, with a concrete independent allocation of roles. The provision of administrative services to our clients was further optimized, focusing on high-quality but efficient services for our clients and their participants. This optimization involved the use of new technologies and innovative solutions.

Trends in the financial position

APG's turnover for 2016 was €1,144 million compared to €1,003 million in 2015. The €141 million increase in turnover compared to 2015 was mainly realized because of higher investment yields by €157 million at insurer Loyalis. The turnover from asset management remained stable. The continuing pressure on prices caused turnover from pension administration to be €10 million less than in 2015.

The total operating expenses were €952 million for 2016, an increase of €154 million compared to 2015. Operational charges rose by €17 million to €644 million, primarily because of higher costs of outsourced work and other external costs. The reduction in the life-course savings scheme portfolio meant that the costs of benefits paid out at insurer Loyalis were €251 million, €49 million less than in 2015. This was in contrast to a higher allocation to the facility for persons obliged to have insurance, because of the development in the interest rate in 2016 (decrease of 35 - 40 basis points). The allocation for 2016 amounted to €57 million, compared to the release of €129 million in 2015.

The above developments resulted in a decrease in the group operating result for 2016 by €13 million to €192 million (€205 million in 2015).

The net result for 2016 was €65 million (€44 million in 2015). The increase in the assets under management, the positive investment yields in combination with the development in the interest rate in 2016 contributed to APG's positive net result. The increase compared to 2015 was mainly due to a release of €33 million from the reorganization provision on the one hand and an additional charge of €15 million based on a correction to the corporate income tax for previous years on the other.

Look back at 2016

Developments around us

The reporting year saw major steps in the discussion about the new pension system. There seems to be more support for increased transparency and solutions that tie in better with developments in the labor market. At the same time, we are expected to retain mandatory participation and risk sharing. After a survey of the situation by the SER, the government embraced two variants in 2016. These have since been subjected to a successful implementation test (also by APG). The SER is expected to prepare a letter of its findings in spring 2017 and present it to the new government. APG is helping employers' and employees' organizations and clients determine the impact of the different variants.

Many changes at APG have been informed by amendments to legislation and regulations, both nationally and internationally. In 2016, for instance, the IORPII directive for European pensions was revised to better protect the interests of participants. The VAT treatment also required attention because the Supreme Court confirmed at the end of 2016 that VAT must indeed be paid on costs for defined benefit schemes but not on the costs for defined contribution schemes. This necessitates higher costs for our clients and, ultimately, for participants.

Our strategy

Group-wide strategy

Because of the many external developments, such as the pressure on the pension system and the social discussion about freedom of choice and transparency, the Executive Board started the revision of the mission and recalibration of the strategy in 2016. In order to create adequate support for the strategic changes, more than 1,000 people at APG –from the Executive Board to the employees including representatives from the works council– contributed to this vision development process. They participated in workshops and employee meetings which gave rise to a number of proposed mission statements. These efforts culminated in our new mission statement: 'Building your sustainable future together.' This constitutes the basis on which we are redefining our core values and core qualities, and is expressed in the way we think and do things.

Based on this mission, we have defined our ambition as follows: 'APG is the natural choice to gain in control of your financial future.' Across the group, we focus here on three focus areas:

- **Pension management** concentrates on servicing the individual participants of pension funds.
- **Asset Management** remains a leading institutional investor worldwide with a good investment proposition for (the individual participants of) clients.
- The **Change organization** (personal) leadership and employees who can grow along with the developments in the business.

Technology is an important precondition for creating a flexible organization that can respond quickly to changes.

APG made a number of preparations in 2016 to ensure that the elaboration of these strategic focus areas takes place cohesively. The challenge we face is to effectively realize the ambition and at the same time continue to provide our clients with high-quality service via our changing organization.

Operational strategy

Pension administration (executive consultancy, pension administration, pension communication and employer services)

In 2016, APG further optimized the implementation of pension administration, pension communication, and executive consultancy. This optimization resulted in providing the same high quality of services to clients at a lower cost. The pension administration processes were performed via self-service, which not only provides participants with insight and an overview via the clients' 'My' environments, but also allows them to make changes. As a result, the pension administration was performed with fewer employees and at a lower cost. APG also helped employers and employers' and employees' organizations solve HR issues directly linked to pension. This involved schemes in excess of the statutory minimum and redundancy pay schemes, sustainable employability and vitality.

We use the latest technology for the pension administration. In 2016, we started a data science pilot which enables participants to increase their knowledge about the accrual of their pension rights and possible choices they may have. Based on the data made available by clients, it was possible to anticipate questions from participants. Our clients regarded this pilot as a major success. In 2017, we will be working with the clients to evaluate how we can further shape this proactive communication, tailored to individual participants, in order to give the participants a perspective for action.

The administrative organization is also being set up to satisfy the conditions for offering individual products. This allows us to dynamically respond to the participants' desire for more freedom of choice.

Asset management

Despite lean prospects on the financial markets worldwide asset management achieved good investment returns in 2016. The returns for our clients ranged from 8.2% to 9.6%, excluding interest rate hedge and depending on the risk profile; this was higher than the long-term return of just over 7%.

In 2016, we laid the foundation for tightening up our investment process with a new fiduciary model. This is what we will use to provide asset management services from 2017 on. The new model introduces concrete independent allocation of roles among fiduciary management, portfolio management, and the risk management function. The organizational structure of the asset management business has been adapted to this new situation.

In combination with this new fiduciary model, we developed new investment strategies. These investment strategies tie in with the group-wide strategic focus area of 'Asset Management' in order to offer (individual) investment propositions to (participants of) clients. APG wants to position itself even more as a leading long-term and sustainable investor, who invests more than before in the real economy. Technology increasingly helps us move forward in this regard. Our investment process has made effective use of, among other things, big data analyses and artificial intelligence.

APG is a leading player when it comes to responsible investing and sustainability. Clients expect even further efforts from us in these areas. APG actively works to reduce the CO_2 footprint of the investments in listed equities. We also investigate how responsible investing can be structurally applied in new investment strategies. In addition to this, we work with clients to figure out how we can invest more in the Netherlands. Investing in the Netherlands has been encouraged by the founding of the Netherlands Investment Institution (NLII), in which pension funds and insurers participate. The NLII translates investing ideas into concrete investment proposals, in which many regional authorities are involved or in an effort to create economies of scale. More information on this is available in the APG Responsible Investment Report 2016.

Innovation

In 2016 we appointed a managing director for innovation to encourage innovation in our service provision. We took up a number of initiatives to innovate regarding social topics such as longer life expectancies, changes on the labor market and freedom of choice for the consumer. The GroeiFabriek (GrowthFactory), APG's innovation organization, stimulates innovative strength using an ecosystem. It was set up for performing (small-scale) experiments and scale-ups. Experiments are assessed for their added value to ensure that only tested and promising experiments are invested in. In 2016, the GroeiFabriek started six new experiments, stopped four, and further scaled up some experiments that had already started. Examples of these include the use of artificial intelligence in asset management and the start-up called Kandoor. Kandoor helps consumers better formulate their financial questions free of charge so that they are well-prepared when dealing with a financial institution. This service was made available to APG's clients in 2016 to help participants better prepare their financial questions.

Brightlands Smart Services Campus

The Brightlands Smart Services Campus, opened in Heerlen in September 2016, encourages innovation in the Limburg region. In an era of increasing digitization, smart services based on data analysis make an important contribution to solving economic and social issues. APG, the province of Limburg, and Maastricht University worked together to initiate the Brightlands Smart Services Campus in order to bring together and connect the knowledge, talent, and entrepreneurship of established businesses and start-ups in the region. As part of this, the Techruption initiative was announced in 2016, and started on 20 January 2017. At the Brightlands Smart Services Campus, experiments are conducted in conjunction with various businesses, start-ups, and the Business Intelligence and Smart Services Institute (BISS) involving applications in the areas of artificial intelligence, blockchain, and other smart solutions. This access to new talent and innovation is essential to APG as an employer and future-focused organization.

Insurer Loyalis

APG's Loyalis brand is focused on the areas of work-related disability, retirement pension and surviving dependents' pension. Loyalis distinguishes itself by providing customized service to various sectors and offering a suitable supplement to second-pillar pension schemes and the CLA. In 2016, for instance, new disability propositions were successfully offered to the police sector. For consumers, products relating to the WGA (Return to Work (Partially Disabled Persons) Regulations) and geared to the relevant changes to the law, were put on the market.

Last year, Loyalis, alongside four large organizations for the self-employed and freelancers, took the initiative for the ZZP Pensioen pension solution. Self-employed individuals who employ no personnel still find pension a difficult subject and say they have little knowledge about pension solutions. This group also makes little use of the tax schemes offered, such as the annual margin. ZZP Pensioen was the most successful pension solution for this target group in 2016.

Pension provider Inadmin

As part of APG, the Inadmin brand carries out the pension, investment, and insurance administration for defined contribution schemes and connects various pension parties with each other with a state-of-the-art administration platform. In 2016, this platform registered its 100,000th participant. For its service provision, Inadmin uses APG and the Lifetime architecture of Inovita. Inovita is focused on deepening its Lifetime product range to include more freedom of choice and more individual products. It also offers these on the market to groups other than the existing target groups of APG and Inadmin.

Outlook and expected trends

APG expects a number of relevant developments from 2017 onwards. Developments in the interest rate, demographics, technology, and globalization will still have an unabated impact on the position of the pension funds that are APG's clients.

Political decision-making after the 2017 elections could prompt major changes to the pension system. The political landscape is highly fragmented and divided with regard to freedom of choice, risk sharing and fiscal capping in relation to pension. APG will become more flexible so that it can respond on time to the changes outlined and the consequences for pension administration. By responding to these and possibly other trends, APG provides stakeholders with scenarios and makes them aware of the possible impact these could have.

It is important to APG to work together with the pension funds in serving as an independent guide for participants. It is our ambition that they get a better grip on their financial future. In 2017, APG will expand pension administration further, with a focus on good returns at acceptable risks and transparent communication to participants. Together with our clients, we are also investigating possible shortfalls in the second and third pillars for which suitable financial products could be developed.

Cost-consciousness and organizing processes optimally continue to be necessary. We will continue to innovate our pension administration process in 2017. Further computerization will be used for our clients, so that more participants can use the 'My' environments to get insight and an overview and make changes themselves.

It is very important to APG that the pension schemes entrusted to it are subject to ethical and controlled business operations. In situations where controlled and ethical business operations are in jeopardy, APG proactively seeks out consultation with its clients in order to prevent serious implementation problems, arrears, and loss of quality in our pension administration. If extremely complex schemes are continued unchanged, APG will be forced to inform its clients about this insistently. APG stands for ease and simplicity; therefore APG will not only inform clients when the bounds of feasibility have been reached, but will also help formulate proposals for improvement on the basis of which the funds and employers' and employees' organizations can simplify the schemes.

The bounds of feasibility appear to now have been reached for a limited number of the schemes entrusted to it. If new developments in relation to legislation and regulations must be incorporated as of 1 January 2018, feasibility could be seriously under threat. The responsible fund and the employers' and employees' organizations have been informed about this on time and in detail. A drastic reduction in complexity is necessary for these schemes. To be able to adapt the schemes on time, the employers' and employees' organizations must take a decision in the first half of 2017 on simplifying the schemes so that ethical and controlled operations can continue to be guaranteed.

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. In 2016, the integral risk management framework was subject to further development for a number of risk areas, including compliance, information security, and financial reporting. This resulted in better insight into the risk profile. From this reporting year onward, APG will include an In Control Statement in the Report of the Executive Board. This statement can be found on page 7.

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, intra-group transactions and concentrations, specific requirements for key functions (risk, compliance, HR, audit and actuarial), risk management, the Own Risk Solvency Assessment (ORSA), and reporting on financial soundness. APG has made the necessary preparations to satisfy the (reporting) obligations entailed by these.

Integral risk management

Risk management is an integral part of the business operations and business planning cycle. The risk framework encompasses the risk management organization, the risk management process, risk appetite, risk categories and the capital requirement.

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 Audit and Risk Committee of the Supervisory Board supervise that integral responsibility for the risk management is guaranteed.

Risk management process

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

Risk appetite

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 risk frameworks for specific risks.

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 50.

Strategic risks

Strategic risks are dominated by the potential effects of individualization, the need to cut costs, and guaranteeing adequate return in a low interest rate environment. When recalibrating the strategy in 2016, the Executive Board explicitly took into account the risks these external developments entail. 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 18 to 21 of the financial statements.

Loyalis' investment strategy was evaluated in 2016. No changes were made to the key principles and asset classes.

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 increasing complexity of the pension schemes that APG administers for its clients and the impact of strategic innovation processes have a significant influence on our operational risk profile. The growing complexity of pension schemes increases the risk of errors in administration and puts additional pressure on implementation costs. The successful conclusion of necessary change programs puts constant pressure on the regular work activities group-wide. The threat in relation to information security (including cyber-crime) 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 just complying with legislation and regulations. As part of its regular risk management process, APG continues to devote as much attention to compliance and integrity as ever before. In 2016, for instance, the code of conduct and integrity policy were revised and the integrity risk analysis was performed anew.

Reporting risks

APG has set up a system of control measures to manage the financial reporting risks. Because of APG's ambition to include an In Control Statement from its 2016 Annual Report onward, the risk management and control systems were evaluated and restructured during 2016 in line with the implementation of a new financial system Because of this, the effectiveness of the risk management and control systems was not determined for the entire year. APG took supplementary and mitigating measures which ensured that the reporting risk was mitigated, and determined with a reasonable degree of certainty that APG's annual report contains no material inaccuracies.

Capital requirement

APG aims to have adequate capital available to accommodate financial damage and losses arising from identified risks. The extent to which the capital is sufficient is determined in part by the regulatory requirements relevant and applicable to each entity. The Solvency Capital Requirement (SCR) ratio is highly volatile because many factors play a role in its calculation. For example, the application of rules for the recognition of deferred taxes and interest rate developments is a source of volatility. Specifically for the non-life insurance business, the SCR ratio is sensitive to assumptions concerning disability likelihoods and likelihoods in relation to the re-entry of (partially) disabled individuals to the labor market. For the life insurance business, the SCR ratio is sensitive to assumptions relating to longevity risk and the renewal of policies. For the non-life business and the life insurance business alike, changes in cost assumptions result in volatility in the SCR ratio.

APG monitors its capital position and development in its 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 2016, APG satisfied the minimum external capital requirements on both the group and business unit level in order to contend with the risks under current and future circumstances. The internal capital requirements will be determined in 2017 in connection with the ORSA.

In Control Statement

APG wants to act in accordance with the best practice provisions referred to in the Corporate Governance Code. Based on this ambition, APG will include an In Control Statement in the annual report from this reporting year onward.

2016 In Control Statement from the APG Groep NV Executive Board

As the Executive Board of APG Groep NV, we are responsible for the structure, existence and effectiveness of our internal risk management and control systems. The purpose of these systems is to manage the strategic, financial, compliance, operational and financial reporting risks in realizing the objectives of APG Groep NV. We have explained our key risks and internal risk management and control systems in the risk section on pages 6 and 7.

The In Control Statement pertains to the internal risk management and control systems for identifying and managing financial reporting risks, with the aim of giving a reasonable degree of assurance that the consolidated financial statements of APG Groep NV contain no material inaccuracies and that these internal risk management and control systems functioned properly during the reporting year.

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 non-compliance with relevant legislation and regulations.

The most important risks and control measures for financial reporting have been identified and documented in risk and control matrices. Monitoring the existence and effectiveness of our control measures is part of the financial reporting processes. The functioning of the control measures is tested on the basis of sub-observations.

Statement from the Executive Board

With regard to financial reporting risks, the Executive Board states that the internal risk management and control systems provide a reasonable degree of assurance that the consolidated financial statements of APG Groep NV contain no material inaccuracies and that, with the exception of the observations contained in the risk section, the risk management and control systems functioned properly during the reporting year.

Socially responsible enterprise

We conduct a responsible investment policy on behalf of our clients. For a detailed description, see APG's Responsible Investing Annual Report at www.apg.nl/verantwoordbeleggen. 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 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.

Among other things, this means that we keep our ecological footprint as small as possible. We do this through energy-efficiency, by only using green electricity and gas, and by recycling our waste as much as possible. Participation in the Mine Water Project (in which water from empty mines is used to cool the data center in Heerlen and then used to heat the building) contributes to energy-efficiency. We compensate the majority of the carbon emissions we cause.

Some of our contracts with suppliers contain a corporate social responsibility (CSR) section. We decide on an individual basis whether it is worthwhile to include this kind of section in the contract. At the moment, we are looking into whether the number of contracts containing the CSR section can be expanded. We also ask our suppliers to sign a Code of Conduct. The code outlines specific requirements concerning the environment and corporate social responsibility. These areas for attention are explicitly included as selection criteria when deciding on new products and suppliers.

In 2016, 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 like 'Nieuwsbegrip' financial markets, Project BizWorld, the Green Business Club Zuidas and Food Bank collection campaigns. As one of the founding fathers of the Brightlands Smart Services Campus founded in 2016, we also make an important contribution to the economic development of the South Limburg region. The Diversity Charter was also signed during the reporting year, which focuses on increasing diversity and inclusion in the workplace at businesses and organizations. Our goal is for our workforce to better reflect the participant population of the pension funds for which we work.

Despite these activities, we still see room for improvement in our CSR policy. This is why APG decided to carry out extensive stakeholder consultation and peer analysis in 2016. We asked our key stakeholders, including clients, the regulator, the works council, and the Supervisory Board, what they expect of us in this area. Various policy topics were defined based on the results; we will elaborate and flesh out these topics in more detail in the coming year. We decided to provide full insight into our CO_2 footprint, for instance, and to reduce this where possible. These are two important conditions for membership in the Dutch climate coalition, which we would like to join in 2017.

Cooperation with the works council

The proposed strategic recalibration calls for anchoring in the organization. The works council is closely involved in the consultation with the Executive Board concerning the determination of our strategy. The works council was given the opportunity to ask questions on this topic and participate in the discussion. The chairman and secretary were also invited to attend the strategic management meetings in which this strategy was discussed.

During the reporting year, thirteen requests for advice, three requests for consent, and a supplement to an earlier request for consent were submitted. The works council issued positive advice (subject to conditions) in response to these requests for advice and consent. Three requests for advice were postponed to 2017 for handling. Official consultation was held on various reorganization processes, appointments, working times, safety matters and, of course, the day-to-day course of affairs. All in all, there were twelve Agenda Committee meetings (involving the executive committee of the works council and the CEO) and nine consultation meetings (involving the works council and the CEO). There was also regular, informal (preliminary) consultation between the works council and relevant stakeholders outside of the formal occasions, which contributed to a constructive cooperation.

Personnel and organization

The new mission, "Building your sustainable future together," provides direction for what we want to be as an organization and as an employer. This applies both externally and internally. An important role in further fleshing out the new mission and in effectively realizing the change process is reserved for HR. In order to implement this, a strategic HR agenda containing the following topics was prepared in 2016: leadership, employee development, good employment practices, strategic personnel planning, and talent management and development. In 2017, the strategic HR agenda will be further shaped and then implemented. We bring out the best in each other and are there for each other. That is how we build your sustainable future together.

Leadership

APG's leadership profile forms the basis for selecting, developing, and evaluating leaders. In order to realize APG's change process, it is crucial to align the development, appointment, and evaluation of managers with the new mission, ambition, and strategy. To this end, APG reconfigured its leadership profile in 2016. By looking both externally and internally at (personal) leadership and the new mission, the elements of the new leadership profile were determined. These elements have been made concrete by describing and living out corresponding (exemplary) behavior. 2017 will be an important year for implementing the leadership profile, initially starting with senior management, followed by a rollout to the rest of the organization.

Employee development

In order to anticipate future challenges, APG invests in the sustainable employability and flexibility of employees. This requires constant dialogue focused on a sustainable future for all our employees. In 2016, the sustainable employability program, based on a personal sustainable employability budget, was continued, with a focus on personal development and health. This contributed to awareness of the extent to which employees themselves must take charge of this topic.

In 2017, we will invest in developing the professional knowledge, skills, and behavior needed for the future. APG also assigns high priority to researching and tackling the causes of long-term sickness absence. Customization is an important factor in supporting every employee. This will also be our approach for CLA negotiations in 2017, where pressure on our costs will be a given. An updated social intranet will be introduced in 2017 to better facilitate internal communication between employees. This encourages employees to form communities with each other and work on their development.

Good employment practices

On the labor market, APG focuses on the target groups IT, asset management, and finance, in which there are shortages of qualified candidates. We use campaigns focused on target groups to keep brand awareness on level and recruit new employees via, among others, online channels, social media (such as LinkedIn), and events. We present APG on the labor market as a socially engaged employer with a different service-oriented ethos (not profit maximization). In order to fulfill our mission, APG hires talented people who want to contribute to this social function.

In 2016, a number of measurements were carried out of APG's reputation as employer and awareness of the APG brand in terms of employment. The regional 'Reputation Survey' carried out by Intermediair confirmed that APG has a good reputation on the Dutch labor market. On the other hand, it emerged that brand awareness nationally is very low.

In 2016, APG again received Top Employer and Top ICT Employer certificates from the Top Employers' Institute. This institute conducts independent surveys annually into the salary, terms of employment, working conditions, development and training, career opportunities and organizational culture at employers. APG is proud that it has earned the Top Employer and Top ICT Employer titles since 2008.

Employee engagement at APG is measured twice yearly with an employee engagement survey; this took place in March and October 2016. The aim of the survey is to engage employees and managers in dialogue about the results of the survey and prompt them to implement improvements together. The response to the employee engagement survey in 2016 rose from 71.1% in March to 79.8% in October (both response rates only for the Netherlands). This is somewhat higher than the financial market benchmark, which has an average response rate of 78.8% (October 2016). Based on the employee engagement survey carried out in March 2016, three central topics at APG were identified as needing extra attention: (personal) leadership, cooperation, and pride in one's work. The measurement in October showed an improved score for these topics, but they remain priorities for 2017.

Terms of employment

It is important to APG that the terms of employment policy support the corporate strategy and be consistent with our core values. The terms of employment policy is an important factor in attracting, retaining, and motivating qualified employees.

Controlled remuneration

APG and its subsidiaries are subject to various legislation and regulations relating to controlled remuneration. APG also follows the best practices of the Dutch Corporate Governance Code in relation to controlled remuneration. The section below can also be found at: www.apg.nl/corporategovernance.

APG aims to apply a careful and restrained remuneration policy that is consistent with the strategy, risk appetite, goals, and core values of APG. Our remuneration policy aims to achieve the right balance between the short and long-term interests of APG and especially those of our stakeholders, such as our clients and their participants.

APG is aware of its social function. When determining the remuneration of Executive Board members and its employees, APG carefully reviews the extent to which this is in line with the market. When recruiting new Executive Board members, APG is primarily guided by the need to attract expert and experienced leaders who will be able to steer APG in an era characterized by changes to the pension system, at a time when efforts are also needed toward restoring trust in the pension sector. APG realizes that the remuneration of senior management also involves a public aspect and that APG operates in a sector in which restoring trust is the absolute priority over the coming years. This is why APG's Supervisory Board decided to apply a substantial moderation of the remuneration level when attracting new Executive Board members from 2016 onwards.

Key elements of APG's remuneration policy

The guiding principle is that the remuneration policy must enable us to attract and retain expert and ethical employees who are able to achieve the long-term objectives of APG and its clients. APG offers its employees an attractive and competitive salary, dependent on the employee's position, experience, and competencies. The degree of growth in the salary scale depends on the evaluation score determined in the annual assessment and the relative scale position.

In determining the total remuneration, the long-term interests of the stakeholders of APG and APG's long-term strategy are taken into account. The total remuneration that is paid out is related to the remuneration market relevant for the particular business unit and/or job category. A benchmark study is conducted into the remuneration at the various organizational units at APG, including the Executive Board, regularly (every two to three years).

APG uses a performance management cycle (the HR Cycle) which is based on performance criteria determined in consultation between the manager and employee. 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.

The Executive Board and most of our employees are no longer eligible for variable remuneration as of the beginning of 2016. Only at APG Asset Management are some of the employees in the Netherlands and at the foreign offices still eligible for variable remuneration.

Variable remuneration

For APG Asset Management, a specific remuneration policy applies in certain areas, but is still governed by the frameworks of APG's overall remuneration policy. This policy has been aligned with the legislation and regulations that apply to APG Asset Management and the long-term objective of APG Asset Management, and ties in with the asset management remuneration market.

A maximum ratio of fixed to variable remuneration has been set for every position at APG Asset Management that is eligible for variable remuneration. The height of this depends on the employee's position and is higher at our foreign subsidiaries than in the Netherlands. Variable remuneration at these locations is an essential part of the local culture and the local labor market. We believe that granting discretionary variable remuneration within the frameworks of our assessment processes is important in order to attract and retain these employees.

For some of the employees, payment of the variable remuneration is deferred over a number of years, after reassessment of the particular employees' performance. The remuneration is acquired on a prorated basis during a three-year period.

APG does not provide loans to employees, nor does it grant/pay out options or other financial instruments.

Governance of the remuneration policy

APG's Executive Board is responsible for applying the regulations concerning controlled remuneration. Each year, APG's review committee assesses whether the remuneration policy pursued has the right effect, is compliant with legislation and regulations, requires amendment, and whether the risks identified are managed. At the moment, our insurer and asset manager each have their own review committee.

These review committees have been appointed to support the Executive Board and the remuneration committee. In the committees, the control functions of HR, Risk Management, Legal, and Compliance actively work together on the design, oversight, and monitoring of the remuneration policy. The internal accountant is not represented on these committees but periodically conducts independent investigation into the design, introduction, and application of the remuneration policy.

Risk analysis

APG has performed a risk analysis to identify the remuneration incentives arising from APG's remuneration policy and to control incentives that detriment APG and its stakeholders. Throughout APG, the emphasis of the risk analysis is on fixed remuneration, while the emphasis at APG Asset Management is mainly on variable remuneration.

Identified Staff

APG's 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. Since variable remuneration is no longer granted throughout APG, only certain employees at APG Asset Management are designated as 'Identified Staff.' Roughly speaking, this includes the following employees:

- Line and staff department managing directors reporting directly to the Executive Board;
- Managers in a control function;
- Other employees who, because of the nature and content of their work, have a material impact on the organization's risk profile.

Variable remuneration and remuneration in excess of €1 million

For the 2016 financial year, a total of €31.5 million was granted in variable remuneration (2015: €28.1 million). In contrast to the previous year, this figure relates entirely to APG Asset Management (2015: €27.6 million). Of the total amount in variable remuneration, €24.0 million (2015: €19.2 million) pertains to the foreign subsidiaries of APG Asset Management. The largest part of the increase in variable remuneration was due to foreign currency effects.

During the 2016 financial year, six employees (2015: three employees) at APG Asset Management and its foreign subsidiaries were granted total remuneration of €1 million or more. All these employees work outside the Netherlands. In determining the total remuneration, both financial and non-financial 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.

Corporate governance

APG aims for a corporate governance structure that fits with the group's business activities, which satisfies the requirements of stakeholders and which 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. However, in view of APG's role and responsibility as a pension administration organization, it has opted to apply the Code on a voluntary basis.

APG largely satisfies the stipulations of the Code (in effect up to the 2017 financial year), to the extent that the guidelines apply to APG. The reporting in the annual report concerning the internal risk management and control systems and the sensitivity of the result is not as complete as prescribed by the Code.

Revised Corporate Governance Code

The Corporate Governance Monitoring Committee published a revised version of the corporate governance code in December 2016 (hereafter: the revised Code). The revised Code takes effect starting in the 2017 financial year. Effective 2017, companies must account for their adherence to the best practices from the revised Code. APG performed a gap analysis of to what extent the company and the group units comply with the principles and best practices in the revised Code. In the course of 2017, measures will be taken to ensure that APG complies as much as possible with the relevant best practices from the revised Code.

Legal structure

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

APG Rechtenbeheer

APG Rechtenbeheer [Rights Management] is responsible for executive consultancy, pension administration, and pension communication for its 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 asset management. 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 our 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.

Loyalis

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

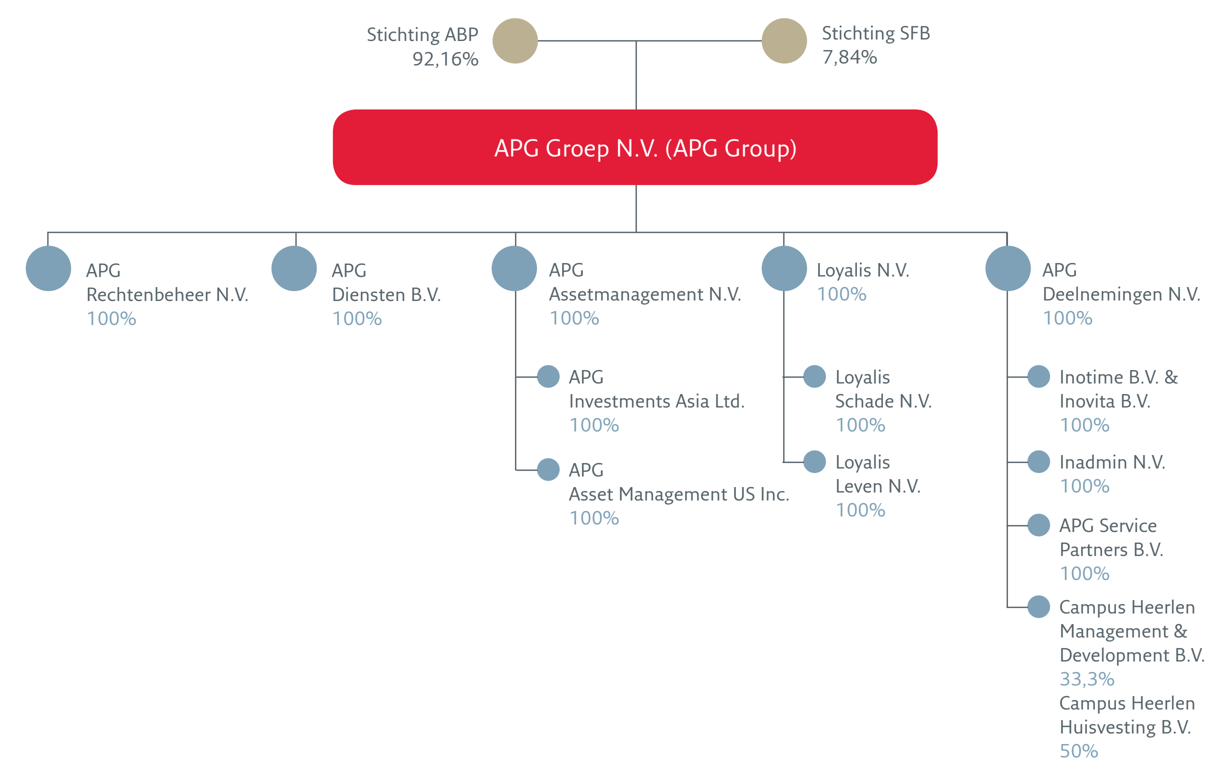
APG Diensten

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.

Organogram (shortened)



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. 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 the objectives and strategy of APG, the development in the result and the social aspects of the business. The Executive Board is also responsible for compliance with all relevant legislation and regulations, managing risks, and the company's financing.

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

The Executive Board holds quarterly meetings with the boards of the business units in the context of managing and controlling risks. 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, 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 was made up of four members in 2016. Page 49 contains more details about the current members of the Executive Board. Gerard van Olphen was appointed chairman of the Executive Board as of March 9, 2016. With a women to men ratio of 25% in 2016, the Executive Board did not satisfy the diversity ratio of at least 30% women to men as contained in the Code. The Executive Board wants to see this ratio increase.

Supervisory Board

The Supervisory Board of APG is charged with supervising the policy of the Executive Board and the performance of its duties. The Supervisory Board 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 (by the general meeting of the company) of the general remuneration policy that applies for members of the Executive Board and the remuneration of the individual members of the Executive Board, taking 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 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 plays an important role in the preparation for these appointments.

The Supervisory Board has consisted of seven members in total since November 2016: Dick van Well joined the Supervisory Board after having been approved by the regulators and appointed by the shareholders. Two of the seven Supervisory Board members are women. As such, the Supervisory Board just fails to satisfy the diversity ratio of at least 30% women to men (28.6%). Given the current composition of the Supervisory Board, this ratio will remain the same for the time being.

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. A copy of the regulations is published at: www.apg.nl/corporategovernance.

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 2016.

Shareholders

APG has two shareholders: Stichting ABP (92.16% of the shares) and Stichting SFB (7.84% of the shares). In April 2016, the general meeting of shareholders determined the results for 2015 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, the recalibration of APG's strategy, and the appointment of a new external auditor. 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 new service agreement with the external auditor.

Word of thanks

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

Amsterdam, March 30, 2017

The Executive Board
Gerard van Olphen, chairman
Angelien Kemna
Eduard van Gelderen

Report of the Supervisory Board

Strategy and policy

In the spring of 2016, the Supervisory Board welcomed Gerard van Olphen as the new chairman of the Executive Board. Under his leadership, the development of APG's new mission, 'Building your sustainable future together', laid the foundation for a strategy of excellent service provision to the pension funds and their participants. In 2016, APG took the first steps for a strategy focused on increased freedom of choice in the future pension system, an individual investment proposition, transparency in the accrued pension assets, and increased individual participant communication. This demands a willingness to change from all of APG's stakeholders, and requires investments in capacity and resources.

The Supervisory Board played an active role in this process as a sounding board for and adviser to APG's management, without losing sight of its role in supervising the management and policy of the business, and all the interests involved in it.

More depth was introduced in the cooperation with external regulatory authorities (DNB and AFM, in particular) over the past period. This culminated in, for instance, the strengthening of internal supervision by the board and its committees, as well as the recent establishment of a separate Supervisory Board at APG Asset Management.

For APG as a business in the social field of pension administration, good corporate governance is essential. A remuneration policy that is in keeping with APG's character is the subject of our full attention in this regard. In this context, the board also obtained more information on topics such as strategy, strategy implementation, and the related risks. The board also concentrated on the structure and effectiveness of the internal risk management and control systems and the social aspects of business relevant for APG. The board is guided by standards and values, with a focus on full compliance with legislation and regulations and working on the basis of integrity and respect.

Good governance

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

The key themes discussed by the Supervisory Board in 2016 were regular topics such as financial developments in the company, the performance of the individual business units and developments in the pension sector, and administration and ICT. The group's business strategy, the recalibration of the organizational structure and management, the progress of strategic projects, and the evaluation of some corporate governance aspects were also discussed at length.

Organization of the Supervisory Board and its meetings

When the 2016 annual report was drawn up, the Supervisory Board comprised the following people (see page 48 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. Edith Snoeij was reappointed for a new four-year term by the shareholders in 2016. Dick van Well joined the Super-visory Board in 2016.

The Supervisory Board met seven times for formal meetings in 2016. As a rule, all members of the Supervisory Board and the members of the Executive Board attended these meetings. 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 2016 to consult with Executive Board members and/or relevant APG employees about, among other things, the vision, the strategy, the successor to the CFRO, and the vacancy for the seventh supervisory board member position. The Supervisory Board also met alone several times, without the Executive Board or other APG employees, to discuss, among other things, the evaluation of the members of the Executive Board and their own performance.

The Supervisory Board has three committees: the Audit and Risk Committee, the Remuneration and Selection Committee, and the Corporate Governance Committee. In 2016, there was also the AMTC Committee ('APG Asset Management and APG Treasury Center Committee') which focused specifically on the supervision of asset management at APG. The AMTC was a precursor to the Supervisory Board of APG Asset Management and acted as the Supervisory Board of the APG Treasury Center. During the second half of 2016, after the AFM granted approval, Maes van Lanschot (chairman) and Bart Le Blanc were appointed members of the Supervisory Board of APG Asset Management and APG Treasury Center. The articles of incorporation of APG Asset Management were amended prior to this.

Information on the Audit and Risk Committee, the Remuneration and Selection Committee, and the Corporate Governance Committee can be found below.

All the committees extend a standing invitation to all other members of the Supervisory Board to attend their meetings. Much use of this option was made in 2016.

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 2016. The reports and important points for attention from the committee are shared with the Supervisory Board. There was discussion on the annual report, the impact of Solvency II on APG, (strategic) projects, 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 auditor, 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 & Risk Officer of the Executive Board, the external auditor and internal auditor, and the managing directors of Group Risk & Compliance and Group Finance. The Audit and Risk Committee met separately with the external auditor twice in 2016 and twice with the internal auditor. 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, and Claudia Zuiderwijk.

The reports and important points for attention of this committee are shared with the Supervisory Board. This committee met eight times in 2016, and also held a number of meetings on, among other things, the CFRO's successor and the selection of the seventh member of the Supervisory Board.

The key topics in Remuneration and Selection Committee meetings included the evaluation of the Executive Board, the remuneration policy for the Executive Board, and the update of HR Change (culture and behavior).

Corporate Governance Committee

The Corporate Governance Committee is comprised of Pieter Jongstra (chairman), Edith Snoeij, and Roger van Boxtel. This committee met three times in 2016. The reports and important points for attention of this committee 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 contacts with the external regulators. The most important topics in the Corporate Governance Committee's meetings in 2016 included: contacts with the regulators, the programs for the permanent education days, the evaluation of APG's governance structure, and the structure of the external evaluation of the Supervisory Board.

Evaluation and permanent education

An external evaluation of the Supervisory Board was started in fall 2016. An evaluation report will be 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 for the Supervisory Board took place on two separate days in 2016. External speakers caught the supervisory directors up on (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 started as chairman of APG's Executive Board on March 9, 2016. His focus in 2016 was mainly on creating a new mission for APG, recalibrating APG's organizational structure and management, the approach to strategic projects, and the HR Change (culture and behavior).

On February 9, 2017, Mark Boerekamp announced that he would be resigning his position as Chief Operating Officer (COO) on APG's Executive Board. Under his leadership, the foundation was laid over the past several years for reducing implementation costs per participant, creating an agile way of working, and introducing technological and other innovations, such as the Brightlands Smart Service Campus. The board thanks Mark Boerekamp for his dedication over the past years.

2016 annual report and financial statements

The Supervisory Board approves the annual report from the Executive Board and the 2016 financial statements, as well as the auditor's report. We propose to the shareholders that they adopt this report and the annual figures, and approve the dividend proposed.

Amsterdam, March 30, 2017

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 Groep NV
2016

Consolidated balance sheet as at December 31, 2016

Before profit appropriation In thousands of euros

Assets	12-31-2016	12-31-2015
Fixed assets		
Intangible fixed assets (1)	453,950	531,377
Tangible fixed assets (2)	23,579	23,890
Financial fixed assets (3)	148,577	134,642
	626,106	689,909
Investments insurance business (4)	3,156,431	3,019,509
Current assets		
Receivables, prepayments, and accrued income (5)	289,401	222,308
Receivables from reinsurance (6)	35,799	41,045
Cash (7)	683,200	779,136
	1.008,400	1.042,489
Total assets	4,790,937	4,751,907

Liabilities	12-31-2016	12-31-2015
Group equity (8)		
Equity capital	1,229,953	1,208,896
	1,229,953	1,208,896
Provisions		
Insurance liabilities (9)	2,999,934	2,948,154
Deferred taxes (10)	25,313	12,759
Other provisions (11)	103,961	157,657
	3,129,208	3,118,570
Long-term liabilities (12)	23,767	23,767
Current liabilities and accrued liabilities (13)	408,009	400,674
Total liabilities	4,790,937	4,751,907

Consolidated profit and loss account for 2016

In thousands of euros

	2016	2015
Net turnover		
Insurance premiums (14)	254,189	253,190
Investment results (15)	179,262	21,842
Yields from services to third parties (16)	673,390	684,304
Other operating income (17)	36,878	43,258
Total operating income	1,143,719	1,002,594
Change in provision for insurance liabilities (18)	57,281	-129,296
Payments (19)	251,353	299,992
Costs of outsourced work and other external costs (20)	119,623	104,426
Personnel costs (21)	376,821	448,968
Amortization and depreciation on intangible and tangible fixed assets (22)	90,721	89,990
Other operating costs (23)	133,968	127,127
Total operating expenses	1,029,767	941,207
Interest income and similar yields (24)	479	238
Interest charges and similar costs (25)	9,446	1,900
Result from ordinary activities before taxes	104,985	59,725
Taxes (26)	-41,659	-15,472
Result from participations (27)	1,182	-296
Group result after taxes	64,508	43,957

Consolidated cash flow statement for 2016

In thousands of euros

	2016	2015
Cash flow from operating activities		
Operating result	113,951	61,387
Adjustments for:		
• Amortization and depreciation on intangible and tangible fixed assets (22)	90,724	89,990
• Net investments for commercial purposes for own account (4)	-36,903	65,591
• Net investments for commercial purposes at the risk of policyholders without guarantee (4)	-100,019	11,746
• Changes in working capital:		
- Increase in receivables, prepayments, and accrued income (5)	-67,094	-6,179
- Decrease in receivables from reinsurance (6)	5,246	9,294
- Increase in current liabilities and accrued liabilities, corrected for corporate income tax (13)	62,118	10,219
• Change in gross insurance liabilities for own account (9)	-40,651	-130,244
• Change in insurance liabilities for policyholders' risk without guarantee (9)	92,431	-7,553
• Change in other provisions (11)	-53,696	33,062
Cash flow from business operations	*66,107*	*137,313*
Interest received	479	238
Interest paid	-4,690	-1,613
Corporate income tax paid	-94,426	-19,153
Cash flow from operating activities	-32,530	116,785
Cash flow from investing activities		
Investments in fixed assets	-12,879	-9,788
Expenditure in connection with capital contributions to non-consolidated participating interests	-3,160	-1,710
Cash flow from investing activities	-16,039	-11,498
Cash flow from financing activities		
Dividend paid out	-44,000	-110,000
Settlement of separation of the administrative organization	-238	-232
Cash flow from financing activities	-44,238	-110,232
Net cash flow	-92,807	-4,945
Foreign currency translation differences	267	2.590
Change in cash	-92,540	-2,355
Opening balance of cash (7) including negative bank balances (13)	775,740	778,095
Closing balance of cash (7) including negative bank balances (13)	683,200	775,740
Change in cash	-92,540	-2,355

Accounting Policies

Introduction

Activities

As a financial services provider, APG Groep NV (APG Group) provides executive consultancy, asset management, pension administration, pension communication, employer services and supplementary income solutions.

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 2016, 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 40 .

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

General

These financial statements pertain to the 2016 financial year (ending on the balance sheet date of December 31, 2016) 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 Part 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 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. De-consolidation 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 in the notes on the company financial statements. Joint ventures are not consolidated, but are included under 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. Exchange rate differences arising from settlement and conversion are credited or debited to the profit and loss account, unless they are subjected to hedge accounting. Non-monetary 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 cost price or lower 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 lower market value.

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. These 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 as of January 1, 2016, states the risks for the insurer and plays an important role in the risk policy of the insurance business. Financial risks based on the standard model of the Solvency II framework are explained one by one here, to the extent material. The following are distinguished as significant financial risks:
- actuarial and insurance risks;
- market risk;
- liquidity risk.

Actuarial and insurance risks

Insurance risks arise from a deviation between the risk premiums that are available for an insurance risk and the actual cost of claims arising from that risk. The key risks for the insurance business are the short-life risk (for the surviving dependents and term life insurances), longevity risk (for annuity insurances), and the disability risk (for work-related disability insurances). The surrender risk, cost risk, and catastrophe risk are also significant.

The provisions on the balance sheet of the non-life business are primarily based on mortality rates, or disability likelihoods that have been derived from observations within the target groups. These assumptions are reviewed periodically in the assumptions analysis performed annually, and the result is derived from these likelihoods. The tables of the Dutch Actuarial Association and the Association of Insurers are also relied on here. The sensitivity analyses are based on the shocks as determined in Solvency II.

Sensitivity to actuarial risks increased in 2016. The causes for this were the interest rate decrease in 2016, the increase in the number of 'AOV' claims in 2016, and the inclusion of the (negative) premium provision for 'AOV' as the result of applying the renewal likelihood to these products.

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 **short-life risk** (mortality risk) is the probability of a loss due to the fact that the current amount to be paid on death is higher than the technical provision maintained and the risk premium received for this purpose. This is the case when the assumed mortality rate on which the technical provision and the risk premium were based is lower than the actual mortality rate. This risk is quantified as the increase in the provision (relative to the Best Estimate) required to be able to absorb 15% of an integral increase in the mortality rates.

Table 1
Insight into the sensitivity of the result before taxes based on the Solvency II criteria
(in millions of euros)

	Life 2016	Life 2015	Non-life 2016	Non-life 2015
• Effect of 20% decrease in mortality rates/increase in longevity risk	-52,8	-48,2	-5,0	-2,9
• Effect of 15% increase in mortality rates/increase in short-life risk	-12,2	-12,2	n/a	n/a
• Effect of increase in disability likelihoods by 35% (1st year) / 25% (permanent)	n/a	n/a	-93,2	-60,0
• Contribution and loss provision risk	n/a	n/a	-90,2	-91,0
• Effect in the event of en masse surrender shock of 40%	-63,4	-61,3	-18,2	n.v.t.
• 10% cost increase and 1-percentage-point increase in cost inflation	-34,7	-32,1	-12,6	-7,7
• Catastrophe risk	-6,6	-6,7	-6,0	-20,9
• Revision risk	n/a	n/a	20,2	n/a

The **invalidity 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. With effect from 2015, for a part of the Invalidity Pension Supplement Plan (IPAP) portfolio, not every risk is determined separately, but all potential risks are translated into an integrated markup on the provision, the **Contribution and Loss Provision Risk**. This is the risk that the contribution and provision required for the insured risks are higher than assumed in the Best Estimate provision

The shock increased substantially relative to 2015 as a result of a higher IBNR provision. The IBNR provision rose as the result of:
- inclusion of the premium provision, which results in an IBNR provision also being included for the 2017 underwriting year;
- a rise in the number of new claims for full work-related disability results in an increase in the IBNR provision;
- the decrease in the interest rate results in an increase in the IBNR provision.

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. 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 **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 contributions cannot be increased. Sensitivity to the cost risk is measured in accordance with the specifications of the Solvency II standard formula.

At the non-life business, the effect of the cost shock has increased as a result of including the premium provision for 2017 (including 2017 costs), and as a result of the rise in the number of claims.

The **catastrophe risk** is the risk of losses or a detrimental change in the value of the insurance liabilities resulting from major uncertainty with regard to the assumptions used in determining the pricing and provisions for a sizeable and unusual accumulation of events. The catastrophe risk has decreased significantly at the non-life business, as this was largely reinsured in 2016.

Revision risk is the risk of losses or detrimental changes in the value of the insurance liabilities resulting from changes in the level, development or volatility of the revision rates applied to annuities due to changes in the legal climate, or in the insured's health condition. A revision shock has been included at the non-life business with effect from 2016.

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. Market risk includes interest rate risk, equity risk, currency risk, real estate risk, spread, and counterparty credit 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).

The 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 100% (2015: 100%).

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

Table 2: Effect of change in the market interest rate by 1 percentage point on the result before taxes
(in millions of euros)

	Decrease 1% point in market interest rate 2016	Increase1%-point in market interest rate 2016	Decrease 1% point in market interest rate 2015	Increase1%-point in market interest rate 2015
Life				
• investments	72.8	-72.8	50.2	-50.2
• liabilities	-145.9	145.9	-140.0	140.0
• interest rate swaps	75.5	-75.5	90.0	-90.0
Impact on result	2.4	-2.4	0.2	-0.2
Non-life				
• investments	48.6	-48.6	25.5	-25.5
• liabilities	-58.6	58.6	-55.6	55.6
• interest rate swaps	8.2	-8.2	30.1	-30.1
Impact on result	-1.8	1.8	0.0	0

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

	Fair value 2016	Underlying value 2016	Fair value 2015	Underlying value 2015
Futures	-0,5	-3,3	-0,4	53,6
Forwards	0,0	-89,4	3,0	-110,9
Swaps	28,5	232,0	9,0	567,0
Totaal	28,0		11,6	

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 use mainly futures and swaps, within risk frameworks. The decrease in the swap interest rate (10 year -34 basis points) caused the market value of interest rate swaps to plummet in 2016. The notional of the interest rate swaps was phased out at the end of March 2016, while the sensitivity of the fixed-income securities to the interest rate was increased by extending the duration by about two years. The overall sensitivity of the assets to the interest rate remained virtually the same; therefore, just the distribution of this sensitivity across the fixed-income securities and interest rate swaps was adjusted.

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' account and risk since these can be part of an investment mix selected by the client.

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

	2016	2015
Residential	110.6	100.5
Retail	32.8	56.2
Infrastructure	32.1	31.7
Real estate total	175.5	188.4

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

	2016 Total	2016 Total in %	2015 Total	2015 Total in %
Residential	-34.9	-31.6%	-31.5	-31.4%
Retail	-11.1	-33.8%	-18.5	-32.9%
Infrastructure	-9.3	-28.9%	-9.0	-28.3%
Real estate total	-55.3	-31.5%	-59.0	-31.3%

At the end of 2016, the insurance business had a private equity portfolio for its own account and risk of €20.0 million (2015: €29.0 million). The decrease 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 47.6% (2015: -46.8%), the current Solvency II shock, would result in a decrease in value of €9.3 million (2015: €-14.0 million). The private equity portfolio as a whole was transferred to the life insurance business in 2016, which means the entire decrease in value is incurred there.

Currency risk
The currency risk arises due to changes in the level or the volatility of exchange rates. This currency risk is considered to be undesirable by the insurance business. The majority of the currency positions are hedged.

Sensitivity to foreign currency risk is measured in accordance with the specifications of the Solvency II standard formula. The impact on the result is calculated in this context based on an exchange rate movement of the unhedged currency by 25% relative to the euro. This impact amounted in total to €-0.2 million (2015: €-0.5 million).

Currency forward contracts concluded to hedge the currency risk on the financing in foreign currency of the foreign subsidiaries are carried at cost price, for which cost price hedge accounting is applied. At the end of 2016, the fair value of the currency forward contracts was €5.8 million (2015: €-0.9 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 non-listed companies. It also invests in infrastructure via a non-listed external investment vehicle. 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 is shocked by 30% since 2015.

The amount of the shock for residential real estate rose as the result of increases in value in the underlying real estate. For retail, the size of the portfolio decreased as the result of sales, the percentage of the shock rose because of the increased leverage (caused by declines in the value of the retail 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 risk-free rate: in this context, spreads are specified in relation to the swap curve.

The fixed-income securities portfolio is widely diversified over debtors, securities, and regions. The emphasis, however, is on European banks and financial institutions. Almost all of these investments (99.7%) are in investment grade debtors. The market value of the total portfolio is €2.1 billion (2015: €1.9 billion).

With regard to the creditworthiness of the fixed-income securities portfolio according to rating (using the ratings of S&P or Moody's), 87% belong to Class A and higher (2015: 76%).

The fixed-income securities portfolio is primarily invested in Europe. More than 80% of the government portfolio is invested in the government bonds of northern euro 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 €24 million (2015: €164 million including government loans).

The sensitivity to the spread risk, measured according to Solvency II, increased somewhat on balance in 2016 (€-72 million; -3.4%) compared to 2015 (€-64 million; -3.4%) as the result of a growing portfolio.

Counterparty credit risk
Counterparty credit risk is defined as the risk that a counterparty to a financial instrument will not fulfill its obligation, thus causing the other party to suffer a financial loss.

The receivables from derivatives transactions, reinsurance, and bank balances in particular are relevant for the insurance business. The counterparty risk for derivatives is minimal due to the daily exchange of collateral. The bank balances are maintained with large Dutch banks and the reinsurance contracts are concluded with solvent reinsurers.

The credit risk on debtors for the administrative business is mainly limited to claims on clients and banks, which entails minimal risk. The claims on clients are the claims arising from the service agreements. The claims on banks relate to bank account balances eligible for immediate withdrawl, short-term deposits and currency forward contracts. The credit risk on currency forward contracts are largely mitigated by the exchange of collateral.

Liquidity risk
Liquidity risk is defined as the risk that a company is unable to procure the financial resources needed to fulfill its obligations related to financial instruments.

In addition to holding adequate cash to satisfy the short-term liquidity requirement, the insurance business invests a large portion of the fixed-income securities portfolio in liquid loans (government loans from core euro countries and corporate bonds with short cycle times). Investments in real estate, private equity, and infrastructure cannot be liquidated on short notice. With the net resulting liquidity position, the insurance business was easily able to satisfy the liquidity requirements arising from the regular business or, as the case may be, relating to the derivatives positions held.

Liquidity risk can arise, for example, if a financial asset cannot be sold quickly in exchange for virtually its current value. The risk is limited by investing the excess cash exclusively in short-term investments with reputable financial institutions.

Accounting principles for the valuation of assets and liabilities

Fixed assets

Intangible fixed assets (1)

Intangible fixed assets are carried at acquisition price or manufacture cost, net of straight-line amortization. The amortization term is based on the expected economic earn-back period. 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 on a long-term basis 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.

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 manufacture 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 going-concern value. 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 on a long-term basis 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. In the absence of contributions/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 formed for this. Participations in which APG Group does not have significant influence are included under financial fixed assets and are valued at the acquisition price or lower market value.

Deferred tax assets, including claims arising from loss compensation, are recognized on the balance sheet to the extent that 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 non-listed 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 inputs 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 non-listed and inactive fixed-income securities, observable market data are 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 '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 on 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 for 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 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 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 current risk-free yield curve; this is based on the DNB interest term structure excluding the Ultimate Forward Rate (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 yields are 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 set-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 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 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 with respect to 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.

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 273% 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 year-end 2016.

– 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 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 accounting principles. 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 expenditures that are 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 staying. When discounting to present value, the market interest rate of investment-grade Dutch corporate bonds is used as 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 expenditures that are 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 of 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 earned contributions, single premiums and commissions attributable to the financial year, including the addition to the provision for the indexation of benefits granted on the basis of the policy terms and conditions. The unearned contributions for surviving dependents' pension and term life insurance are added to the unearned premium provision.

Reinsurance concerns the term life portfolio and the Disability Pension Supplement Plan and consists of a percentage of the benefits.

Investment results (15)

Net investment income comprises 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.

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 relate to 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.

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

The principal drivers used and the process for establishing these are explained in the notes to the consolidated profit and loss account.

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. Specific schemes apply for most employees abroad.

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 or expected economic life, according to the straight-line method.

Other operating costs (23)

The item "other operating costs" consists mainly of automation costs and accommodation costs.

Interest income and similar yields (24)

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 (25)
Interest charges and similar yields are attributed to the reporting year, where necessary, taking into account the effective interest rate of the relevant liabilities.

Taxes (26)
The taxes on the result are calculated on the result before taxes in the profit and loss account with due consideration for the losses with available tax-offsets from previous financial years (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 (27)
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 lease. 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 principal driver for recognizing the hedge instrument on the balance sheet and in the profit and loss account 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 moment as well as upon inception of the hedge relationship.

Accounting principle of the 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)

Intangible fixed assets include the goodwill calculated upon the acquisition of business activities, 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 2016	Total 2015
Opening balance	193,233	291,971	38,503	7,670	531,377	610,437
Investments	–	–	–	5,251	5,251	3,410
Amortization	-17,229	-43,386	-17,771	-4,295	-82,681	-82,470
Impairments	–	–	–	–	–	–
Other changes	–	–	–	3	3	–
Closing balance	**176,004**	**248,585**	**20,732**	**8,629**	**453,950**	531,377
Cumulative purchase value	326,675	629,702	177,707	59,607	1,193,691	1,188,302
Cumulative amortization and impairments	-150,671	-381,117	-156,975	-50,978	-739,741	-656,925
Book value	**176,004**	**248,585**	**20,732**	**8,629**	**453,950**	531,377
Amortization rates	5-10 %	5-10 %	10 %	20-25 %		

The economic earn-back period of 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 duration are derived. 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 furnishings and inventory, data-processing equipment, and other tangible fixed assets.

The movements in this item are as follows:

	Furnishings and inventory	Data-processing equipment	Other	Total 2016	Total 2015
Opening balance	8,757	9,872	5,261	23,890	24,531
Investments	73	7,236	319	7,628	6,529
Disposals	-77	-	-	-77	-26
Amortization	-1,812	-5,448	-780	-8,040	-7,492
Changes in value	-	-	-	-	-28
Other changes	17	13	148	178	376
Closing balance	**6,958**	**11,673**	**4,948**	**23,579**	23,890
Cumulative purchase value	27,018	47,722	10,210	84,950	82,034
Cumulative amortization and impairments	-20,060	-36,049	-5,262	-61,371	-58,144
Book value	**6,958**	**11,673**	**4,948**	**23,579**	23,890
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 balance sheet.

The movement in these items is as follows:

	Deferred tax assets	Loan	Partici-pations	Other	Total 2016	Total 2015
Opening balance	129,850	–	2,628	2,164	134,642	99,416
Purchases and benefits/allocations	–	2,720	1,190	869	4,779	2,284
Sales and repayments	–	–	-918	-209	-1,127	–
Result from participation	–	–	–	–	–	-296
Changes in value	-29	–	–	141	112	1,669
Other changes	9,949	–	–	222	10,171	31,569
Closing balance	139,770	2,720	2,900	3,187	148,577	134,642

The deferred tax asset mainly relates to temporary differences between the commercial and fiscal valuation of the goodwill created as a result of the dezafication in 2008 (and agreed on with the Tax and Customs Administration), and of the investments and insurance liabilities of the insurance business. None of this has an expected duration of less than one year.

The deferred tax asset is offset against the fiscal results in future years. A deferred tax asset is created for tax-offsettable losses from the past 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 for these. The offsettable differences and losses not included amount to €0.2 million.

The disposal concerns the sale of the (30%) interest in the APG - ABN AMRO Pensioeninstelling joint venture as of March 31, 2016.

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 non-listed 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.

The majority of the insurance business's investments are valued on the basis of listed market prices (level 1) or observable market data (level 2). Only a small portion of the total assets is included at fair value based on estimates (level 3). Where estimates are used, they are based on evidence from independent third parties or internally developed models, calibrated where possible to observable market data. 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.

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.

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 which 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).

Examples of assets or liabilities at level 2 are financial instruments measured using discounted cash flow models. The calculation is based on expected income and the observable market swap yield. Additional measurements are performed for real estate and infrastructure investments using observable market data.

Measurement method not based on (significant) observable market inputs (‘Level 3’)
Fair value measured at level 3 uses market variables for the inputs or liability that are not based on observable market data. 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. Examples include certain private equity investments and private placements.

See the Risk section for a sensitivity analysis concerning this.

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

Market values	Level 1 2016	Level 1 2015	Level 2 2016	Level 2 2015	Level 3 2016	Level 3 2015	Total 2016	Total 2015
Real assetsn	132,977	174,617	-348	1,574	200,911	220,738	333,540	396,929
Fixed income	2,519,550	2,329,829	184,736	175,109	-1,956	102	2,702,330	2,505,040
Other	-980	1,214	29,363	10,411	86,419	83,600	114,802	95,225
Total investment portfolio	2,651,547	2,505,660	213,751	187,094	285,374	304,440	3,150,672	2,997,194

The table above shows the total investment portfolio, including derivatives with a negative value, which are stated under the other investments (2016: €5.8 million; 2015: €22.3 million).

Improved insights prompted changes to the comparative figures for 2015 in the fair value hierarchy. No shift of investments to a different category in terms of fair value determination occurred.

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

	Real assets	Fixed-income securities	Other investments	Total 2016	Total 2015
For own account					
Opening balance	218,306	2,087,908	21,534	2,327,748	2,408,754
Purchases and sales	-44,912	159,799	-50,413	64,474	-89,763
Development in value	22,344	56,462	67,685	146,491	8,757
Closing balance	195,738	2,304,169	38,806	2,538,713	2,327,748
Derivatives with negative value	-	-	5,046	5,046	21,651
Net position of investments	195,738	2,304,169	43,852	2,543,759	2,349,399
For policyholders’ risk with guarantee					
Opening balance	80,753	366,056	23,137	469,946	472,115
Purchases and sales	-47,067	-128,924	-1,378	-177,369	-5,300
Development in value	5,767	13,148	1,047	19,962	3,131
Closing balance	39,453	250,280	22,806	312,539	469,946
Derivatives with negative value	-	-	393	393	444
Net position of investments	39,453	250,280	23,199	312,932	470,390
For policyholders’ risk without guarantee					
Opening balance	97,870	51,077	50,553	199,500	210,145
Purchases and sales	-6,307	94,820	-1,253	87,260	-20,523
Development in value	6,787	1,982	3,891	12,660	9,878
Closing balance	98,350	147,879	53,191	299,420	199,500
Derivatives with negative value	-	-	320	320	221
Net position of investments	98,350	147,879	53,511	299,740	199,721
Total investment portfolio	333,541	2,702,328	120,562	3,156,431	3,019,509
Of the closing balance:					
Listed	138,487	2,702,328	120,562	2,961,377	2,626,473
Not listed	195,054	-	-	195,054	393,036

Current assets

Receivables, prepayments and accrued income (5)	12-31-2016	12-31-2015
Accounts receivable	25,455	12,525
Receivables from related parties	180,835	142,602
Amounts not yet invoiced	24,657	15,573
Taxes and national insurance contributions	13,757	6,905
Accounts receivable from investments	7,958	9,073
Receivable insurance premiums	12,580	13,528
Other receivables and accrued income	24,159	22,102
Total	289,401	222,308

The receivables from related parties mainly relate 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 duration of more than one year. No securities have been furnished, and no interest was received on the receivables.

Receivables from reinsurance (6)	12-31-2016	12-31-2015
Reinsurance portion of provisions	33,994	38,686
Receivables from reinsurance	1,805	2,359
Total	35,799	41,045

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

Cash (7)	12-31-2016	12-31-2015
Bank balances in current account	425,769	644,665
Deposits	231,626	56,722
Cash from investments	25,805	77,749
Total	683,200	779,136

A sum of €11.3 million of the cash (2015: €8.1 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)

	12-31-2016	12-31-2015
Equity capital	1,229,953	1,208.896
Group equity	1,229,953	1,208.896

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 based on Solvency II was 199% at year-end 2016. Excluding the proposed dividend, the Solvency II ratio at year-end 2016 was 221%.

Official reporting to De Nederlandsche Bank on the solvency figures and accompanying notes will take place no later than July 3, 2017, in accordance with 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 APG Group were also considered. APG Group's capital requirement based on Solvency II was €408 million at year-end 2016.

Available capital

The regulated participations APG Asset Management (MiFID) and insurance business Loyalis (Solvency II) are included in the calculation of 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 the Solvency II bases. These adjustments mainly related to the intangible fixed assets, deferred taxes, and off-balance sheet liabilities.

Based on this calculation, APG Group's available capital at year-end 2016 was €811 million (excluding the proposed dividend, the available capital at year-end 2016 was €899 million). The available capital was based entirely on market values. The capital consists of 95% Tier 1 capital 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:

		2016		2015
Opening balance		1,208,896		1,272,744
Group result after taxes		64,508		43,957
Dividend paid out in cash	*-43,957*		*-110,000*	
Other changes	*506*		*2,195*	
Total direct movements		-43,451		-107,805
Closing balance		1,229,953		1,208,896

The other movements ensue from a change in the reserve for conversion differences.

Provisions

Insurance liabilities (9)

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 €34.0 million (2015: €38.6 million) is included under the receivables from reinsurance. The total liability is included under the provision for insurance liabilities.

	12-31-2016	12-31-2015
Provision for life insurance	2,106,950	2,112,050
Provision for non-life insurance	892,984	836,104
Total	2,999,934	2,948,154

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 2016	Total 2015
Opening balance	1,959,568	200,758	787,828	2.948,154	3,085,951
Contribution and other allocations	165,508	11,293	55,915	232,716	225,133
Interest added	96,382	11,799	22,004	130,185	10,506
Profit sharing/indexation	-1,704	-	-	-1,704	-4,099
Release for expenses	-7,133	-2,489	-7,634	-17,256	-8,756
Release for payments	-148,439	-1,751	-71,888	-222,078	-271,147
Changes to assumptions	3,211	-	-	3,211	-
Other changes (expiry and surrender)	-32,806	73,579	-114,067	-73,294	-89,434
Closing balance	2,034,587	293,189	672,158	2,999,934	2,948,154

The provision for life insurance liabilities comprises:

	12-31-2016	12-31-2015
Periodic benefits already in payment and deferred	961,748	959,759
Pension insurance contracts	170,520	154,098
Unit-linked insurance with guarantees	765,957	787,827
Unit-linked insurance without guarantees	199,387	200,758
Risk insurance	9,338	9,608
Total	2,106,950	2,112,050

Changes in accounting estimates for Life

Research into mortality rates within the portfolio prompted an adjustment of the mortality rates. The AG2016 generation table published serves as the basis. This table is corrected with age-related, product-related and sex-related factors. The effect of this change resulted in 2016 in an increase in the provision by €3.2 million.

The provision for non-life insurance comprises:

	12-31-2016	12-31-2015
Insurance policies for work-related disability	881,813	822,004
Sick pay	7,738	10,399
Other	3,433	3,701
Total	892,984	836,104

The provisions for these non-life insurance policies are based on the estimated amounts of the benefits ultimately payable with respect to 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

To calculate the IBNR provisions for work-related disability, the insurance business adjusted the method involving triangular analyses, whereby in contrast to the previous year, gross triangles in which only the historical influx is included served as the basis. In previous years, net triangles were used, which included the influx minus the outflow of claims. The calculation of the provision for periodic benefits now also takes outflow likelihoods into account.

Research into mortality rates within the work-related disability portfolio prompted adjustment of the mortality rates for 2016. The new principal driver is the AG2016 generation table (M/F 270%/273%).

The IBNR percentages for calculating the IBNR provisions for WGA ERD have been lowered, causing the provision to decrease by €4.6 million. Furthermore, the outflow likelihoods for WGA ERD have been adjusted to also include mortality in the outflow, in contrast to the previous year. This results in an increase in the provision by €1.5 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.

	2016	2015
Opening balance	12,759	17,937
Allocations	18,208	-
Release	-	-
Utilized	-5,654	-5,178
Closing balance	**25,313**	12,759

Of the provision for deferred taxes, €5.2 million has an expected duration 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 provisions	Total 2016	Total 2015
Opening balance	28,351	121,115	7,090	1,101	157,657	124,595
Allocations	13,963	36,488	-	1,417	51,868	81,469
Withdrawals	-4,517	-59,761	-1,975	-1,293	-67,546	-42,625
Release	-5,333	-32,960	-	-	-38,293	-7,228
Other changes	268	-	-	7	275	1,446
Closing balance	**32,732**	**64,882**	**5,115**	**1,232**	**103,961**	157,657

€18.4 million (2015: €32.4 million) of the total amount is expected to have a duration of more than five years. €33.5 million is expected to be settled in 2017 (2015: €42.9 million).

Personnel-related provisions

This provision was created for liabilities following from 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 formed 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 2016, an allocation in the amount of €36.5 million was made (2015: €73.6 million). This restructuring provision is formed when a detailed plan of the reorganization is formalized and 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 2016 that the total expected expenditure for the reorganization was lower than originally estimated, which resulted in a release of the provision.

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. This sublet was recognized in the determination of the provision at year-end 2015 (release of €2.7 million). The duration 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)

	2016	2015
Opening balance	23,767	23,767
Draw downs	–	–
Repayments	–	–
Closing balance	**23,767**	23,767

Of the closing balance, €12.9 million relates to financing by related parties (2015: €12.9 million). €10.9 million of the closing balance has a remaining term of more than five years (2015: €10.9 million). The interest rates range from 5.4% to 7.25% per annum (2015: 5.4% to 7.25% per annum). No security has been furnished. The fair value of the long-term liabilities is €38.9 million (2015: €38.7 million).

Current liabilities and accrued liabilities (13)

	12-31-2016	12-31-2015
Debts arising from investments	822	13,255
Payments payable	20,160	12,564
Amounts received in advance	18,435	11,644
Amounts invoiced in advance	14,000	17,316
Accounts payable	33,409	7,710
Holiday pay and vacation days	24,070	23,206
Other personnel-related liabilities	34,014	32,546
Taxes and national insurance contributions	27,863	27,332
Corporate income tax	9,938	64,721
Amounts owed to related parties	171,572	133,401
Amounts not yet paid	26,245	-
Invoices still to be received	5,073	14,724
Liabilities in connection with pensions	1,285	1,375
Liabilities relating to derivatives	12,699	22,315
Rent reduction for office building	1,449	1,380
Negative bank balances	-	3,396
Other liabilities	6,975	13,789
Total	408,009	400,674

Liabilities relating to derivatives include a sum of €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.

Of the rent reduction for an office building, a sum of €0.3 million relates to 2017 and €1.1 million relates to the years 2018 to 2021, inclusive (2015: in total €1.4 million).

The current liabilities do not include any other items with a remaining duration of more than one year (2015: zero). No securities have been furnished and 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 €122.3 million are outstanding (2015: €148.9 million), of which €23.1 million is due within one year (2015: €26.5 million), €77.1 million is due in one to five years (2015: €96.7 million), and €22.1 million is due after five years (2015: €25.7 million). €16.1 million in rental costs are reported for the reporting year (2015: €19.6 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 €102.0 million (2015: €118.0 million), of which €10.8 million is due within one year of the end of the financial year (2015: €9.2 million), €43.2 million is due in one to five years (2015: €41.4 million), and €48.0 million is due after five years (2015: €67.4 million). Minimum purchasing volumes were agreed on in the contracts. If the actual purchase volumes realized are lower than the minimum volume applicable for that moment, 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 moment of termination. The maximum potential liability arising from this is €4.0 million.

The liabilities under long-term car lease contracts are €8.3 million (2015: €9.8 million), of which €3.6 million is due within one year of the end of the financial year (2015: €4.1 million) and €4.7 million is due in one to five years (2015: €5.7 million). There are no liabilities due after five years. €4.2 million in lease costs are reported for the reporting year (2015: €5.0 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 €19.4 million (2015: €26.9 million), of which €11.7 million (2015: €14.1 million) is due within one year of the end of the financial year and €7.7 million (2015: €12.8 million) is due in one to 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 €0.6 million (2015: €2.4 million).

Specifically for the insurance business's investments in private equity and infrastructure, future commitments have been entered into for an amount totaling €6.0 million (2015: €7.4 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 the long-term derivatives is positive €5.8 million (2015: negative €0.9 million). The liabilities have a duration of less than 1 year. The contract conditions include the exchange of collateral to hedge the settlement risk.

There are a number of fiscal units at the APG Group, specifically for corporate income and turnover tax. Within such a fiscal unit, 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; 2016: €0.2 million, 2015: €0.4 million). The amount of the payments to be received is uncertain in future.

Notes on the consolidated profit and loss account

In thousands of euros

Net turnover

Insurance premiums (14)

Insurance premiums (14)	2016	2015
Life insurance		
Own expense and risk	101,958	106,059
Policyholders' risk	11,785	9,060
	113,743	115,119
Non-life insurance		
Own expense and risk	140,446	138,071
Policyholders' risk	-	-
	140,446	138,071
Total	254,189	253,190

Investment results (15)

Investment results (15)	Real assets	Fixed-income securities	Other investments	Total 2016	Total 2015
Dividends	16,704	-	-	16,704	14,993
Interest	-	40,323	5,404	45,727	55,908
Changes in value	17,230	31,458	67,609	116,297	-46,969
	33,934	71,781	73,013	178,728	23,932
Result from financial transactions				534	-2,090
Total				179,262	21,842
For own account	*21,368*	*56,621*	*68,064*	*146,053*	*10,700*
For policyholders' risk with guarantee	*5,774*	*13,175*	*1,056*	*20,005*	*3,322*
For policyholders' risk without guarantee	*6,792*	*1,985*	*3,893*	*12,670*	*9,910*
	33,934	71,781	73,013	178,728	23,932
Result from financial transactions				534	-2,090
Total				179,262	21,842

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

Yields from services to third parties (16)

Yields from services to third parties (16)	2016	2015
Asset management	429,387	430,251
Pension administration	244,003	254,053
Total	673,390	684,304

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	2016	2015
Asset management	434,690	435,490
Pension administration	242,737	256,501
Insurance business	435,981	285,969
Supporting companies	165,966	187,623
APG Group company	39,119	47,995
Eliminations	-174,774	-210,984
Total	1,143,719	1,002,594

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 €193.3 million (2015: €256.5 million) and non-life insurance in the amount of €61.9 million (2015: €52.2 million) less reinsured life insurance amounts totaling €0.0 million (2015: €4.4 million) and non-life insurance in the amount of €3.8 million (2015: €4.3 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)	2016	2015
Wages and salaries	282,833	281,978
Pension charges	26,555	28,687
Social security charges	29,655	28,729
Other personnel costs	37,778	109,574
Total	376,821	448,968

In 2016, a reclassification was effected by which the compensation for lower pension accrual is now included in wages and salaries instead of pension charges. The adjustment of the comparative figures for 2015 amounted to €2.3 million.

Employee pension scheme
The pension scheme for a large number of employees is administered by General Pension Fund for Public Employees. The pension rights are accrued based on 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. APG Group has no obligation to make additional contributions in the event of shortfalls at these pension funds other than the payment of future contributions. Based on this so-called defined contribution scheme, the company can suffice by reporting the contribution as a cost.

Specific schemes apply for most employees abroad.

Number of employees
The group employed an average of 3,298 people in 2016 (2015: 3,482), divided into the following segments.

	2016	2015
Management and staff	308	323
APG Rechtenbeheer	1,281	1,366
APG Asset Management	694	692
Loyalis	239	282
APG Deelnemingen	134	125
Supporting units	642	694
Total	3,298	3,482

In 2016, an average of 157 employees were employed abroad (2015: 147). 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 compen-sation	Compensation for committee membership	Employer's charges and taxes (incl. VAT)	Total 2016	Total 2015
Bart Le Blanc *	45,000	7,500	11,025	63,525	54,450
Pieter Jongstra **	35,000	15,000	13,875	63,875	44,366
Edith Snoeij *	30,000	12,500	9,642	52,142	44,782
Maes van Lanschot	30,000	8,750	10,753	49,503	44,782
Roger van Boxtel **	30,000	5,000	9,713	44,713	15,125
Claudia Zuiderwijk **	30,000	10,000	11,100	51,100	19,663
Dick van Well ***	3,750	-	788	4,538	-

* Comparative figures adjusted for employer's charges and taxes paid in 2016
** See the Personal details on page 48 for dates of appointments in 2015
*** From November 14, 2016

The increase to the remuneration for the Supervisory Board is due to four causes. 2015 fees for Pieter Jongstra, Roger van Boxtel and Claudia Zuiderwijk are based on an appointment in the course of 2015. The remuneration reported concerns the total of 2016. Due to the extension of the number of committees there is an increase in Compensation for committee membership.

This is due to the addition of the Governance Committee and the Asset Management and Treasury Center Supervisory Committee. This second committee functioned as a forerunner to the Supervisory Board of APG Asset Management and APG Treasury Center formalized in 2016. The fixed compensation for the chairman of the Supervisory Board was increased for the first time in 7 years.

Finally the composition of the supervisory board is extended in 2016 with the accession of Dick van Well.

Executive Board	Direct salaries	Compensation for lower pension accrual	Personnel costs	Pension charges	Total 2016	Total 2015
Gerard van Olphen *	385,588	44,265	7,761	10,569	448,183	-
Angelien Kemna	445,909	46,030	9,518	23,546	525,003	519,573
Eduard van Gelderen	599,505	69,498	9,518	13,019	691,540	635,087
Mark Boerekamp	482,736	46,502	9,518	13,019	551,775	510,249
Dick Sluimers **	-	-	-	-	-	624,739

* From March 9, 2016
** Until December 31, 2015

Gerard van Olphen has held the position of Chairman since March 9, 2016. The portfolio of the Chairman was temporarily taken care of by CFRO Angelien Kemna from January 1, 2016 to March 8.

The column "Direct salaries" contains the fixed annual salary, vacation allowance, and year-end bonus. 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 from capping of pension accrual on salary (in 2016: pension may be accrued on salary of up to € 101,519) accrues to the employee. The column Personnel costs contains the employer's charges; the column Pension charges contains the charges for pension contributions.

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.

A detailed publication on the remuneration of the Executive Board members is available at: www.apg.nl/corporategovernance.

Amortization and depreciation on intangible and tangible fixed assets (22)	2016	2015
Amortization of intangible fixed assets	82,681	82,470
Amortization due to impairment	-	28
Depreciation of tangible fixed assets	8,040	7,492
Total	90,721	89,990

Other operating costs (23)	2016	2015
Accommodation costs	40,937	35,686
Automation costs	67,833	65,310
Other	25,198	26,131
Total	133,968	127,127

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

Interest income and similar yields (24)

Interest income is income realized from current accounts and deposits.

Interest charges and similar costs (25)

Financial charges are mainly interest charges on long-term liabilities. Of the interest charges and similar costs reported, €0.7 million (2015: €0.7 million) pertains to relations with related parties.

Taxes (26)

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

	2016	2015
Current period		
- current year	-39,025	-61,611
- adjustments to previous years	-	-149
Change in deferred taxes		
- temporary differences	-2,634	46,288
Total	-41,659	-15,472
Effective tax burden as a %	39.7%	25.9%

The change in deferred tax assets and liabilities during 2016 relative to 2015 is mainly due to differences in the commercial and fiscal valuations of insurance business' investments. In 2016, 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 14.7 percentage points from the applicable tax rate of 25.0%. This is due to different foreign tax rates and differences between the commercial and fiscal result.

Result from participations (27)

€1.2 million of the result from participations represented the net result on the sale of the APG - ABN AMRO Pensioeninstelling participation (30%) as of March 31, 2016.

Notes on 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 furnishings and inventory, 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 General Pension Fund for Public Employees.

Other notes

Transactions with related parties
Transactions with related parties take place under market conditions.

Some of APG's office buildings are leased from General Pension Fund for Public Employees under market conditions. The total contract term is 12 years and 8 months, commencing from January 1, 2008. These costs amounted to €8.1 million in the reporting year (2015: €8.1 million) and will amount to €8.0 million for 2017. 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.

General Pension Fund for Public Employees, 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 unit for turnover tax. This means that the company is jointly and severally liable for the turnover tax liabilities of the fiscal unit as a whole.

With regards to corporate income tax, APG Group forms a fiscal unit 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 that these legal entities are jointly and severally liable for each other's tax liabilities. The corporate income tax of the fiscal unit is attributed to each of the companies belonging to the fiscal unit 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.' The auditor's fees for 2015 pertained to services provided by PricewaterhouseCoopers Accountants.

In millions of euros	2016	2015
Audit of the financial statements	0.8	1.2
Other audit assignments (including work in relation to ISAE 3402)	1.0	1.3
Consultancy services in relation to tax matters	0.0	0.5
Other non-audit services	1.3	2.3

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

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

Company financial statements

Company balance sheet as at December 31, 2016

Before profit appropriation In thousands of euros

Assets	12-31-2016	12-31-2015
Fixed assets		
Intangible fixed assets (1)	21,310	38,503
Tangible fixed assets (2)	1,189	779
Financial fixed assets (3)	1,063,046	1,073,521
	1,085,545	1,112,803
Current assets		
Receivables, prepayments, and accrued income (4)	185,691	47,298
Cash (5)	241,573	296,255
	427,264	343,553
Total assets	1,512,809	1,456,356

Liabilities	12-31-2016	12-31-2015
Equity capital (6)		
Paid-up and called-up share capital	705,297	705,297
Share premium	416,380	416,380
Statutory reserves	6,638	14,132
Other reserves	37,130	29,130
Undivided result for the financial year	64,508	43,957
	1,229,953	1,208,896
Provisions (7)	64,636	53,471
Long-term liabilities (8)	23,767	23,767
Current liabilities and accrued liabilities (9)	194,453	170,222
Total liabilities	1,512,809	1,456,356

Company profit and loss account 2016

In thousands of euros

	2016	2015
Result from participations after taxes	110,361	69,109
Other result after taxes	-45,853	-25,152
Result after taxes	64,508	43,957

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. Participations in group companies are valued according to 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.

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 2016	Total 2015
Opening balance	38,503	-	38,503	56,274
Investments	-	645	645	-
Amortization	-17,771	-67	-17,838	-17,771
Impairments	-	-	-	-
Closing balance	20,732	578	21,310	38,503
Cumulative purchase value	177,707	645	178,352	177,707
Cumulative amortization and impairments	-156,975	-67	-157,042	-139,204
Book value	20,732	578	21,310	38,503
Depreciation rates	10 %	20-25 %		

Tangible fixed assets (2)

The tangible fixed assets comprise the furnishings and inventory in the sense of purchased art as well as data-processing equipment.

The movements in this item are as follows:

	Furnishings and inventory	Data-processing equipment	Total 2016	Total 2015
Opening balance	779	–	779	–
Effect of restructuring	–	–	–	618
Investments	39	414	453	161
Disposals	–	–	–	–
Amortization	–	-43	-43	–
Changes in value	–	–	–	–
Closing balance	818	371	1,189	779
Cumulative purchase value	818	414	1,232	779
Cumulative amortization and impairments	–	-43	-43	–
Book value	818	371	1,189	779
Depreciation rates	n/a	20-25 %		

No securities have been furnished.

Financial fixed assets (3)

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

	2016	2015
Opening balance	1,073,521	1,233,320
Effect of restructuring	-	-536
Investments	4,410	4,310
Disposals	-	-
Result for the financial year	110,361	69,109
Dividend paid out	-125,754	-234,945
Other changes	508	2,263
Closing balance	1,063,046	1,073,521

The closing balance includes a deferred tax asset of €0.2 million.

Current assets

Receivables, prepayments, and accrued income (4)	12-31-2016	12-31-2015
Receivables from group companies	142,915	31,566
Other receivables and accrued income	42,776	15,732
Total	185,691	47,298

The receivables, prepayments, and accrued income mainly relate to claims on group companies and prepaid amounts. These have a duration of less than one year. The Other receivables includes the fair value of currency forward contracts to hedge the future costs of foreign participations.

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

Cash (5)	12-31-2016	12-31-2015
Bank balances in current account	129,073	296,255
Deposits	112,500	-
Total	241,573	296,255

Of the cash, there is none that cannot be freely disposed of (2015: none).

Equity capital (6)

	12-31-2016	12-31-2015
Paid-up and called-up share capital	705,297	705,297
Share premium	416,380	416,380
Statutory reserves	6,638	14,132
Other reserves	37,130	29,130
Undivided result for the financial year	64,508	43,957
Total	1,229,953	1,208,896

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 2016	705,297	416,380	14,132	29,130	43,957
Changes due to profit appropriation	-	-	-	43,957	-43,957
Change in statutory reserves	-	-	-8,000	8,000	-
Dividend paid out	-	-	-	-43,957	-
Result for the financial year	-	-	-	-	64,508
Other changes	-	-	506	-	-
Closing balance 2016	705,297	416,380	6,638	37,130	64,508

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, and 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 €1.2 million (2015: €9.2 million). A reserve for conversion differences in the amount of €5.0 million (2015: €4.5 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 includes the result for the reporting year.

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 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 the amount of € 88.0 million will be paid out as dividend.

Provisons (7)

	Deferred taxes	Personnel-related provisions	Restructuring provision	Total 2016	Total 2015
Opening balance	9,626	5,136	38,709	53,471	14,069
Effect of legal restructuring	-	-	-	-	40,181
Allocations	18,208	7,200	13,984	39,392	15,225
Withdrawals	-	-1,279	-8,016	-9,295	-11,561
Release	-4,450	-259	-14,223	-18,932	-4,443
Closing balance	23,384	10,798	30,454	64,636	53,471

The effect of legal restructuring in 2015 concerns the integration of staffs from subsidiaries in APG Group. 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.

Long-term liabilities (8)

	2016	2015
Opening balance	23,767	23,767
Benefits	-	-
Repayments	-	-
Closing balance	23,767	23,767

Of the closing balance, €12.9 million relates to financing by related parties (2015: €12.9 million). €10.9 million of the closing balance has a remaining term of more than five years. The interest rates range from 5.4% to 7.25% per annum (2015: 5.4% to 7.25% per annum). No security has been furnished. The fair value of the long-term liabilities is €38.9 million.

Current liabilities and accrued liabilities (9)

	12-31-2016	12-31-2015
Accounts payable	3,107	688
Debts to group companies	165,970	142,998
Taxes and national insurance contributions	6,563	1,605
Liabilities in connection with pensions	117	126
Holiday pay and vacation days	1,963	2,022
Other personnel-related liabilities	70	241
Corporate income tax	-	17,217
Other liabilities	16,663	5,325
Total	194,453	170,222

The Other liabilities includes the fair value of currency forward contracts to hedge the future costs of foreign participations.

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 duration 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 €92.0 million on the balance sheet date (contract price). These liabilities have a duration of one year. Liabilities between APG Groep NV and APG Asset Management NV directly related to this have been formalized by means of back-to-back agreements.

Comfort letters

The company has issued comfort letters 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 comfort letters 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 units at APG Group, specifically for corporate income and turnover tax. Within such a fiscal unit, 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 Groep NV employed an average of 308 people in 2016 (2015: 323), 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.

Events after the balance sheet date

Mark Boerekamp resigned from APG Group's Executive Board as of February 9, 2017. He will remain with the company until August 1, 2017 for the purposes of concluding a number of projects. Severance pay of €200,000 has been 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 5 monthly salaries and as such is less than the maximum permitted severance pay of 1 annual salary stipulated by the Remuneration Policy (Financial Enterprises) Act.

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

List of capital interests

Capital interests (100% interests) 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

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 30, 2017

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

Executive Board
Gerard van Olphen, chairman
Angelien Kemna
Eduard van Gelderen

Other information

Profit appropriation scheme under the Articles of Incorporation

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 Groep 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 auditor's report

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

Report on the accompanying financial statements 2016

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 2016 and of its result and cash flows for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited
We have audited the financial statements 2016 of APG Groep N.V. in Heerlen.
The financial statements comprise:
1. the consolidated and company balance sheet as at 31 December 2016;
2. the consolidated and company profit and loss account for 2016;
3. the consolidated cash flow statement for 2016; and
4. the notes, comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion
We have performed our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are 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 Regulation on the Independence of Auditors in Assurance Engagements [Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten] and other Dutch regulations on auditor independence that are relevant to this engagement. Furthermore, we have complied with the Regulation on the Code of Conduct and Professional Practice for Auditors [Verordening gedrags- en beroepsregels accountants].

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

Audit approach

Summary

Unqualified auditor's report

Materiality
- Materiality of EUR 10 million
- 1% of operating income excluding investments

Group audit
- 96% of operating income
- 98% of profit (loss) before taxes
- 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
- Disclosure regarding new Solvency II Directive

Materiality

Based on our professional judgment, we have set the materiality level for the financial statements as a whole at EUR 10 million. We have based the materiality level on total operating income excluding investment revenue (approximately 1%).

We believe that total operating income excluding investment revenue is the most appropriate benchmark, as this is a stable benchmark that reflects the activities of the participating interests of APG Groep N.V. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that we would report to them any misstatements in excess of EUR 500 thousand identified during our audit, as well as smaller misstatements that in our opinion are relevant for qualitative reasons.

Scope of the group audit

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

The group audit mainly focused on the significant group components, i.e. APG Asset Management N.V., APG Rechtenbeheer N.V. and Loyalis N.V., which were audited based on the local materiality levels. The operating income of these significant components comprised 96% of the consolidated operating income and 98% of the assets. For the audit of the components Loyalis Group N.V. and APG Asset Management N.V. we relied on the other KPMG auditors. We personally audited the component APG Rechtenbeheer N.V.

We sent instructions to the other KPMG auditors specifying the significant audit areas, including the relevant risks of material errors, and the information to be reported to the group audit team, and we discussed these with the relevant KPMG auditor. Lastly, we reviewed their files.

For the components APG Diensten B.V. and APG Deelnemingen N.V. we personally performed specific audit procedures.

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.

Initial audit engagement

The audit of the financial statements 2016 of APG Groep N.V. was our first audit of the financial statements for this client. Therefore, below we explain how we performed this engagement.

Before we started our audit engagement in October 2015, we established that all partners involved were independent of APG Groep N.V.

From October 2015, we shadowed the predecessor auditor and attended the key meetings together with this auditor. Our team members had meetings with the Executive Board, the directors and other management personnel holding key positions in the context of our audit in order to obtain the information required to properly plan the audit. During this phase, we also reviewed the key accounting papers and financial statements 2015 to determine whether we could accept the applied accounting policies. We also attended the meetings of the Audit and Risk Committee and the Supervisory Board.

In addition, we reviewed the file of the predecessor auditor in order to obtain information about the controls in place, as well as to obtain audit evidence regarding the key accounting issues. In this way, we also obtained sufficient and adequate audit evidence regarding the opening balance for 2016.

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.

Goodwill and client contracts

Description

As at 31 December 2016, APG has included intangible fixed assets in its financial statements. Included in these intangible fixed assets are goodwill (EUR 176 million) and client contracts (EUR 249 million) which arose when APG Groep N.V. acquired these assets. The intangible fixed assets are valued at cost of acquisition or production less straight-line amortisation.

APG annually tests each of the group's cash-generating units (CGUs) for impairment based on the discounted cash flow model. This impairment testing involves significant management estimates that give rise to the risk that incorrect assumptions are applied as a result of which APG fails to recognise a required impairment loss. Given the special nature and significant size of these items, as well as their potentially significant tax effect on the financial statements, we consider this to be a key audit matter.

In preparing this calculation, management applied the following key assumptions:

- The expected free cash flows from the client contracts were determined based on the fee development, the expected development of the participant numbers and the execution costs.
- The applied terminal growth rate and discount rate.

The discounted cash flows according to APG's assumptions exceed the carrying amount of the intangible fixed assets.

Our approach

Our audit procedures with respect to the analysis prepared by APG included testing the design and existence of the procedures and controls around the significant estimates, such as the forecast cash flows.

We also performed substantive procedures, such as:

- assessing whether the method complies with the financial reporting standards;
- assessing whether the applied assumptions, such as the growth rate and discount rate, are in accordance with generally accepted market practice;
- evaluating the reliability of the management forecasts by testing last year's forecasts against the actual outcomes;
- assessing the plausibility of the financial forecast based on the business planning of APG Groep N.V. and the available data.

Lastly, we drew up a scenario analysis in which we tested the sensitivity of the assumptions to changes in the input variables.

Our observation

We believe that the assumptions applied by management to determine whether there are any indications of impairment are balanced.

Insurance obligations of life and non-life business

Description

We regard the valuation of the insurance obligations of the life and non-life business, and particularly the estimate made by APG with respect to economic and actuarial parameters and the use of complex actuarial models, as a significant risk.

The assumptions applied for the life insurance obligations included, among other things, the yield curve, mortality rates, survival rates, the portfolio development and, given the closed-book nature of the portfolio, cost projections.

The total insurance obligation of the life and non-life business is valued at EUR 2,999 million, of which EUR 2,106 million relates to the life business and EUR 893 million to the non-life business.

The valuation of the insurance obligations and the related adequacy assessment include significant estimates, such as regarding incurred-but-not reported (IBNR) claims and benefit payments that have taken effect, the application of the future interest rate, work incapacity, the portfolio development, life expectancies and future costs.

The calculations involve complex actuarial models and the estimates require a high degree of estimation by management. The adequacy assessment is also important, as it is used to determine whether the recognised obligations are sufficient based on the latest estimates.

Given the large impact of the valuation of the underwriting provisions on the company's financial performance, this is a key audit matter.

The key assumptions and risks with respect to the valuation of the insurance obligations are disclosed on pages 22 and 23 of the financial statements.

Our approach

Our audit procedures included, among other things, testing the procedures and controls around the significant estimates with respect to the future interest rate, life expectancies and cost levels. We tested the internal controls with respect to the basic data and performed additional tests of details.

With the support of our actuarial experts, we have reviewed the insurance obligations and the related adequacy assessment based on the internally prepared qualitative and quantitative analyses and calculations. To this end, we performed procedures with respect to the internally performed calculations, including the actuarial and economic assumptions applied, and we evaluated the reasonableness and acceptability of the actuarial analyses based on historical data, market data and past estimates versus actual past outcomes.

In addition, we focused on the adequacy of the disclosures and risks included in the notes to the financial statements on page 29 and in the risk management section on pages 18 to 21.

Our observation

We believe that the recognised insurance obligation has been determined in a balanced manner for the life business, and in a prudent manner for the non-life business. In our view, APG has adequate disclosed its insurance obligations in the financial statements and adequately included its risks in the risk management section.

Valuation of investments of insurance business

Description

The investments presented in the financial statements of APG Groep N.V. are part of the insurance business. These investments are held for APG's own account, as well as at the risk and for the account of the policyholders.

The investments are classified into levels 1, 2 and 3 based on the types of inputs used to measure their fair value, as explained in note 4 of the notes to the financial statements.

The valuation of the investments in levels 2 and 3 at EUR 500 million depends to a large extent on non-public information and is more likely to require management estimates. This was a key audit matter.

Our approach

Our audit procedures included, among other things, testing the procedures and controls around the valuation of these investments.

For the valuation of the investment funds in levels 2 and 3, we reconciled the financial accounts to the net asset values in the reports submitted by the relevant funds.

We audited these reported values by means of backtesting. To this end, we analysed whether the values of the investment units reported by the asset manager reconcile to the financial statements audited by the external auditor.

We verified the adequacy of the disclosures, particularly with respect to the sensitivity analysis and the accuracy and completeness of the disclosures regarding the fair value hierarchy.

Our observation

We believe that management has estimated the fair value of the investments in levels 2 and 3 in a balanced manner and we consider the related disclosures to be adequate.

Disclosure regarding new Solvency II Directive

Description

From 1 January 2016, the new Solvency II Directive applies to the subsidiaries Loyalis Leven N.V. and Loyalis Schade N.V. In 2016, the Dutch Central Bank clarified that this Directive also applies to APG Groep N.V. (at consolidated level) as it comprises a mixed financial holding company.

The Solvency II Directive contains numerous guidelines on calculating the regulatory and available own funds. The calculations are complex and include estimates with respect to significant assumptions that may involve a high degree of subjectivity. On pages 6 and 7 in the report of the Executive Board and on pages 28 and 29 in the notes to the financial statements, APG Groep N.V. discloses its application of the new Directive in its capital and risk management and that of its subsidiaries and the outcomes of this application.

Given the importance of the new Solvency II Directive to the financial position of APG Groep N.V. and its subsidiaries and the complexity of the calculation of the regulatory own funds and available own funds, we consider the adequacy of the disclosure of the application of the new Solvency Directive to be a key audit matter.

Our approach

We have obtained insight into the manner in which APG Groep N.V. has applied the new Solvency II Directive and calculated the regulatory and available own funds.

We have tested the design, existence and operating effectiveness of the internal controls with respect to the preparation of the calculations, including the models, methods and assumptions, used to calculate the regulatory and available own funds.

We have also performed substantive procedures, such as sampling, to verify the accuracy of the data used for the calculations of the regulatory and available own funds. In addition, we have deployed KPMG experts to assess whether the actuarial models methods and assumptions that were applied are in accordance with the Solvency II Directive. Furthermore, we have evaluated APG's key interpretations of the Directive.
We have assessed whether the notes to the financial statements and/or the report of the Executive Board are consistent with the internal Solvency II reports and the risk self-assessment required under the Directive (Own Risk and Solvency Assessment (ORSA).
We have also assessed whether the notes to the financial statements and the report of the Executive Board of APG Groep N.V. have been drawn up in accordance with the provisions of Part 9 of Book 2 of the Netherlands Civil Code.

Our observation

We consider the disclosure of the application of the new Solvency II Directive in the financial statements and in the report of the Executive Board to be adequate.

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, comprising:
- the report of the Executive Board;
- the other information required by law; and
- the report of the Supervisory Board.

Based on the above procedures, we believe that this other information:
- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and our 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 have complied with the requirements in Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Standard 720. However, these procedures do not have the same depth as our audit procedures with respect to 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 required by law, in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Description of the responsibilities for the financial statements

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

The Executive Board of APG Groep N.V. is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Netherlands Civil Code. In this context, the Executive Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the financial statements, the Executive Board must assess the company's ability to continue as a going concern. Based on the aforementioned financial reporting framework, the Executive Board must prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board must 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 overseeing APG Groep N.V.'s financial reporting process.

Our responsibilities for the audit of financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.

Our audit provides a high, but not absolute, level of assurance, which means we may not have detected all material errors or fraud during the audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they may reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality level affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For a detailed description of our responsibilities with respect to an audit of the financial statements, please visit the website of the Royal Netherlands Institute of Chartered Accountants [Nederlandse Beroepsorganisatie van Accountants]: https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_niet_oob_variant_%20Nederlands.docx.

Amstelveen, March 30, 2017

KPMG Accountants N.V.

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 (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
Committee memberships: Remuneration and Selection Committee, member of Supervisory Board at APG Asset Management NV, and member of Supervisory Board at APG Treasury Center BV

Pieter Jongstra (1956), vice-chairman

Most important (ancillary) positions:
- Chairman of the Netherlands Institute of Chartered Accountants (NBA)
- Member of the board, treasurer and secretary of Stichting Ondersteuning Nederlandse Bachvereniging
- Treasurer and jury member of Koning Willem I Stichting
- Treasurer of Stichting voor de Jaarverslaggeving

- Nationality: Dutch

First appointment: February 4, 2015
Committee memberships: chairman of the Audit and Risk Committee and chairman of the Corporate Governance Committee

Edith Snoeij (1956)

Most important (ancillary) positions:
- Member of the board Huis voor Klokkenluiders
- Member of the board at KPN pension fund (executive)
- Chairman of the supervisory board at PnoMedia pension fund
- Chairman of the supervisory board at PMA pension fund
- Chairman of the supervisory board of Stichting Waarborgfonds en Kenniscentrum Ruimte
- 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

Nationality: Dutch
First appointment: April 26, 2012
Second appointment: April 26, 2016
Committee memberships: chairman of the Remuneration and Selection Committee and member of the Corporate Governance Committee

Maes van Lanschot (1952)

Most important (ancillary) positions:
- Chief financial officer TropIQ Health Sciences BV
- Managing director Landgoed Zwijnsbergen BV

Nationality: Dutch
First appointment: May 15, 2013
Committee memberships: Audit and Risk Committee, member of Supervisory Board at APG Asset Management NV, and chairman of Supervisory Board at APG Treasury Center BV

Roger van Boxtel (1954)

Most important (ancillary) positions:
- President-director NS
- Chairman of the supervisory board at Museum De Fundatie
- Chairman of Stichting Geschiedschrijving Gorinchem
- Member of the board at VUmc Alzheimerstichting
- Member of the advisory board at ECP
- Member of general members' meeting of Ajax

Nationality: Dutch
First appointment: July 16, 2015
Committee memberships: Corporate Governance Committee

Claudia Zuiderwijk (1962)

Most important (ancillary) positions:
- Chairman of the board at the Chamber of Commerce
- Member of the Supervisory Board of KPN NV
- Board member at PubliQ
- Member of the advisory committee for the Haarlemmermeer municipality recommendation committee
- Board member and jury member of Koning Willem I Stichting
- Member of Forum Smart Industry

Nationality: Dutch
First appointment: July 27, 2015
Committee memberships: Audit and Risk Committee and Remuneration and Selection Committee

Dick van Well (1948)

Most important (ancillary) positions:
- Chairman of the Supervisory Board of Kikx Holding BV
- Member of the supervisory board at Dura Vermeer-group NV
- Member of the supervisory board and chairman of the audit committee at Stedin Netbeheer BV
- Member of the supervisory board at Multi Corporation BV
- Member of the Supervisory Board of Avenue Beheer BV
- Member of the advisory board at LSI Projectinvestment NV
- Adviser to Groene Group
- Adviser to BOAG BV
- 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

Nationality: Dutch
First appointment: November 14, 2016
Committee memberships: Remuniration and Selection Committee

Members of the Executive Board

Gerard van Olphen (1962)
Principal position: chairman of the Executive Board
Ancillary activities:
- Member of the supervisory board of Hartstichting

Nationality: Dutch
First appointment: March 9, 2016

Angelien Kemna (1957)
Principal position: member of the Executive Board/CFRO
Ancillary activities:
- Member of the board of Duisenberg School of Finance
- Non-executive director at Railpen Investment Board
- Independent director and member of audit committee at AXA Group

Nationality: Dutch
First appointment: November 1, 2009
Second appointment: November 1, 2013

Eduard van Gelderen (1965)
Principal position: member of the Executive Board/CEO APG Asset Management NV
Ancillary activities:
- Chairman of the investment committee at the GAK Institute
- Member of the supervisory board at Triple Jump
- Chairman of Conspect Trust (trust office)
- Member of the advisory council at 'AQR Institute of Asset Management' London Business School

Nationality: Dutch
First appointment: September 1, 2014

Composition of the Works Council

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

Definitions

- AG2016: The forecasted life expectancy in the Netherlands according to the Actuarial Association (AG).
- Consumer: Persons who, in general, may 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 height 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 height of the contribution is fixed while the height of your pension payment is not. The height 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 Pensioenwet [Pensions Act].
- Governance: A company's conduct: how does it go 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 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 or inadequate, 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 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 which came into force on January 1, 2016. The framework consists of the Solvency II directive (2009/138/EC) and the further details of it 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:
http://www.pensioenaan.nl/pensioen-abc/
https://www.pensioenfederatie.nl/paginas/losse-paginas/openbaar/dossiers-a-z