2018

Annual Report APG Group NV

tomorrow is today

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Chapter 1

1 APG

This is the APG Group annual report for the year 2018. It sets out our work on behalf of eight pension funds, 21,000 employers, and through them 4.6 million people in the Netherlands in 2018.

1.1 Who we are

APG is a pension administrator - the largest in the Netherlands and the largest in Europe. Together with pension funds and employers, we use all of our knowledge to offer the people who accrue their pensions with us the maximum amount of value for each euro they put towards their pension. We call this pension value. Pension value is about achieving good return on investment, but it is also very much about crystal-clear and flawless administration at the lowest possible cost. It is also about having insight into your income level after retirement, and about how much you expect you will need at that time. What you expect from your future is a difficult question to answer. After all, your life could take so many different paths. That is why we advise you to start early; take the opportunity to think about what comes later and work on your income for later as soon as you can. We are happy to help you address all of these questions.

We work on pensions for people in beautiful professions

We don't interact with you directly, but work on behalf of the following pension funds: ABP, bpfBOUW, SPW, BPF Schoonmaak, PWRI, SPMS, Personeelspensioenfonds (PPF) APG, Pension Fund for practices of Architects, and the employers in these industries.

These pension funds may not all sound familiar, but they represent the pensions of people in beautiful and diverse professions such as teachers, civil servants, construction workers, police officers, military personnel, cleaners, window washers, medical specialists, architects, and people working at housing associations, energy companies, and in sheltered employment.

Accruing a pension seems like a matter of course, but it is not a given

Most people are members of a pension fund through their employer's mandatory plan. This makes it seem like accruing a pension is a matter of course. Actually it is anything but a given nowadays. After all, people are changing jobs more often and sometimes become unemployed for a while or fall ill. People get married and divorced, have children, move abroad and return, and may want to work less, retire early, or switch careers entirely. More and more responsibility lies with the individual Dutch citizen these days – in part because the government increasingly leaves it up to them to arrange their own affairs. We would like to use our knowledge and expertise to help all of these people navigate that.

We also like helping employers. They, too, have a lot to deal with when it comes to pensions. What is manageable and affordable? What flexible options do you want to offer employees? What if someone wants to work for longer than they are required to?

We value individual choice, but we also think it is important not to leave people stranded. Although people have individual responsibility, we believe they need support when making certain choices. We come from a collective approach, from working together. That is how we, together, have built one of the best pension systems in the world. In our view, working together still works and pays much better, in good times and in bad.

1.2 Our vision and mission

At APG, it is our job to focus on the future. We have a leading role in the pension sector. We are not a listed company, and we are proud of that. We aim to generate a return that fits a socially conscious company. Moreover, in the interest of the pension funds and their participants, we aim to produce a return that is both solid and financially stable. Everything we do is for the benefit of the 4.6 million participants and their pension funds. Our position in relation to banks, pension insurers, asset managers and newcomers to the pension world is clear: we are always on the side of the participants who entrust us with their pension money through the pension fund.

APG's vision (see the figure below) as presented in 2017 includes our mission of 'Building your sustainable future together'. On the basis of collectivity and solidarity, we join forces to build a sustainable future for pension funds, participants, employers, our own employees, and society as a whole.

We want APG to be the natural choice to gain control of your financial future. We want to be the natural choice for pension funds, employers, and participants when it comes to an income for later. APG is the largest pension administrator in the Netherlands. We want to be known for our intense customer focus, our leading investment practices, our smart simplicity, and our innovative power.

1.3 Important developments for pensions in 2018

Pensions are always about people. That is why we closely monitored the negotiations for a new pension system in 2018. Unions and employers spoke to the cabinet about a pension scheme with options for more individual choice. Negotiations about a new system are the purview of the government and social partners, but we offered our pension knowledge to negotiators where required and desired. After all, APG is a neutral party in the pension sector. With 97 years of experience, we know what is what when it comes to pension schemes, pension scheme changes, and the impact they will have on present, future, and later generations. Unfortunately, they did not reach a pension agreement, but the debate will undoubtedly continue in 2019. In our view this is necessary, given discussions about issues like cover ratios and developments in the job market. Last year it became clear that many more working people than previously thought (nearly 850,000 people) do not accrue any pension or only accrue very little. We feel this is a troubling development. Since we take a collective approach, we support initiatives for better pension accruals for independent contractors, payroll employees, and employees with flexible contracts.

2018 was a tough year in the financial markets. Particularly in the last quarter of 2018, markets across the board fell sharply. As a result, only a few asset classes produced positive returns. The interest rate continued a limited decline as well. Combined, these two factors had a negative impact on the coverage ratios of our pension funds. As a result, we cannot rule out potential future cuts for some pension funds, which could cause negative financial consequences for participants in the future.

Central bankers played a significant part in the aftermath of the 2008 financial crisis. They lowered interest rates and bought bonds in bulk with the aim of getting the economy going again. They were successful: markets recovered and have showed high returns in the past few years. Despite the economic growth that has been established, large groups of people felt they had been sidelined and were not sharing the benefits of this growth.

2018 saw the consequences of this sentiment on two fronts. First, global financial circumstances changed because central banks started to gradually normalize their policy. The US Federal Reserve took the boldest steps of all. Inflation is looming after tax cuts from the Trump administration and reports of a low unemployment rate. In response, the Fed raised the interest rate an impressive four times in 2018.

But the second front was more surprising: a strong rise in political uncertainty. To some extent, this can be attributed to increased inequality. Trump, Brexiteers, the Italian government, the yellow vests; they all claim to represent people who did not benefit from the recovery that followed the crisis. Markets did not respond well to this increased political uncertainty, resulting in falling share prices and, therefore, falling coverage ratios. These developments continued through the end of 2018 and subsequently recovered somewhat in the first few months of 2019.

The falling prices toward the end of 2018 are reflected in our key figures. Returns excluding interest rate risk hedging for our clients were negative, resulting in a decline of APG's total assets under management. However, the number of people we worked for continued to increase in 2018. This increase is due, in part, to the rising number of participants in our funds and to the fact that in 2018 we started serving the participants of the Pension Fund for Architectural Firms, too. APG's own net result is virtually at the same level as in 2017. However, this was despite falling yield and rising cost. The fact that the net result was still in line with last year has to do with a one-off depreciation charge in 2017. APG's primary goal is to maximize pension value, rather than maximizing its own results.

1.4 APG's 2018 in key figures

(amounts in millions of euros)

	2018	2017
What we do for our clients and the participants		
• Total AuM	459,398	470,476
• Excess return relative to the market	90 bps (€ 4,386)	116 bps (€ 5,354)
Total number of participants in our pension administration	4,641,064	4,527,435
• of which active participants	1,533.653	1,506,452
• of which pensioners	1,273,154	1,228,286
• of which former participants (who no longer pay contributions but do retain the right to a pension)	1,834,257	1,792,697
• Average implementation costs per participant have fallen by 6%	€ 69.40	€ 73.80
• Participants with insight into pension assets*	850,000	–
• Participants who have received an action perspective*	56,000	–
Key figures APG Group		
Group equity	1,090	1,187
Balance sheet total	4,414	4,571
Employees (year-end in fte)	2,985	3,071
APG Group solvency ratio (Solvency II) ****	182%	190%
Available capital of APG Asset Management ***	189	177
Loyalis investments	3,192	3,146
Loyalis liabilities	2,858	2,918
Loyalis Leven solvency ratio (Solvency II) ****	176%	175%
Loyalis Schade solvency ratio (Solvency II) ****	180%	180%

* *This concerns initiatives APG has developed in cooperation with its clients (pension funds ABP and SPW). More specifically, it concerns the 'personal pension pot' and 'clear overview and insight.' The number of participants pertains to the participants that were given access to these tools.*

** *Solvency ratio of APG Group (Solvency II): As of January 1, 2016, APG Group falls under Solvency II supervision as a mixed financial holding. APG Group uses the standard model to calculate the capital requirement, consistent with APG's status as a mixed financial holding. The solvency ratio for APG Group at year-end 2018 was 182% (2017: 190%) 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 2018 was 215% (2017: 223%).*

Official reporting to De Nederlandsche Bank on Solvency II group accountability and accompanying notes will take place no later than June 3, 2019, in accordance with the statutory regulations. The 2018 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.*

**** *Loyalis Leven and Loyalis Schade solvency ratio (Solvency II): At year-end 2018, the solvency ratios after dividend payment (available capital versus capital requirement) under Solvency II were 180% for the non-life insurance business (2017: 172%) and 176% for the life insurance business 187% (2017: 175%), both above the internal norms of the Loyalis insurance business of 150% (2017: 150%). At year-end 2018, excluding the proposed dividend, the Solvency II ratio for the non-life insurance business was 183% (2017: 180%) and for the life insurance business 187% (2017: 175%).*

Official reporting on the insurance business' solo entities to De Nederlandsche Bank on Solvency II accountability and accompanying notes will take place no later than April 22, 2019, in accordance with the statutory regulations. The 2018 ratio presented was based on the information currently available.

	2018	2017
Turnover		
Management fees	684	684
Insurance income from supplementary products	269	254
Investment income from supplementary products	46	79
Other income	37	35
	1,036	1,052
Operating expenses		
Operating expenses excluding depreciation goodwill-related items	692	674
Cost of benefits paid via supplementary products	271	261
Change in insurance liabilities of supplementary products	-75	-89
	888	846
Operating result	148	206
Net result	48	47

Chapter 2

2 What we work on

For participants, employers, funds, and society

On average, people work for their pension one day a week – but who actually realizes that? A mandatory employer pension scheme may not sound nice to employees, but they do bring important benefits. After all, it helps spread risk and cost while accruing a pension. A participant and her or his employer contribute around one third of the pension she/he will receive in her/his lifetime. The remaining two thirds are generated by APG through investment.

APG is a long-term investor on behalf of its funds. This means we do not consider the return over a period of one year, but rather focus on the return on investment over a period of as many as 30 years. This extended period creates the opportunity to take different kinds of risks and obtain higher investment returns for participants.

2.1 Pensions are becoming more personal, more digital, more transparent, and faster

As the discussion about the pension system continues, developments in pension services are speeding up, especially due to technical possibilities and the expectations they create with participants, employers, and funds. Pensions are becoming more personal, more digital, more transparent, and faster.

Pensions are becoming more personal

Collective pension schemes will continue to exist, but within them, individual participants are given increasing individual responsibility for their income, today and tomorrow. That means participants and employers are increasingly casting a critical eye at what we as APG are doing for them, how they benefit, and what it all costs.

Pensions are becoming more digital

Technology is becoming more and more prominent in everyday life. You shop online, are connected through social media, and listen to music on Spotify. Banking is done on your smartphone. And for all your pension matters, you also have an app you can look at any time of the day. Technology brings pensions closer.

Pensions are becoming more transparent

Return on investment is incredibly important for the amount of pension you will receive. There are two important themes that will lead to sustainable investment:

- Investments and returns must be assessed in the *long term*. In the short term they may fluctuate, but in the long term there is an increase;
- Returns must be achieved through *responsible investment*.

Transparency is key to both of these themes. On the one hand, this means explaining the investment policy and how participants should assess returns. On the other hand, it means explaining what we invest in, the costs, and the reason for these choices. That gives participants and society insight into the careful approach we use and the dilemmas it can create.

Pensions are becoming faster

Pensions are becoming faster. This sounds like an oxymoron, and yet it is true. You want instant insight into your pension details, and if there are any changes you want to be informed immediately and be able to calculate the impact of these changes on your pension straight away.

2.2 Our strategic objective: maximizing pension value

The developments described in the previous paragraph are included in APG's mission. This mission provides meaning, direction, and guidelines for what we do (and choose not to do), and forms the basis for our strategy of: 'maximizing pension value.' In plain English: every euro you put towards your pension should generate the highest possible return. You want to know what you will receive later and how best to accrue that.

We maximize pensions by being a leading administrator, by making the pension funds we work for strong, and by being a trusted guide for participants and employers.

In 2018 we once again took steps to realize maximum pension value in many areas.

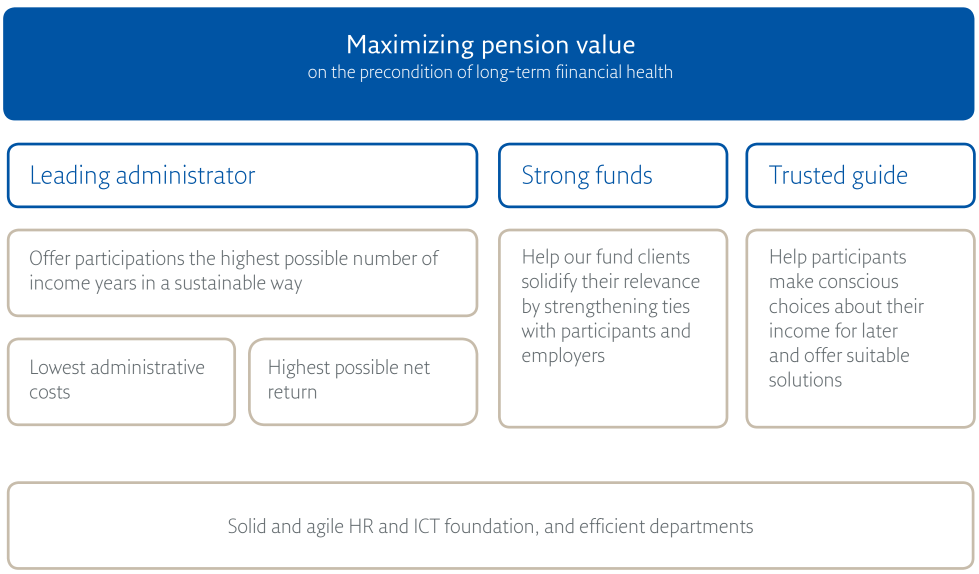
2.3 Improving the level of service to pension funds, participants, and employers

2.3.1 Clear Overview & Insight

Together with and for the benefit of one of our funds, Stichting Pensioenfonds van de Woningcorporaties (SPW), and its participants, APG developed Clear Overview & Insight. This was a co-creation alongside end-users. In 2018, we offered this service to SPW participants through the digital 'my environment.' The first customer survey outcomes are very positive. Customer satisfaction has grown and Clear Overview & Insight received an Net Promoter Score (recommendation) of +23.5.

'Clear Overview & Insight' gives participants insight into their financial future in a simple way. At a glance you can see the amount of pension you will receive, as well as other future income and expenses. You can do calculations, like calculating the total of the pension you are accruing at the moment, any pensions you have accrued elsewhere, and equity capital, such as annuities. You can also change your retirement age to see what your pension would be in different scenarios.

APG Strategy



If you have a pension gap, Clear Overview & Insight provides possible solutions and calculations, such as additional savings and investments. You can use this information for a targeted discussion with a financial advisor. Another interesting feature is the 'lifestyle identifier.' This allows you to predict your future expenses. Combined with your income estimate, this gives a comprehensive view of your financial future. Clear Overview & Insight continues to develop. For example, in the future it will become possible to include your partner's details in the calculations. This way, you can create a financial overview at the family level.

PPF APG has also started using Clear Overview & Insight, and APG is talking to other pension funds about offering this service to their participants.

2.3.2 Personal Pension Pot

Another tool, which focuses more on the composition of your pension, is the Personal Pension Pot. This was developed in 2017 together with ABP and a number of its participants, and has already been tested. In October of 2018 the Personal Pension Pot was made available to 850,000 ABP participants. Before the end of 2018, 120,000 participants had viewed the Pension Pot.

The Personal Pension Pot gives a simple overview of the pension you have accrued so far. Aside from that, it demonstrates what you contribute, what your employer contributes, and how this amount is growing due to the return ABP generates on top of these contributions. As a participant you can clearly see that your total accruals – through the fund in a collective investment – far exceed your own contributions.

Studies have shown that users are positive about the tool and that their pension awareness is growing. They have strong responses to increases and decreases in the personal pension pot and benefit. A decreasing pension pot leads to negative emotions. But decreases can be put into perspective by showing the pension pot over a longer period of time. 42% of Pension Pot users indicate that they are happy with the financial performance, 34% indicate that their view of their pension fund ABP has improved, 59% have a good feeling about ABP thanks to the Pension Pot. Participants can see that decreases are temporary, and observe the long-term increases in their pension pot. As a result, participants have more confidence in their pension. It turns out that the pension pot inspires them to look into their pension in more detail. 40% want to start using the Pension Planner. The Pension Planner in ABP's digital personal pension environment allows participants to see the amount of pension they will receive in different situations.

The Personal Pension Pot is also continuing to develop and APG is talking to other pension funds to explore whether the Personal Pension Pot could be introduced there, too.

2.3.3 Customer Contact Center (KCC)

The Customer Contact Center (KCC) has an important part to play in our increasing focus on the experience we offer participants and employers. APG's KCCs operating on behalf of the pension funds received an average rating of 8.42 from participants in 2018.

The team's efforts were also noted by the Customer Contact Management Association, which expressed its appreciation for the entire team by naming APG's KCC manager Manager of the Year.

Among other things, a new and modern communication platform was implemented in 2018. A number of smart innovations have allowed the KCC to automatically recognize customers (participants), helping us to predict what question the customer may ask. The advantage of this system is that it allows us to connect customers to a relevant KCC employee directly (intelligent routing), which often results in high customer satisfaction. The KCC also conducted several experiments in the field of emotion recognition. Finally, in 2018 an intelligent chatbot was implemented in the platform. The chat bot ensures that participants of various funds can find answers to a range of questions 24/7. New innovative solutions are being prepared for 2019 as well.

2.3.4 Creating participant impact through innovation

At the GroeiFabriek – APG's department working on innovations for 'the day after tomorrow' – we once again worked hard on innovations and experiments in the past year. This included new methods, services, and products that aim to create impact for participants. The Groei-Fabriek's work is based on the themes of sustainability, artificial intelligence, and blockchain - all relevant to APG. In 2018 we conducted two experiments to contribute to maximizing pension value for participants:

Kandoor.nl: the online platform for all of your financial questions

APG's initiative Kandoor.nl started off as an experiment in 2016, and evolved into a successful online platform in two years' time. At Kandoor.nl you can ask a question about your finances, which is then answered by a chatbot (in principle). Bots are software-based robots that perform tasks, like chats. In 2018, bots answered 50% of the questions. Questions that cannot be answered by the chatbot are transferred to a financial expert – a trusted guide – through an algorithm in a closed environment. These guides answer the questions in their free time, without financial compensation.

In 2018, the platform reached 1 million people, and over 75,000 financial questions were asked. Users are very happy with Kandoor; as demonstrated by its Net Promotor Score (NPS) of over 47. NPS is a way to measure customer loyalty. In 2018 Kandoor was the signature charity of VVP, the platform for knowledge and inspiration for financial advisors in the Netherlands. After a successful 2018, Kandoor now aims to reach and activate pension fund participants. This is done through collaborations with various pension funds, but also with partners like Wijzer in Geldzaken (Wiser Money Management) and the social security bank (Sociale Verzekeringsbank). Kandoor is ready to continue its upward trend in 2019 and demonstrate its added value for pension funds.

Pension Infrastructure (PI)

In 2018 we tested the first pension administration using blockchain technology. This was mainly done at our Smart Services Campus in Heerlen. During these tests, we demonstrated that it is possible to conduct pension administration in blockchain, and at a reasonably large scale. A relevant result, because this development could help reduce the costs of pension scheme administration for participants, which is a key part of our strategy. Moreover, the use of blockchain technology can help improve participants' pension insight. In 2019 we will continue to build on this technology.

2.3.5 European Pension Registry

APG is part of a European consortium appointed by the European Committee to realize the first version of a European pension Tracking Service (ETS). In September of 2018, the European Committee allocated a budget of 2.1 million euro to this consortium. The ETS aims to help (former) European migrant workers, including cross-border workers, find the first-pillar and second-pillar pensions they have accrued in other European countries. The European Committee considers this facility a key pre-condition to realizing a European labor market. In addition to APG, consortium participants include other Dutch and international pension administrators, two international pension registries, and the European umbrella organization for pensions AEIP.

Our involvement in this project allows APG to contribute to building a sustainable future for workers all over Europe. Moreover, it offers us the chance to create a facility at the heart of the European pension sector that should eventually be joined – directly or indirectly – by the pension administrators (first and second pillar) of all EU member states. This way, APG can keep a close eye on developments in this sector from the perspective of the market, regulation, communication and administration, and help shape these developments.

229 experienced coaches are ready to answer all your financial questions.

2.3.6 Pension Fund for Architectural Firms: smooth transition to APG

The continued innovation of our services does not go unnoticed by other pension funds. As of January 1st, 2018, the Pension fund for Architectural Firms (PFAB) has entrusted its pension execution to APG. The agreement between the parties is valid until 2023, with the option to extend. PFAB has asked us to perform the administration of pension rights, collect contributions, and make pension benefits payments. On top of that, we provide advice about communication and governance. We can look back on a smooth transition from PFAB to APG. The systems were transferred and the PFAB pension scheme administration can be done at a lower cost by APG.

2.4 APG is a leading administrator

Our strategy aims to maximize pension value. One of the most important pillars of this strategy is delivering our pension services at the lowest administrative cost per year. Because after all, every euro we, as APG, can save on administrating the pension scheme is added to participants' pension pots. We support the Lean and Agile philosophy, and have set up various projects and initiatives across APG to streamline processes, always taking the needs of the participant or employer as a starting point.

Making difficult things easy

For example, we are talking to our funds – and the funds are talking to the social partners – about the complexity of the schemes. In 2018, we worked with ABP and bpfBOUW, among others, to further simplify or redesign their scheme and started implementing these measures to reduce complexity where possible. When pension schemes and transition schemes are simplified, their administration also becomes less complex. This complexity reduction is necessary and contributes to controlled and ethical business operations. In addition, this also saves on costs, which benefits the participants. An important theme in the context of reducing complexity is the administrability of ABP's pension scheme for defense personnel. In the summer of 2018, the social partners reached a negotiator's agreement about an amended pension scheme for defense personnel. This agreement was turned down by the union members. Two legal cases then took place in December of 2018 about the nature of this pension scheme (average-pay or final-pay) and its administrability. The Court of The Hague ruled on a procedure between the unions and the employer. The Court of Amsterdam ruled on a procedure between the unions and ABP. APB decided to appeal the judge's ruling. The appeal will be heard in the fall of 2019 at the earliest. For ABP and APG this means that the current administrative situation in relation to this scheme remains highly concerning and is in urgent need of a solution.

Uniformity of internal processes

In 2018 we have also taken steps towards uniformizing and harmonizing the way we serve our funds. We want to move towards a uniform pricing model, a uniform level of service, and clear agreements about these factors using generic contracts and terms as much as possible. This will reduce complexity, make processes simpler and clearer, and reduce costs. We have already gotten results for 2019 in our discussions with ABP and bpfBOUW, and have started creating this standardized setup. We are still in talks with SPW on the subject, but we expect to include SPW soon, too.

Far-reaching automation

By renewing and extending our automation, we are developing a user-friendly digital environment that allows participants to communicate their own pension choices or other changes, which are then processed in our administration without human interference. This helps decrease processing times and ensures changes are processed instantly.

2.5 APG is a leading investor

APG has around €459 billion in pension assets under management. This makes APG one of the largest pension asset managers in the world. For ABP's participants, we have been achieving a positive average return of 6.9% since 1993. Our clients – the pension funds and their participants – benefit from our scale, as it gives us global access to good investors, specialist investment opportunities, and mandates with external asset managers. Our scale makes it possible to get these benefits on favorable terms. With 800 highly qualified asset management employees across our offices in Heerlen, Amsterdam, New York and Hong Kong, we have the expertise to manage around 75% of the assets internally. Thanks to our internal asset management, we can keep the cost of our services down.

Asset Management invests in a broad range of asset classes. That way, we can optimize the diversification of our investment portfolios. Each asset class consists of one or more investment funds managed by APG Asset Management – these are the APG Funds. This allows us to tailor each client's investment portfolio construction to its specific risk profile. In addition to a tailor-made portfolio, we employ a specific approach in line with the client's policy to hedge interest rate and currency risks. The ability to distribute our clients' assets across the APG Funds structure makes our asset management cost-efficient. If required, we also offer individual management.

Low costs are one side of the equation in our efforts to offer pension participants the highest possible number of income years. On the other hand, APG also aims to achieve the highest possible net return. To realize this goal, we use one of APG's core qualities: leading investment practices. Using leading investment practices means achieving the highest possible net return at appropriate risk levels and with a focus on responsible investment. This allows us to generate the highest possible net return for our participants and keep pension funds strong and future-proof. APG aims to generate a higher return than the market, thereby achieving maximum pension value for the participants. APG generates excess return in four ways.

The table below shows the APG Funds' returns net of external management and performance fees. To achieve a higher return than the market, we do not simply buy all of the names in, say, the AEX index. We pick and choose based on our own research, which allows us to produce higher pension value. In the short term, this involves both pros and cons. Our aim is to beat the market on the long term. In the table, this is best reflected by the five-year return. The predominantly liquid asset classes shown in the table below outperformed the market in almost all investment funds.

Investment returns of the liquid funds		2018		3 years		5 years	
	NAV millions of Euros	Return (procent)	Excess (bps)	PF (procent)	Excess (bps)	PF (procent)	Excess (bps)
Fixed Income							
APG Fixed Icome Credits	64,324	2.2	20	2.0	84	5.4	63
APG Euro plus treasuries	11,890	0.1	-1	1.0	-7	3.5	4
APG Index Linked Bond	33,998	-2.1	9	1.5	3	2.0	7
APG Long Duration Treasury	13,670	1.3	-15	3.5	88	–	–
APG Emerging Market Debt	15,665	-1.6	-103	3.9	52	5.5	0
Equities							
APG Developed Markets Equity	115,099	-4.4	-102	5.0	73	8.8	46
APG Emerging Markets Equity	43,110	-11.8	-159	7.8	113	6.1	53
APG Equity Minimum Volatility	15,277	-0.3	-241	4.7	-78	10.5	-74
Alternative evergreen							
APG Strategic Real Estate	30,093	3.9	–	5.2	114	12.0	256
APG Hedge Funds	17,926	2.4	-301	4.5	4	3.6	-66
APG Commodities	19,663	-13.8	-55	2.3	229	-13.9	41
APG Tactical Real Estate	9,052	-1.3	15	2.5	57	10.1	62

The table below presents the investment results of the predominantly illiquid investments. This concerns other-than-liquid investments with different, more suitable, performance measures. We use Internal Rate of Return (IRR) for this category. The IRR indicates the annual return since inception (SI) based on the actual cash flows. For this category, APG uses long-term targets of 7% to 10%, depending on the type of investment and the starting date. The actual return since inception is positive and exceeds the targets by some margin.

Table: Illiquid investments

Illiquid investments	NAV millions of euros	IRR SI
APG Private Equity funds	18,965	18.6%
APG Infrastructure funds	8,813	12.7%
APG Oppotunity funds	384	8.5%

In addition to selecting the right investments, APG also responds to market developments by, for example, diverting from the intended asset class allocation in a smart way. We do this in our clients' overlay portfolios and call it Tactical Asset Allocation (TAA).

Our smart beta strategies are the final important factor contributing to outperforming the market or maximizing pension value. We have been managing these strategies – which aim to make certain adjustments to the relevant asset class to obtain better long-term return – since 2015 for one of our clients. Examples of this include adding illiquid investments to the commodities investments, or factor investing to the equities portfolio. In factor investing, an investment portfolio is constructed based on specific characteristics. There are a range of characteristics, but a few common ones include: momentum, value, smaller enterprises, quality, and volatility. These features are proven to outperform the general equities market in the long term.

Using these four sources of excess return relative to the market, APG once again managed to generate a good excess return for its participants in 2018. The table below provides an overview of the four sources of excess return in 2018 and in the past three years.

Despite these positive additional returns compared to the market, the absolute returns for our customers in 2018 were negative. This was a result of the market developments in 2018.

Table: Sources of excess return

Sources of excess return in basis points (1/100th of a percent	2018	3 years
Liquid investments	-51	13
Illiquid investments	108	56
Tactical Asset Allocation	-9	3
Smart Beta	42	20
Total excess return	90	92

2.5.1 A challenging investment year

Ever since the global financial crisis of 2008, financial markets have been driven by three primary factors:

- economic recovery and corporate profitability
- the large amount of debt that had accumulated before and during the crisis
- the exceptional monetary measures required to achieve this recovery.

Combined, these three factors have driven a strong decline in highly reliable European sovereign debt yields, rapid increases to equity prices, as well as decreasing interest rates for businesses since 2009. On the other hand, governments that did not manage to implement convincing fiscal policy in the long term saw interest rates rise.

The economic developments justified the need for exceptional monetary measures. Since then, businesses have been generating record returns, the capital position of the financial system in developed markets improved greatly, and in many countries national debt as a percentage of GDP eventually fell. As a result, monetary measures are gradually being phased out. This began in the United States in 2014 and has started in Europe this year.

The end of monetary easing contributed to financial market volatility in 2018. As interest rates rose in 2018, American investors sold off equities in favor of more secure government debt. Tension mounted between the US and China over mutual trade, leading to uncertainty about medium-term economic growth.

This made safe treasuries a more obvious choice, resulting in negative equities returns, particularly in the final quarter of 2018. The higher rates in the US bolstered the US dollar, creating pressure in some emerging markets that depend on the dollar for funding. In Europe, reduced treasuries purchasing by the ECB forced the private sector to absorb more government bonds. This unfortunately coincided with a great relapse in the Italian government's budget discipline. The market demanded higher rates for Italian government bonds, and equities and bonds were also affected. Meanwhile, alternative investments did retain their value and some even performed very well.

As the withdrawal of the central banks became more clear, pressure selectively mounted on required real estate returns. In this context, the various real estate sectors vary. The latter is a response to structural changes driven by technology and demographics, among other factors. Unlisted real estate investments generally outperformed listed investments this year. Regionally speaking, our Asian investments delivered the best performance.

Global demand for infrastructure investments remained high. This led to fierce competition by infrastructure funds on the one hand and larger institutional investors looking to take a direct stake on the other. This trend boosted the return of existing investments. Various attractive investments were added to the portfolio by actively initiating new investment opportunities and restructuring existing investments.

Global demand for Private Equity also remains high. Against the backdrop of favorable economic developments and strong competition for investments, existing investments performed well.

APG considers the medium-term economic outlook to be below average. The trade war between the US and China is not yet resolved, and the exact form of the United Kingdom's intended exit from the European Union is anything but clear. Recent surveys on business and consumer confidence showed less optimism than they did just one year ago. At the same time, risk premiums (the compensation investors receive on investments with a higher risk than treasuries) are generally average at best.

2.5.2 An experienced long-term investor

Our experience with long-term investments is shown by our years of managing alternative investments like private equity, infrastructure, real estate, hedge funds, and commodities. The smart beta strategies demonstrate APG's innovative power. They are distinct from traditional benchmark investing. We have implemented these strategies successfully since 2009, for example in our commodities investments. Another example of our smart beta approach is the minimum volatility strategy used by the equities team.

In 2018, we made good progress with 'Invest-tech' and 'alternative data' in our innovation lab and through our acquisition of Entis data specialists. This acquisition has significantly sped up the application of artificial intelligence and big data for sustainable and responsible investment at APG. The new APG team must identify listed investments that make a significant contribution to solutions for climate change or problems in the areas of healthcare and education.

Our cooperation with E Fund, one of China's largest investors, also puts us ahead of the curve. APG and E Fund exchange knowledge about asset management, ICT, and pension administration. As a sustainable pension investor, APG brings in a lot of knowledge and experience in ESG (sustainability). As the largest Chinese investor, E Fund has a lot of local market knowledge. In 2018, E Fund and APG set up a local investment strategy with a joint group of portfolio managers. When selecting names, APG and E Fund consider both sustainability criteria and the risk-return ratio.

Examples of long-term investments in 2018 include investments in Irish and Spanish residential rental properties in the middle segment of the market, Spanish toll roads, Norwegian hydropower plants and solar energy. You will find more information about these investments on APG.nl. We will discuss three other investments below as examples of ways to further the sustainability of the Dutch economy: the smart city infrastructure fund, reinforcing the Afsluitdijk Dam, and funding the Dutch energy transition.

Smart City infrastructure fund

The Smart City infrastructure fund is an investment fund used by APG and other parties to make joint investments of pension assets in selected 'Smart City' infrastructure. Smart cities are cities that integrate various information and communication technologies and 'Internet of Everything' solutions to make processes in those cities – such as lighting, parking, garbage collection or air pollution management – more effective, more efficient, and smarter. This can help improve the quality of life in these cities. The fund focuses on cities in Europe, North America, Australia and on other key urban areas across the globe. The Smart city infrastructure fund was started in 2018 with a capital deposit of €250 million from APG.

APG investment leads to reinforcement Afsluitdijk Dam

The Dutch governmental department of Waterways and Public Works granted the Afsluitdijk project to consortium Levvel, in which APG, among others, participates. The project is worth €550 million and includes the design, construction, financing and 25-year maintenance plan of the more than 85-year old dam. APG has formed a consortium with Van Oord and asset manager Aberdeen Standard Investments. Together these companies have a 46% share.

APG likes to invest in Dutch infrastructure, provided the project meets our requirements in terms of returns, risk, cost, and sustainability. The investment qualifies as a Sustainable Development Investment (SDI) and offers an attractive return to the participants of our pension funds.

Funding the Dutch energy transition

In November 2018, APG set up a separate portfolio for investments in the Dutch energy transition. The reason for this was a request from ABP. The term energy transition is understood to mean the transition from fossil fuels (oil, gas, and coal) to sustainable energy (such as solar, wind, and geothermal). In 2019 we expect to make the first investments in this portfolio - investments in (innovative) solutions for the climate problem, such as the application of sustainable sources of energy.

Since 2015 it has been part of our investment policy to actively seek out investment opportunities in the Netherlands. These investments must meet the same standards as all other investments: they must be attractive in terms of return, risk, and cost, as well as comply with our policy for sustainable and responsible investment. By investing in innovative and promising solutions in this early stage, our relatively small investment can make a big difference. It also allows us to gather valuable knowledge about technological developments that may play a big role in the future.

2.5.3 Responsible Investing

When investing pension assets, of course there is more at stake than just financial results. We and our clients do more. Responsible investing is an integral part of the investment process. We take good corporate governance and environmental and social aspects into account in our investment decisions. In doing so, we expect to lower the long-term risk and increase our return, as well as take our social responsibility. By actively using our shareholder rights (engagement) and entering into dialogues with companies, we contribute to financial market integrity.

APG has been renowned as a leader for our responsible investment practices internationally for the past decade. In October 2018 we also received recognition in our own country, through the pension funds on whose behalf we invest. The Dutch Association of Investors for Sustainable Development (VBDO) awarded our largest fund (ABP) and our second-largest fund (bpfBOUW) the highest possible rating (five stars). This puts ABP and bpfBOUW at the top of the list of sustainable Dutch pension funds.

Moreover, in December 2018 APG received the IPE Award for environment, social, and governance (ESG) investments. This award is recognition for APG's efforts to develop tangible criteria to determine whether a company's products and services contribute to the UN Sustainable Development Goals. By doing so, APG encourages other organizations to invest responsibly and thereby increases its impact.

In terms of responsible investing, we and the funds we work for set ourselves apart in three ways:

1. We use an integrated approach. This means our portfolio managers take sustainability and corporate governance into account when making investment decisions. As such, this task is not just performed by a separate sustainability department. Engagement with companies and policy are also the portfolio managers' responsibility. This approach has put sustainability at the center of our investment organization.
2. To make a real impact, we focused on an inclusion policy. APG also excludes certain business categories (exclusion). This means we focus on those businesses or asset classes that are ahead of the sustainability game.
3. We choose to use our influence as a shareholder over selling off a certain investment. After all, if we sell our stake, we no longer have any influence as a shareholder.

Dilemmas

Responsible investing sometimes leads to dilemmas. This is only logical, because the more tangible your policy, the clearer your line should be. For example: if we exclude tobacco, should we not also exclude alcohol? Or sugar? The point of using our influence versus selling off an investment can also be difficult. At what point is it no longer productive to keep talking to an organization? And do you get rid of the investment, thereby taking away any influence you could still have on a business?

The answer to this question is not clear-cut and depends on the context, such as progressive insight or geographical location. Asian companies require a different approach than European ones. We engage as much as possible with social groups that insist we change our investment policy. APG does not avoid these dilemmas and constantly works with its clients to evaluate whether its policy should be adjusted.

Projects and investments in responsible investing in 2018

- *APG and pension funds actively work for Climate Agreement:* The climate was discussed often in 2018. The Dutch government worked on a broad draft Climate Agreement, and APG and the pension funds were involved. Gerard van Olphen, Chair of the Executive Board, represented APG and served as chair of the working group for funding in the Climate Agreement discussions. APG specialists also contributed their knowledge and expertise.
- *No more investments in coal-fired power plants:* As one of the world's largest investors in infrastructure assets, APG has not made any investments in coal-fired power plants int he past ten years. We will continue to refrain from investing in new coal-related infrastructure in the future. We will have invested five billion euro in renewable energy on behalf of pension fund ABP by 2020.

  In 2018, we made various new renewable energy investments. Some examples include investments in the Italian TRE & Partners and the French Kallista Energy (both wind energy) and the acquisition of the solar energy portfolio of Tenaska in the United States.
- *Oil-sand :* To meet global demand for energy, we currently still need oil-sand. APG only invests in the top oil-sand companies on behalf of its funds, companies that strive for more sustainability and respect human rights. Investment in oil-sand companies inspired Greenpeace to take action and present a petition. Late September 2018, there was a discussion between Greenpeace on the one hand and ABP chairperson Corien Wortmann and APG chair Gerard van Olphen on the other. The parties did not find any common ground in the 'oil-sand files,' but Greenpeace was invited to continue speaking out about ABP's desired sustainability goals beyond 2020 and help strengthen the engagement policy. The parties will meet again in the spring of 2019.

Dilemmas

- *Strong growth in investment in sustainable real estate and infrastructure:* APG is making great strides in improving the sustainability of its real estate and infrastructure investments. As of the end of 2018, APG has invested 21.7 billion euros in sustainable real estate. This represents an increase of 1.3 billion euros compared to 2017. Investments in the most sustainable infrastructure category are also showing strong growth. Compared to 2017, these investments increased by approximately 900 million to 2.3 billion euros. Investments in sustainable real estate and infrastructure contribute to the objective of APG's largest pension fund, ABP, to have invested 58 billion euros in business that helps to meet the UN's sustainable development goals by 2020.

- *Climate Action 100+:* APG is part of Climate Action 100+, a coalition of almost 300 investors that puts pressure on the largest producers of carbon emissions in the world to reduce their carbon footprint. In 2018 this group targeted 161 businesses. APG took the lead in conversations with Nestlé and Unilever, and coordinated the strategy for the global food sector. Nestlé has now promised to start reporting in line with TCFD (Task Force on Climate-related Financial Disclosures) guidelines. Moreover, the company will include the social impact of climate change in its climate scenarios. We are also in talks about ways the company can formulate new goals to reduce its suppliers' carbon emissions.

To find out more about the way we implement responsible investing and see examples, please see our most recent Responsible Investment Report at www.apg.nl/en/asset-management/responsible-investing.

2.6 Clear vision and strategy sometimes means saying goodbye to create focus

APG's strategy of using all the knowledge and ability of its staff of around 3000 to create maximum pension value for participants, sometimes leads to the logical choice to find a new home for certain business units. That is why in 2018, APG decided to say goodbye to Inadmin, Inovita, and Loyalis to create focus.

Inadmin continues under RiskCo

In late March 2018, we reached an agreement on the sale of our subsidiary Inadmin to RiskCo. Inadmin offers services for 'defined contribution' pension administration. RiskCo, established in 2005, develops systems for managing long-term, complex administrations such as those used by pension funds and life insurance companies. Initially the company sold these solutions to pension funds and insurance administration offices. Inadmin and RiskCo are a great fit in terms of expertise. The acquisition was completed in June 2018 and did not lead to any forced dismissals.

Inovita sold to Keylanee

We sold our subsidiary Inovita (including its unit Inotime) to Keylane in September 2018. Keylane is a European supplier of modern, customer-focused software for the insurance and pension sector. In Keylane, APG found a buyer with which we could make multi-year agreements for cooperation related to the Lifetime system. Keylane turned out to be a party with a clear vision and growth strategy for Inovita. Inovita's pension clients will benefit from dealing with a larger innovative software supplier with more capacity. APG will remain a client of Inovita.

Loyalis continues under insurance company a.s.r.

We also found a suitable buyer for our insurance subsidiary Loyalis in 2018. In early December, we reached an agreement with a.s.r. about the sale, pending approval from DNB and advice from the works council. We expect to complete the transaction in the first half of 2019.

The proposed sale to a.s.r. will offer Loyalis a new home with a renowned insurance provider. This gives Loyalis the opportunity to increase its scale and offer a wider range of products. To safeguard continuity of the services to its clients, APG and a.s.r. have made multi-year agreements. APG will continue to be linked to Loyalis through a cooperation agreement with a.s.r. This cooperation will mainly focus on knowledge-sharing and product development. This will allow customers to continue receiving the Loyalis service they are accustomed to. We also agreed that the Loyalis non-life business will remain located in Heerlen.

Loyalis' life and pension activities are expected to be incorporated into those of a.s.r. in 2020. A.s.r. and APG intend to handle any redundancies in Heerlen internally and through vacancies at a.s.r. and APG.

Services to UWV phased out

For years, we took great pleasure in supplying UWV with ICT services. However, these activities are not sufficiently linked to the strategy of APG in its current form, while it is one of the core ICT systems for UWV. That is why, in close consultation with UWV, it was decided to transfer the relevant department and its employees to UWV. This was completed in April of 2019.

The intended sale offers Loyalis the possibility of scaling up and a wider range of products.

Connected to those around us

APG works for 21,000 employers and 4.6 million Dutch people, thereby playing an important role in society. We also contribute in other ways, through specific projects for specific groups of people to 'build a sustainable future together.' Dunja Wasserman (project leader of Silver Line) and Thijs Steger (project leader JINC) discuss these 'extracurricular' projects.

Dunja: 'As many as 1.4 million elderly people in the Netherlands face loneliness. Just imagine: about 200,000 people in the Netherlands only speak to another person once a month. As APG, we wanted to do something about that. That is why, in October 2018, we started a collaboration with the Nationaal Ouderenfonds (National Fund for the Elderly) by adopting the Silver Line: a free telephone service for elderly senior citizens who indicate that they would like to receive one phone call a week from an enthusiastic volunteer. APG offers financial support, and on top of that APG employees make phone calls to lonely elderly people on a voluntary basis.'

Thijs: 'Aside from the elderly, we also focus on young people. On paper, young people in the Netherlands have great opportunities for education and employment. But many young people do not grow up in an environment where parents or guardians encourage them and offer positive role models. Those are the young people we have chosen to support. We do this through an organization called JINC. JINC has the expertise to help these young people. Through them, we offer such things as job interview training and job tasters in our company. Our own employees actively participate, for example, by taking on the role of the interview trainer.'

Tinkering with Shell's share price

Influencing corporate policy is not easy. But in the end it does work. Martijn Olthof (Senior Portfolio Manager), Lucian Peppelenbos, and Terhi Halme (Sustainability Specialists) share their experiences:

Martijn: 'APG has 660 million euros invested in Shell on behalf of our pension funds. This gives us much more influence than the average pension participant. Shell listens to institutional investors. And they want to. Shell has now become the first company in the oil and gas sector to set ambitious targets for its carbon emissions and is now taking an extra step to realize these ambitions. They are also imposing their own standards on their suppliers and industry peers. We have seen that Total is now copying this policy. This initiates a trend to which we actively contribute.'

Terhi: 'Companies are always happy to talk, but they certainly don't always agree with us. This still leaves us with other means. For example, we can ask to speak at the shareholders' meeting, use our voting rights and work together with other investors to increase the pressure for change. We don't believe in selling. We want to bring about positive change, which is why we put so much energy into engagement.'

Martijn: 'If you simply sell your shares, you have not made the world a better place. You're just washing your hands of the issue. Who is to say that the buyer of your shares will speak up? It is our responsibility to do just that. We need to earn money for the participants of ABP and bpfBOUW, among others, so that people have access to a decent pension later in life. But we should do this – and we want to do this – in a responsible way, so later on the world will still be there for people to enjoy their pensions.

Terhi: 'We speak up to companies. And sometimes we also receive visitors, like Greenpeace. They literally demanded answers in 2018, in this case about the oil-sand files. This, too, may be a case of similar goals but a different approach. That is why we have to talk about these issues to increase mutual understanding. We will meet again in the spring of 2019.'

Lucian: 'The meeting of Madonna Thunder Hawk and Ronald Wuijster (photo) was particularly impressive. She is a tribal elder of the Lakota Sioux as well as the leader of the American Indian Movement. Thunder Hawk is leading the resistance against the construction of oil pipeline Keystone XL, which is meant to run from Canada to Texas. On behalf of its pension funds, APG is a shareholder in the company that is building this pipeline: Transcanada. And this lady travelled to the Netherlands. It was remarkable. By the way, our conversations with Transcanada are also very positive. The company pays a lot of attention to the environment and the social aspects of its activities.'

Chapter 3

3 How we organize our work

For participants, employers, pension funds, and society

As APG, we want to ensure that participants and employers – and society as a whole – can continue to view pensions as a given, now and in the future. This means that we are becoming increasingly agile as an organization and improving our mutual cooperation to respond to changing needs or schemes.

One of the most important organizational changes in 2018, an outcome of APG's vision and strategy, was the establishment of a brand-new business unit: Participant and Employer Services (DWS). In doing so, we are embedding improvement of the level of service to participants and employers in the organization and in the Executive Board. Because the new DWS business unit is led by a new member of the Executive Board, who has joined the four existing members. This ensures that participants and employers now have a direct seat at APG's boardroom table.

Using DWS and in cooperation with our clients, we can now respond to the needs of individual participants and employers even better, and improve our services.

3.1 Organizational structure

Our three business unit Pension Fund Services, DWS and Asset Management each have a clear profile. They are supported by a solid and agile foundation of HR and ICT, and efficient departments. This organizational structure ensures that APG works better for participants, employers, pension fund clients, and for our own people.

Pension Fund Services

Pension Fund Services aims to serve our funds, perform pension administration, and simplify processes. The focus is on decreasing cost and on improving the quality and customer focus of our products and services. After all, the pension product is changing. For example, caps and increased flexibility (age, swaps, commutation, part time) that have been in existence for a while now.

Participant and Employer Services ('Deelnemers en Werkgevers Services' or DWS)

The purpose of DWS is to help funds strengthen their services to participants and employers. It is based on the principle that the individual responsibility and freedom of choice for participants and employers regarding their income for later will increase. DWS's ambition is to encourage this growing freedom of choice, while strengthening the bonds between participants, employers and pension funds.

Asset Management

Asset Management is aimed at leading, global, long-term, responsible investment at the highest net return. Our investment expertise is deployed in many ways, for instance through 'direct investments', such as real estate and infrastructure. At Asset Management, data, artificial intelligence and algorithms are increasingly used for asset building. Furthermore, being open to society's demands and needs is increasingly important. Asset management is being carefully monitored by supervisors and a discerning society. Investments need to be carried out responsibly and be sustainable. Building, protecting, and maintaining a reputation in the area of sustainable investment is as much a core quality as asset management itself.

Solid and agile HR and ICT foundation, and efficient departments

HR: Developments in the financial sector as a whole and the pension sector in particular are moving so quickly that our employees face constant change. In 2018 APG once again focused on sustainable employability for its employees. Our employees are invaluable to APG, as they are jointly responsible for maximizing the pension value of our

participants. As such, HR has an important strategic role in the organization.
ICT: ICT is also a key department for APG. APG is expected to conduct a faultless administration of the pension schemes, achieve high investment returns, and keep costs to a minimum and constantly continue to reduce them. Automation has become an essential and indispensable element for all three of these pillars – administration, asset management, and cost-saving.
Efficient staff departments: Our staff departments are organized centrally unless legislation requires otherwise. As partners to the business units, the departments offer unity and efficiency in services and guidance within the business units. We do this in the departments of Finance, Risk, Compliance, Audit, HR, Communication and Strategy, Policy and Developments, Change, Tax, Legal, and Corporate Affairs. As partners to the business, the departments play an important role in how APG comes across to participants, employers and funds: an organization that is of great value to society, and that fulfills its role conscientiously.

3.2 Developing, leading, rewarding, and housing our people

De motor achter de transitie van APG zijn onze medewerkers. Om die motor te laten draaien, werkt iedere medewerker doorlopend aan zijn of haar persoonlijke ontwikkeling. Daarmee verbetert APG de kwaliteit van zijn dienstverlening en stimuleren we de duurzame inzetbaarheid van onze medewerkers. Het programma waarin die ontwikkeling plaatsvindt, heet The Making of You.

3.2.1 Developing our people

The Making of You

The Making of You is one of the outcomes of the collective agreement negotiations that were conducted and concluded at APG in 2017. The program is fully supported by the works council and the unions.

In 2018, The Making of You has taken on a solid form. The services of the Future Center, established in 2017, have been expanded significantly. This is the central hub where we enable employees to find new opportunities within APG. The employees of the Future Center are the central hub for internal recruitment, external recruitment, and external contracting. The Future Center also supports people through knowledge, networking and training opportunities, and it organizes events about personal development.

To enable every employee to work on their own continued personal development, we have developed a learning path. The learning path consists of four meetings in which colleagues determine their core values, their strengths, and what they would like to achieve. 250 of our staff have now completed the learning path and a quarter of our employees have applied for it, including 95 managers.

In 2019 we are encouraging all of our colleagues to participate in the learning path and further expanding our strategic staff planning. We will pay special attention to the group of employees who will be affected by job loss in 2019. As a result of The Making of You, we saw the number of (permanent) positions filled by internal candidates rise once again in 2018.

3.2.2 Leading our people

In 2018 we continued to develop leadership at APG. We do so based on the leadership profile required to realize APG's vision and strategy. This leadership profile also takes center stage when selecting (new) managers. 2019 is also going to focus on further development of our managers. Additionally, we are concentrating on the further development of effective teams and leadership teams through tailor-made team coaching programs.

3.2.3 Rewarding and evaluating our people

Remuneration policy

Our remuneration policy must allow us to attract and retain qualified employees of integrity for all positions throughout the organization. The policy aims to create value in the long term and prioritizes the long-term goals of its stakeholders. We are working on a sustainable and responsible remuneration policy in line with our vision and strategy from three perspectives.

Internal relations (perspective 1) provide balance: within the organization, between the Executive Board and the employees, and between the various organizational layers. This perspective also includes equality between men and women.

External relations (perspective 2) bring the market perspective into the organization and help retain the competitive edge required to attract and retain qualified employees. To achieve this, we use various benchmarks for specific business units and roles.

Social conformity (perspective 3) provides a broad context for remuneration. APG is an investor of a large amount of pension money. As such, we are a player in an international, commercial, and competitive market. At the same time, we will not lose sight of our unique place in Dutch society.

Governance

APG and its subsidiaries are subject to various legislation and regulations with regard to restrained remuneration. APG also follows the Dutch Corporate Governance Code. The Executive Board has primary responsibility for the remuneration policy. The Supervisory Board supervises the implementation of this policy. The Supervisory Board receives advice on the subject from the remuneration committee.

APG Asset Management has its own Supervisory Board, with its own remuneration committee. A decentralized assessment committee provides support in matters of remuneration. On this committee, HR, Risk & Compliance, and Legal actively work on the design, supervision, and monitoring of the remuneration policy. The internal accountant is not a member of this committee, and periodically conducts independent investigations of the design, introduction, and implementation of the policy.

Terms of employment

APG uses a central remuneration policy which applies to all employees who work for APG Group. To attract, retain, and motivate qualified employees, we compare the employees' total monetary compensation to the relevant remuneration market for that business unit and/or role, including the Executive Board. To this end, we conduct a comparative market study once every two or three years. We use the results of this study to critically examine APG's remuneration package. Everyone at APG receives a remuneration package consisting of a fixed salary, a good pension provision, a supplemental range of insurance products, and extensive opportunities for training and development.

Variable remuneration, risk analysis, and identified staff

APG does not offer variable remuneration for its Executive Board. Variable remuneration is also not the norm for other employees at APG in the Netherlands. The number of employees who qualify for variable remuneration has been significantly reduced in recent years. In the Netherlands, only APG employees working in a position with direct influence on the investment result are eligible for variable remuneration. This is part of their total remuneration proposition taking into account any relevant legislation and regulations. Aside from that, Entis employees retained their right to variable remuneration in APG's acquisition of Entis.

For APG Asset Management employees abroad, we look to strike a balance between what is acceptable in the Netherlands and what is common practice locally to get great employees to commit to APG. This requires a higher overall remuneration level than is common practice in the Netherlands, with proportionally more variable remuneration.

We use the market-level variable remuneration we need in the international, competitive investment sector we work in to attract and retain the right people. Moreover, variable remuneration is also used as a tool to direct performance based on a long-term vision. The variable remuneration is based on qualitative and quantitative criteria that measure performance over several years. Part of these criteria include achieved returns, sustainability and SDI targets such as CO2 reduction and inclusion. The proportion of the total remuneration taken up by variable remuneration depends on the employee's role.

To limit the risk of variable remuneration being awarded in error, some employees' variable remuneration, depending on the amount, will be deferred and paid out across a number of years. This group was significantly expanded in 2018. Half of the renumeration is paid out in the year following the performance year, and the remainder is paid out in three equal parts (one part per year) after re-evaluation of the performance of the employee involved.

For all of our investments we scrutinize four aspects: return, risk, cost, and sustainability. The aim is to find the right balance between these different elements.

We have made a conscious choice to handle as many investments as possible internally, using our own people, rather than outsourcing them to expensive foreign parties. Around three quarters of the investments are managed in-house.

We have our own investors in New York and Hong Kong. They know what matters to us in the Netherlands: things like sustainability, good governance, and an excellent return. The unique knowledge of these local employees enables us to achieve good returns in specific markets, thereby maximizing pension value for our participants. However, labor costs for our investors in New York and Hong Kong still are high for Dutch standards. In the past, we have been asked critical questions about this issue. We tackle these head-on because we believe in our approach.

The expenses we incur on this local expertise are much lower than they would be if we were to outsource this portion of our work; this way, our approach ensures that more of the return we achieve goes to the participant.

We only choose to outsource an investment if we can prove that it is more cost-effective for participants. More outsourcing would mean reducing our internal labor costs, but our expenses on outsourced asset management fees would be higher. On balance, this is not in the interest of the participants. We believe in our approach to invest in maximizing our in-house investment management. In 2018 our investors once again outperformed the market, helping to maximize pension value, and that is what matters to us.

APG has made a risk analysis to map the incentives produced by APG's remuneration policy and implement control measures. The risk analysis focuses on the variable remuneration for employees of APG Asset Management. The remuneration policy applies stricter requirements to roles that may have a material impact on APG Asset Management's risk profile. To maintain a good overview of the potential risks, these roles are identified on an annual basis, with the people who perform them earmarked as Identified Staff.

The total awarded variable remuneration in the 2018 financial year was €31.4 million (2017: €30.0 million). Of this total amount of variable remuneration, €26.1 million (2017: €24.2 million) relates to APG Asset Management's foreign subsidiaries.

Total remuneration exceeding €1 million

In the 2018 financial year, 5 employees (2017: 5), all working in APG Asset Management's foreign offices, were awarded a total remuneration of €1 million or more. The total remuneration includes the fixed salary, variable remuneration, and other staff costs. The number of employees who have received a total remuneration of €1 million or over in any year is subject to exchange rate fluctuations.

Assessment Methods

At the start of each year, managers and employees agree what they want to achieve in terms of results, competencies, and personal development. They set quantitative and qualitative targets at the individual, team, and collective level to contribute to the realization of our annual plan and long-term goals. Outside the interim evaluation and end-of-year performance review, managers and employees constantly communicate about the development of employees as well as the company performance. In line with the methods outlined in the collective agreement, the employee's salary may be raised based on the performance review and its current level.

Executive Board remuneration

The remuneration of APG Group's individual Executive Board members is determined by the shareholders of APG Group, following a proposal by the Supervisory Board. This is an exception to the Corporate Governance Code. This stipulation is documented in APG's articles of association and arises from APG's two-tier board structure. As a consequence, the Supervisory Board is not authorized to appoint members to the Executive Board, but rather with the shareholders; the Supervisory Board will only propose candidates.

In line with the Corporate Governance Code, we also focus on the board member's view of their own remuneration.

To determine a competitive remuneration for the Executive Board, APG carefully examines both the internal and the external remuneration relationships and places these in a social perspective. APG needs leaders who can, together with their colleagues, lead our organization through a changing society and pension landscape in the coming time. All involved parties realize that remuneration for senior management is subject to extra scrutiny in the current day and age. This is particularly true for a company like APG, which puts pension participants first, places importance on social support, and needs to help rebuild trust in the sector.

The monetary remuneration of the members of the Executive Board consists of a fixed salary and a pension contribution. Our board members do not receive variable remuneration. The pension contribution, as for all APG employees, consists of participation in the PPF APG pension scheme and a compensation in the amount of the employer's contribution based on the pensionable income that exceeds the cap. Please see page 81 for an overview of the remuneration awarded to our Executive Board.

As of 2017, we provide insight into the ratio of the total remuneration of the chair of the Executive Board and the remuneration received by the average employee. We offer this insight for both the entire group of APG employees and the group of APG employees in the Netherlands. The data from 2017 are included for comparison purposes. In 2018, these ratios were: APG 5.1 (2017: 5.4) and APG (NL 5.9 (2017: 6.2).

For more information about the remuneration policy for the Executive Board, we would refer you to the remuneration report, which can be found at www.apg.nl/en/who-is-apg/corporate-governance.

For the remuneration of the Supervisory Board, we use the same principles as for the Executive Board. The Supervisory Board will submit a clear and comprehensible proposal for their own remuneration to the general shareholders' meeting. This remuneration must be appropriate and independent of results, encourage adequate performance of the role, and be in line with the time and responsibility involved. Please see page 85 for an overview of the remuneration awarded to our Supervisory Board.

3.2.4 Housing our people

At APG, we rely on the principle that our work environment helps us maximize our potential and helps us work together well – a pleasant workplace where people, technology, and sustainability meet.

APG currently has three office locations in the Netherlands: the head office in Heerlen and two offices in Amsterdam. In 2018 we decided to merge all of our Amsterdam activities in our current building on the Basisweg in Amsterdam, near Sloterdijk train station. As such, we will eventually vacate our premises at the Zuidas business district (Symphony Tower). We are taking this step due to cost considerations and because we want an office building that is more in line with who APG wants to be and how we want to present ourselves to society and our stakeholders: more efficient, with a keen eye for cost, sustainable, and encouraging of fun and vitality at work. Eventually, around 500 colleagues will move from our Symphony location to Basisweg, where a total of around 1000 will be stationed after the move is complete. We expect to move mid-2021.

In the new situation, we will be renting fewer square feet in total, the price per square foot will be lower, as will our energy use. The move will save us a total of €87 million in housing cost over the course of the rental contract (17 years), contributing to our goal of reducing the cost per participant.

The Basisweg building will be renovated to become one of the most sustainable buildings in the Netherlands. We are trying to minimize our ecological footprint. This means compensating the majority of our carbon emissions, realizing energy savings where possible, and only using green natural gas and green electricity. APG's head office in Heerlen is connected to the so-called Mijnwaterproject, which allows us to use the water from local mining tunnels to cool or heat the building.

Where possible and informative, our supplier agreements contain an ESG clause.

Due to the renovation of our Basisweg location, the employees in this building have temporarily moved into the office of TMG, which is also located on the Basisweg in Amsterdam.

3.3 Collaboration with the works council

In times of drastic transformation, we need a strong and active works council to achieve a good result together. In 2018, the relationship and consultation between the works council and APG (the company), represented by the board member, was once again constructive and professional. The works council was able to do its share, due in part to the fact that APG provided the works council with timely information and proactively included it in the various transformation projects. The most important projects were 'reallocation of focus areas in the Executive Board's portfolios,' 'Structure of Participant and Employer Services,' 'Structure of Pension Fund Services,' and 'Future of Deelnemingen.'

In 2018, the works council received three mantle notes, three initial requests for advice, fourteen requests for advice, and six requests for approval. In response to the majority of these requests for advice, the works council gave the advice 'positive, subject to conditions.' No negative advice (not to implement the proposed decision) was issued. The works council approved five requests subject to a number of conditions and recommendations. At the time of writing, the works council is still reviewing one of these requests for approval. APG diverged from their advice in a few areas, but always substantiated these decisions. In those cases, the works council declined to use its right of appeal. However, the works council will make sure to keep a close eye on the developments relating to these decisions.

Aside from various requests for advice regarding organizational changes with staff consequences, the sale of Loyalis is an issue that explicitly requires co-determination. After all, the choice of a new shareholder can have a substantial impact on employees. As such, the works council was heavily involved in the process relating to Loyalis.

Other subjects that required the works council's attention in 2018 were APG's future home in Amsterdam, the 'deployment' (moving formerly centralized ICT service units into the various business units), the evaluation of absenteeism and the measures taken to decrease this.

The requests for advice and approval were dealt with by the works council and the board member during ten consultation meetings. Two of these meetings served to discuss the general affairs of APG's business (article 24 of the Dutch Works Council Legislation (Wet op de Ondernemingsraden or WOR): meetings in which the works council and the board member consult in the presence of representatives of the Supervisory Board). These consultation meetings were prepared during the ten agenda committee meetings of the works council's daily management and the board member.

Aside from the aforementioned meetings, the works council and the board member also held informal consultations. There were three of these so-called 'Legs Up'-sessions, one of which was held with the full works council. The works council chair and secretary also continued to participate in strategic consultations with the members of the Executive Board and the directors who report to them. These consultations discussed the changes and increasing workload at APG. At the end of 2018 the works council shared its considerations regarding a healthy work environment for APG Group with the board member. They were positively received.

During the reporting year, an agreement was reached with the works council about the way it will be involved in future organizational change with staff consequences. We agreed on the phases of the process and who will take which step at what time during each phase.

This reorganization roadmap provides insight into the choices that must be made and when they will be presented to and/or shared with employees, the works council, and other stakeholders. The works council has an important role to play before, during and after organizational change.

The works council also used its right of initiative in 2018. They did so on the topic of Data Management. APG was asked to discuss with the works council about the way data can and should contribute to the organization's positioning and effectiveness. The discussion included the following specific topics: governance and control regarding data, vision and scope for data management, and realizing a 'data-driven' organization.

In April of 2018, elections were held for a new works council (for a four-year term). A new daily management staff was also selected. The new daily management had an elaborate introductory meeting with Supervisory Board member Edith Snoeij (one of 2 members of the Supervisory Board who were appointed on strong recommendation of the works council). A total of 73 employees ran for one of the 19 seats on the works council. Voter turnout for the election was 70%. Due to training days and a handover by former members, the new works council was able to get off to a strong start.

The Executive Board would like to express its appreciation for the critical, capable, and constructive attitude of the works council in 2018, and thanks the works council for their cooperation.

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Chapter 4


Werkschrift : 22
31 - 3 - 2016
Donderdag
8:30 – 8:45 Lezen
8:45 – 9:45 Rekenen
9:45 – 10:00 Buiten spelen
10:00 – 10:15 Eten en drinken
10:15 – 11:00 Taal
11:00 – 11:40 Muziek
11:45 – 12:00 Buiten spelen
12:00 – 12:15 Eten en drinken
12:15 – 12:45 Strategie Nieuwsbegrip
12:45 – 13:30 Extra lezen en extra oefenen
13:30 – 14:00 Spelling

4 How we check our work

For participants, employers, pension funds, and society

4.1 Risk Management

APG uses an integrated risk management framework to ensure integrity and control in its corporate management as well as support the management in their efforts to control and report risk in a conscious and responsible manner.

Risk management is an integral part of corporate management, and therefore of the business plan cycle. APG strives for an effective and continuous execution of risk management that, with regard to its nature and scope, is geared to the business activities and risks and produces a comprehensive view of risk. The In Control Statement is included on page 36.

APG is a mixed insurance holding and falls under the Solvency II regime. Solvency II regulations focus on determining the solvency of insurance providers. For APG, the required solvency is determined mainly on the basis of the solvency of the insurance company (Loyalis), given the fact that APG does not engage in any insurance activities outside of its insurance business. The most important consequences of this guideline to APG relate to the solvency requirements for the group, intra-group transactions and concentrations, specific requirements for key roles (risk, compliance, audit, and actuary), risk management, the Own Risk Solvency Assessment (ORSA), and reports about financial solidity. In 2018 APG met all of the relevant reporting requirements. After Loyalis has been sold, APG will no longer be subject to the Solvency II regime. As a result, a number of the aforementioned requirements and obligations will no longer apply. APG is currently in talks with DNB about the way in which supervision will continue after the sale of Loyalis. Considerations on the subject will include DNB's intention to put pension administrators under its own supervision.

On January 13, 2019, the new guideline Institution for Occupational Retirement Provision (IORP) II took effect. It is mandatory for all pension funds in Europe. IORP II has a number of consequences for pension funds, for example the appointment of a number of key roles, additional informational obligations, and the drafting of an Own Risk Assessment. APG advised and supported its pension fund clients in their analysis and implementation of the IORP II requirements. Moreover, APG started implementing the IORP II requirements that apply to us based on agreements with our pension fund clients.

The APG Integrated Risk Management includes the risk appetite and risk strategy, the risk management organization, the risk framework, the risk management process, and the capital requirement.

Risk appetite and risk strategy

Risk appetite is the amount of risk APG is able and willing to accept in its pursuit of the strategic targets. APG's risk appetite has been determined for seven elements that could be affected by risk: survival, reputation, relationships, solvency, integrity, service, and customer satisfaction.

The Executive Board determines the overall risk appetite. The risk appetite is further refined into tolerance limits and frameworks for specific risks at the business unit level, in line with APG Integrated Risk Management. This is monitored throughout the year. Overall, APG's risk exposure remained within the risk appetite this year. There was elevated risk in some areas. These risks are discussed further in the 'risk framework' paragraph below.

Risk management organization

The roles and responsibilities to manage and control risk are based on the commonly accepted 'Three Lines of Defense' model. This model is supported by adequate governance, with the risk committees of the business units and the Executive Board as well as the audit and risk committee of the Supervisory Board safeguarding integrated responsibility for risk management.

Risk management process

The risk management process aims to safeguard the risk profile and risk management effectiveness. This is a continuous process consisting of the identification, evaluation, control, and monitoring of risks. Risk management and compliance play a supporting role and provide critical challenges. Risks are evaluated in relation to the risk appetite, and (additional) measures are implemented where needed.

The ORSA is part of integrated risk management, and describes APG's strategic risk profile. During the ORSA 2018, as in 2017, the robustness of the strategy was assessed based on different scenarios. These are a number of strategic scenarios, a 'financial crisis' scenario, and a reverse stress test (RST). Drafting and analyzing several future scenarios provides insight into the positive and negative impact of events on APG and its entities as well as on the solvency of APG and its entities.

We can conclude that APG's baseline is good. The solvency ratio only dips below 100% in a scenario where APG's largest client were to leave. The chance of this scenario is very slim, and if it should occur, the 5-year notice period gives APG enough time to scale down its organization to an appropriate size for the remaining client portfolio.

Risk framework

The risk frameworks serves to structure APG's risk monitoring. The risk framework is divided into five risk categories. Monitoring is continuous and reports about the current risk profile are submitted to the APG Group Risk Committee and the Audit & Risk Committee of the Supervisory Board on a quarterly basis. Below is a brief explanation of the most important risks for each category in 2018. The definitions of these categories can be found in the terms and definitions on page 114.

1. *Strategic risks*: Political risk took center stage at APG in 2018. The government is working on a new pension plan, which focuses on increased individualization of the system. This change affects the future viability of APG's business model, as does the fast-changing world of today. APG is responding to all of these changes by implementing a new strategy focusing on increased flexibility, efficient processes, and serving funds, employers, and participants alike. Another matter that arose towards the end of 2018 was the disappointing investment return, which caused pension funds' cover ratios to drop. This resulted in negative market sentiment about potential pension cuts. As our investment return is better than that of the benchmarks we use, the performance fees for external managers will not be lower than last year. These developments have increased the publicity risk.
2. *Financial risks*: APG's strong solvency was continued in 2018. This is demonstrated by the 214% solvency ratio before dividend payments at year-end 2018 as well as by the (stress) scenarios applied in the ORSA. The financial risks related to Loyalis' insurance activities are APG's most significant. To control these risks, we have set up an elaborate system based on Solvency II regulations and principles. More information about this topic, as part of the financial statements, can be found in the risk paragraph on pages 57 through 61.

The financial risks relating to investments on behalf of clients are not for APG's account and risk, due to the separation of the assets of APG and the (pension) funds.

3. *Operational risks:* The complexity of the pension schemes APG administrates for its clients and the impact of strategic innovation programs have a significant impact on the operational risk profile. Complexity increases the risk of errors in the administration and puts extra pressure on administration costs.

Management of the operational risks improved in 2018, but continues to demand attention. APG is working on this by improving existing processes, increasing the agility of the organization (i.e. agile work), as well as by increasing our innovative power, investing in data management, and increasing the agility of the current IT landscape. Threats to information security (including cyber-crime and logical access security) form an increased risk that requires constant attention. That is why APG continuously invests in managing this risk.

4. *Compliance risks:* In 2018 we addressed the risk of noncompliance with legislation and regulations – or of not complying on time – by implementing two European guidelines: the Markets in Financial Instruments Directive II (MiFID II) and the General Data Protection Regulation (GDPR). The purpose of MiFID II is to increase the efficiency and transparency of European financial markets as well as enhance investor protection. The GDPR aims to improve privacy protection. The GDPR is the replacement of the European privacy guideline and the national privacy laws of all EU states that were derived from this guideline. In 2018 programs were set up to implement the requirements of both of these directives at APG.

We pay specific attention to topics relating to integrity (such as conflicts of interest, remuneration, corruption, and fiscal standards). Requirements for good governance and integrity in conduct and culture are increasingly demanding. This goes beyond just complying with legislation and regulations. In 2018 APG conducted another Systematic Integrity Risk Analysis (SIRA). This SIRA offers insight into the most important integrity risks, and as such is key to effectively managing integrity risks. The SIRA revealed that APG has sufficient control of its integrity risks. Raising awareness of integrity risk among employees requires constant attention.

5. *Reporting risks*: APG's risk management and control systems provide a reasonable level of certainty that the APG Groep NV annual report will not contain any material misstatements. The effectiveness of these systems is continuously tested throughout the year, and based on these results the Executive Board has declared that there are no material risks or uncertainties relevant to APG Group's expectation of continuity. Please also refer to the In Control Statement at the end of this chapter.

Fiscal risk management

APG is working on a Tax Control Framework, an all-encompassing fiscal quality system of internal control and internal and external checks with the aim to demonstrably be in or gain control of all processes and procedures in relation to which taxation plays a role (such as timely, correct, and comprehensive filing of tax returns). In 2017 we signed an agreement for horizontal supervision with the Dutch Tax Authority. Transparency, understanding, and trust are important concepts on which our cooperation with the Dutch Tax Authority is based.

To increase the maturity level of the Tax Control Framework, APG started setting up and digitizing monitoring processes based on data analysis in 2018. APG expects these tools will facilitate further improvements to the quality and efficiency of taxation processes in 2019.

Capital requirement

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

In APG's case, the Solvency Capital Requirement ratio (SCR ratio) applies. The SCR ratio is highly volatile because many factors play a role in its calculation. Among other matters, developments in deferred taxes and interest rates are a source of volatility. Specifically for Loyalis' non-life insurance business, the SCR ratio is sensitive to assumptions concerning the chance of occupational disability and chances relating to reentry of partially disabled individuals into the labor market. For Loyalis' life insurance business, the SCR ratio is sensitive to assumptions concerning longevity risk and policy renewals. For both the non-life and the life business, changes in cost assumptions create volatility in the SCR ratio.

APG monitors its capital position and the development of its solvency ratios as well as the capital position and solvency ratio development of its subsidiaries. APG has set an internal SCR limit of 169%. This is the lowest point at which APG considers its solvency to be sufficient (the legal standard norm is 100%). If solvency levels drop near or even below this internal limit, measures are taken to increase the solvency ratio. Any measures are discussed by the risk committee and presented to the Supervisory Board for approval. As part of the internal capital requirement, an additional buffer is held at the group level to cover strategic, financial, and operational risks. In 2018 the solvency ratio stayed well above the limit. Furthermore, we have demonstrated that APG Group's future solvency ratio is strong (please see the explanation of the ORSA in the paragraph Risk Management Process above).

After concluding the proposed sale of its insurance subsidiary Loyalis, APG will no longer be subject to the Solvency II regime. However, APG is still required to ensure that the capital requirement is in line with the risks so that the capital will be sufficient to accommodate financial damage and losses arising from these risks. You can find a detailed explanation of APG's solvency in the SFCR document at www.apg.nl/en/who-is-apg/corporate-governance.

In Control Statement

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

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 misstatements or that the systems can fully prevent all errors, incidents of fraud, or noncompliance with relevant legislation and regulations.

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

After concluding the proposed sale of its insurance subsidiary Loyalis, APG will no longer be subject to the Solvency II regime.

Statement from the Executive Board of APG Group NV

The Executive Board of APG Group NV declares that:

- APG Group NV's annual report provides insight into the most important shortcomings in the effectiveness of the internal risk management and control systems.
- Improvements, both implemented and envisioned, are explained;
- APG's risk management and control systems provide a reasonable level of certainty that the APG Group NV annual report does not contain any material misstatements.
- APG Group NV's annual report was prepared in line with the going concern principle.
- There were no material risks or uncertainties relevant to APG Group's expectation of continuity for a period of 12 months from the preparation of the APG Group NV's annual report.

4.2 Regulatory authorities

There were developments in relation to the regulatory authorities on both the national and international level in 2018.

APG Group includes various entities that are subject to some form of regulatory supervision. In this context, DNB exercises prudential supervision, while AFM is the conduct supervisor.

Loyalis is subject to Solvency II regulations, with prudential supervision by DNB. As a mixed financial holding and a financial conglomerate, APG Group falls under Fico group supervision and group supervision on the basis of Solvency II. The entities APG Rechtenbeheer, APG Diensten, and APG Deelnemingen are included under Solvency II as participating interests of APG Group.

APG Asset Management is subject to AIFMD and MiFID supervision, and as such it is supervised by the AFM. Prudential supervision of APG Asset Management is exercised by DNB based on the Capital Requirements Regulation and the Capital Requirements Directive IV guidelines (see grey outline). For the solvency requirements, APG Asset Management follows the Internal Capital Adequacy Assessments Process (ICAAP).

The sale of Loyalis will create a new situation. The Executive Board wants work together with the Supervisory Board to engage with regulatory authorities about an effective and efficient framework for supervision that suits the new situation in a proactive and constructive manner.

As a pension fund, our shareholder Stichting Pensioenfonds ABP is subject to the supervision of DNB, which stipulates requirements for the services provided by APG and the setup of its processes, among other things.

4.3 Corporate Governance

If we want to be a trusted guide for others, good corporate governance is essential. That is why APG aims for a corporate governance structure that is in line with the group's business activities, the requirements of stakeholders, and relevant legislation and regulations.

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 Code. However, in view of our role and responsibility as a pension administration organization, we have opted to apply the Code on a voluntary basis.

Compliance with the Code

In 2018 APG was nearly in full compliance with the Code (to the extent the guidelines apply to APG). Various sections of this annual report show which of the principles and best practice provisions contained in the Code we do not yet follow, and the reasons for this. Our website www.apg.nl/en/who-is-apg/corporate-governance includes an overview that demonstrates the connection between what we have written in our annual report and the Code.

To achieve full compliance, we still need to make a few adjustments to the regulations for the Supervisory Board committees and the Supervisory Board itself. These regulations, including the diversity policy, will be amended in 2019.

Diversity is very important to APG. On December 6, 2016, APG signed the Diversity Charter. The Diversity Charter aims to promote diversity and inclusion at work in companies and organizations. By signing the Diversity Charter, APG committed to make a concrete effort to establish an effective diversity policy. Aside from that, APG signed the Talent to the Top Charter, which specifically focuses on improving the man-to-woman ratio at the top level of the organization. 2018 saw an important step in the right direction as two women were appointed to the Executive Board. Moreover, we put our diversity policy into practice by organizing events for various target audiences, among other things. We will continue to develop this in the coming years.

APG also investigated the pay gap between men and women in the organization. This survey showed that women currently earn 2.2% less than their equivalent male colleagues. APG is still looking into the root causes of this, and will take action where required.

The revision of the mission and recalibration of the strategy necessitated a change to APG's corporate governance and organizational structure. This change was largely completed in 2018, and we expect to conclude it fully in 2019.

We can only create long-term value if we realize our strategic objectives in an ethical way. In this context, APG acknowledges the importance of ethical business operations and a culture that facilitates this. To this end, we formulated relevant 'Core Values' when creating our strategy. The Core Values provide guidelines for APG's desired company culture. They identify the things all APG employees should represent, and the behavior that is expected of them in that context. Moreover, the Code of Conduct offers guidelines and prescriptions to guarantee the professional, ethical, and transparent conduct of all APG employees.

Both the Core Values and the standards from the Code of Conduct are periodically discussed. Among other instances, the Core Values are discussed during meetings of the Executive Board with management and employees. The Code of Conduct is discussed in publications on the intranet as well as in the information for new and existing employees. Moreover, the annual declaration of compliance – a statement from each APG employee that they have complied with the Code of Conduct in the previous year – serves to raise awareness further. In some cases, compliance with the Code of Conduct is also monitored by testing private investment transactions, ancillary positions, invitations, and gifts against the standards in the Code of Conduct. You can find our Code of Conduct and the declaration of compliance at www.apg.nl/en/who-is-apg/corporate-governance.

Finally, it is important to APG that any suspicion of wrongdoing should be reported. Wrongdoing poses a threat to integrity and reputation of APG and its employees. There is an anonymous reporting procedure for wrongdoing, which allows suspicions of wrongdoing and irregularities to be reported anonymously. The chair of the Executive Board and the Chief Compliance Officer will be notified without delay of any reports of suspicions of material wrongdoing or irregularities by the reporting officer in charge at APG. If the report relates to the chair of the Executive Board, the chair of the Supervisory Board and the Chief Compliance Officer will be notified. The possibility of submitting reports applies for all units of the businesses associated with APG, regardless of whether the activities of the business take place within or outside the Netherlands. Both the anonymous reporting procedure for wrongdoing and the regulations for the Executive Board currently provide for the Executive Board to inform the chair of the Supervisory Board about reports of suspicions of material wrongdoing. The regulations of the Executive Board and Supervisory Board permit employees to inform the chair of the Supervisory Board if the wrongdoing or irregularity involves the performance of a member of the Executive Board.

4.4 Executive Board

The Executive Board bears collective responsibility for realizing APG's objectives and strategy, and for the developments of the results and the social aspects of the business. The Executive Board is also responsible for compliance with all relevant legislation and regulations, risk management, and the company's financing.

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

The Executive Board regularly evaluates its own performance. In 2018, it started a self-evaluation led by an external party. This is expected to be concluded in early 2019.

APG's organizational structure has now been recalibrated. A fifth member has been added to the Executive Board to take on the portfolio Participant and Employer Services (DWS). The DWS portfolio holder is now part of the Executive Board, and the portfolios of the Executive Board have been redistributed over the board's five members. DWS is fully focused on informing, advising, and supporting participants and employers. Pension Fund Services is fully focused on advising and supporting the APG's pension fund clients. The senior management structure of DWS and Pension Fund Services was set up in late 2018.

Page 112 contains more details about the current members of the Executive Board.

On February 6, 2018, Annette Mosman joined the Executive Board to take on the portfolio Finance and Risk Management. Ronald Wuijster was officially appointed a member of the Executive Board as of March 6, 2018. He is taking on the Asset Management portfolio. Francine Roelofsen-van Dierendonck was appointed to the Executive Board on November 1, 2018. She will take on the portfolio Participants en Employers Services.

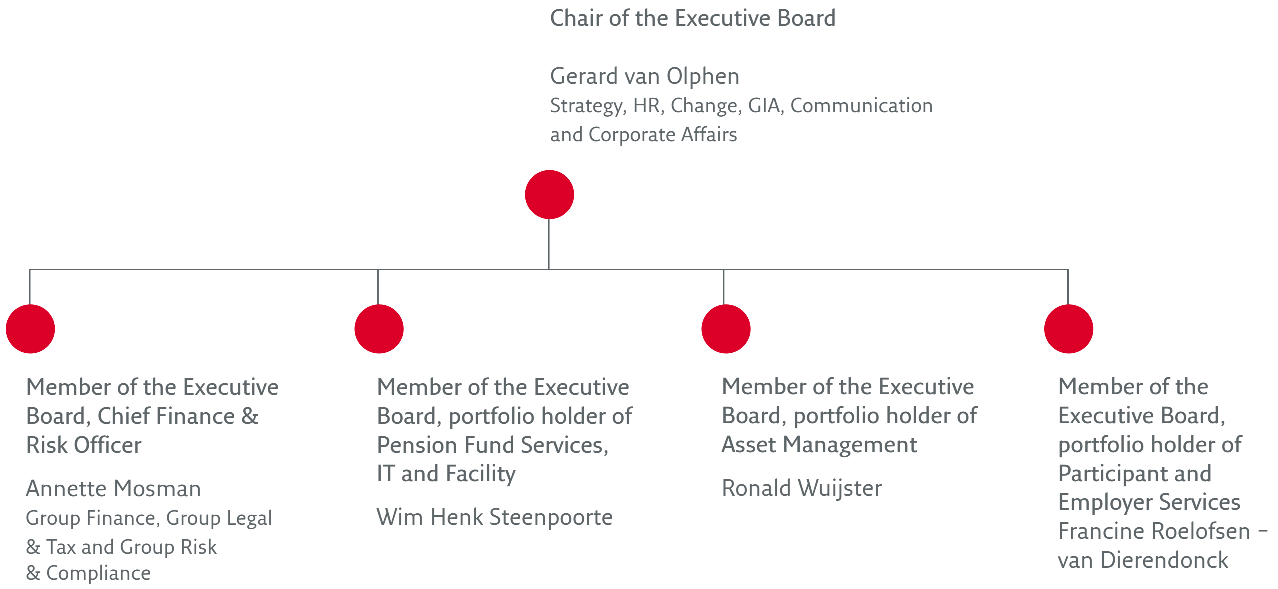
With the appointment of two women to the Executive Board in 2018, the Executive Board is now made up of 40% women and 60% men. As such, the board has achieved a balanced distribution in line with the Dutch Act on Balanced Allocation of Seats on the Executive Board and the Supervisory Board. Moreover, we have also fulfilled our own objective to introduce diversity on the Executive Board, in terms of gender, age, and educational and professional background.

4.5 Organizational structure

The Executive Board bears collective responsibility for realizing APG's objectives and strategy. The members of the Executive Board have determined a division of labor and each has their own focus area. They account for their activities to the Executive Board as a whole, with the Executive Board taking collective responsibility. The Executive Board in turn accounts for its activities to the Supervisory Board.

The division of labor among the members of the Executive Board is as follows:
The chair: directs the management of the following departments: Strategy, Policy & Development, Human Resources, Communication, Group Internal Audit, and Corporate Affairs.
The portfolio holder of Finance and Risk Management: directs the management of Group Finance, Group Tax, and Group Risk & Compliance, as well as taking functional responsibility for the CFROs of the business units.

Organization Chart
Executive Board APG



The portfolio holder of Asset Management: is responsible for the investments managed by APG and the translation of APG's strategy into the strategic principles and objectives for APG Asset Management. The portfolio holder serves as CEO of APG Asset Management.
The portfolio holder of Pension Fund Services: is responsible for relationship management and account management for the entire pension administration, directing Fund Operations as a whole and providing an up-to-date IT infrastructure (for the pension funds).
The Portfolio holder of Participant and Employer Services: is responsible for commercial, marketing and communication with the employers and participants of our clients (pension funds), innovation, and ventures and technological developments, and directs 'Participant & Employer Services' and its underlying departments.
The Executive Board: has established committees of a functional nature, consisting of Councils and Boards. Councils serve to support and advise a member of the Executive Board in a specific area for which this member of the Executive Board is responsible. In 2018, these were the IT Council and the Strategic Client Council.
Boards: serve to support the execution of the Executive Board's tasks. In 2018, these were the Eco Board (for innovation), the Data Governance Board (for data management), and the Portfolio Board (for the use of scarce resources in initiatives for change at APG which contribute to APG's strategic objectives). The division of labor can be visualized as follows.

4.6 Supervisory Board

APG's Supervisory Board is charged with supervising the policy of the Executive Board and the performance of its duties, and supports the Executive Board by providing advice. In performing its duties, the Supervisory Board is guided by the interest of the company and its businesses.

The Supervisory Board focuses mainly on the corporate strategy, risk management and good governance, personnel developments, effective and efficient business operations, and the culture and performance of the Executive Board and the Supervisory Board.

Moreover, the Supervisory Board supervises the implementation of APG's general remuneration policy and makes proposals for adoption – via the company's general meeting – of the general remuneration policy that applies for members of the Executive Board as well as 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 addition, the Supervisory Board also plays a key role in the appointment and dismissal of Executive Board members and members of its own board. The formal authority to appoint and dismiss lies with the shareholders, but the Supervisory Board drafts the job profile, makes the selection, and prepares the appointments.

In mid-2018, Bart Le Blanc stepped down as chair of the Supervisory Board and gave up his membership of the board. Pieter Jongstra was appointed as acting chair. Jaap van Manen was appointed chair of the Supervisory Board effective January 1st, 2019. In 2018 the decision was made to reappoint Pieter Jongstra to the Supervisory Board for a new 4-year term effective February 4, 2019.

With the appointment of Pieter Jongstra as acting chair of the Supervisory Board, APG is now also in compliance with the best practice provision in the Corporate Governance Code which stipulates that the acting chair of the Supervisory Board cannot be a former director of the business and must be independent.

The regulation of the Supervisory Board describes the general tasks, the way meetings are conducted, the composition of the Supervisory Board, and its rotation schedule. A copy of the regulations has been published at www.apg.nl/en/who-is-apg/corporate-governance.

In 2018, the Supervisory Board of APG was made up of 33% women and 67% men. As such, the board had a balanced distribution between at least 30% women and at least 30% men in 2018, in line with the target figure from the Dutch Act on Balanced Allocation of Seats on the Executive Board and the Supervisory Board. This was due to the fact that the role of chair of the Supervisory Board had not been filled at year-end 2018. Jaap van Manen has now joined as chair. As a result, less than 30% of the Supervisory Board is made up of women in 2019. As of 2019, the distribution stands at 29% women and 71% men.

The Supervisory Board has three committees: the audit and risk committee, the remuneration and selection committee, and the governance committee. The 'Message from the Supervisory Board' contains more information about the composition of the board and the activities and meetings of the board's committees in 2018.

4.7 Shareholders

APG has two shareholders: Stichting Pensioenfonds ABP (92.16% of the shares) and Stichting SFB (7.84% of the shares). In 2018 we continued discussions with the shareholders about the recalibration of our strategy. During these discussions, we reached an agreement with the shareholders on a new strategic framework.

During the financial year, the shareholders were consulted mainly about impending appointments of members to the Executive and Supervisory Boards and the recalibration of APG's strategy.

In line with good corporate governance, the aim is to include shareholders in the system of checks and balances at APG on the one hand, and in long-term value creation on the other. The Supervisory Board's supervision of the Executive Board also includes supervision of the relationship with the shareholders.

4.8 Future

Until the year 2020, APG's focus will be on implementing the strategy; that is to say, maximizing pension value. In this context we concentrate on increasing the net return for our participants and reducing costs. We aim to realize an increased return by looking for new investment markets and opportunities. We will work to reduce the complexity of our operations to reduce costs. We want to accelerate these efforts in the coming year. Aside from that, we are working on the window to 2025 when 'APG is the natural choice to gain control of your financial future.'

After establishing Participant and Employer Services in 2018, we will increase our focus on further improving our services to participants and employers in 2019. Through our services, we want to help participants gain control of their financial future. Of course we will do this in close collaboration with the funds, our clients.

To be able to accelerate the realization of our strategic initiatives, our supply-driven IT organization must transform into a demand-driven one. This means the business will take the lead.

The transformation at APG, which has already been initiated, will be intensified in 2019, with specific attention to leadership and cooperation.

4.9 Word of thanks

The Executive Board is grateful for the efforts and commitment from the employees, the Works Council, the Supervisory Board, and the shareholders.

We would also like to thank our clients for the pleasant cooperation and their confidence in us.

Amsterdam, March 28, 2019

The Executive Board
Gerard van Olphen, chair
Annette Mosman
Francine Roelofsen-van Dierendonck
Wim Henk Steenpoorte
Ronald Wuijster

Table in the hall of APG, upon which children of employees shared their dreams and ideals about the future.
Together we build the future of the participants of the future.

Chapter 5

5 Message from the Supervisory Board

APG has made good progress in its transformation to an organization with an intense customer-focus. The strategy we have in place is a direct result of the recalibrated vision and has been endorsed by the shareholders. Our Executive Board is ready to implement this strategy in the organization, which means that the organization will increasingly sharpen its focus on its core activities.

At the time of writing, the cabinet and the social partners have not yet agreed on the reform of our pension system. For our pension fund clients' participants, this is not good news. They deserve a clear, specific, and future-proof pension system that meets the needs of our time. The sooner an agreement can be reached, the sooner APG will be able to provide the best possible service for participants, employers, and pension fund clients with increased focus.

Strategy focused on guiding role

'Building your sustainable future together' is the mission that underpins APG's strategy: maximizing pension value. APG wants to be a trusted guide for pension funds, employers, and participants. APG's long-term goal to maximize pension value contributes significantly to participant confidence. Participants are increasingly expected to make key financial decisions for the future on their own. They need to be equipped to do so: in terms of knowledge, but also in terms of willingness to take action. However, our pension system has become so complicated that is difficult to explain it to participants. Particularly when it comes to the lack of indexation and potential pension cuts. Sometimes people just don't understand it.

As a result, now more than ever they need an organization to provide insight and guide them through the complexities. This is a significant challenge for APG and the pension funds we work for, as well as for the pension sector in general. We continue to focus on supporting the Executive Board in its efforts to provide the pension funds and their participants with more insight into their income for later.

New composition of the Executive Board

Of the current five-person Executive Board, three members were appointed in the past year: Ronald Wuijster for Asset Management (reported in the 2017 annual report), Annette Mosman for Finance and Risk Management (reported in the 2017 annual report), and Francine Roelofsen-van Dierendonck for Participants en Employers Services. The latter portfolio is new to the Executive Board, fully focused on informing, advising, and supporting participants and employers and developing new products for them. This change reflects APG's transformation from an organization with great expertise to an organization that uses all of this expertise for the benefit of participants and takes its role as a guide to participants seriously. This team gives APG an Executive Board that is able to provide effective leadership in the organization's transformation to the APG of the future. As such, the Supervisory Board would like to express its confidence in this team. Cooperation between the Executive Board and the Supervisory Board was good in the past year. As was the relationship with APG's works council. Discussions are held in a constructive, honest, and open spirit.

In 2018, the Executive Board initiated a self-evaluation, supported by an external agency. This evaluation focuses on the performance of the Executive Board and the quality of their judgement and decision-making. It is expected to be concluded in early 2019.

Organization: focus on core business

With its new strategy, APG has also parted ways with subsidiaries that are no longer considered core business: Inovita (software supplier) and Inadmin (defined contribution pension administration) This will help the organization grow into the APG of the future. The proposed sale of insurance subsidiary Loyalis to insurance provider a.s.r. is also in line with this increased focus on APG's core business.

The organization and its employees have realized good development based on the new vision, strategy, and accompanying leadership profile in 2018. To fully utilize the potential of this vision and strategy, the organization must maintain this focus in 2019 and keep in close contact with the employees. To this end, in 2018 we measured employee satisfaction and employee engagement with the company strategy. The Supervisory Board will monitor things closely in the coming time to ensure that the aforementioned focus is retained, and will support the Executive Board with advice and assistance where needed.

Employeess

APG's employees are the engine driving APG's current transformation. And they can have maximum impact if every employee is constantly given the opportunity to work on his or her personal development. This way, APG can increase the quality of its services and the sustainable employability of its employees. The program to support this personal development, The Making of You, was expanded in 2018. The Making of You now offers more options. A growing number of employees have now completed the program, and a significant number have signed up to take part. We will continue to encourage the Executive Board to fully deploy The Making of You throughout the organization.

APG is an organization with a social perspective and a social role, which includes a professional asset management business. The job market for asset management in particular is international and competitive. As a result, the Supervisory Board focuses a lot of attention on a balanced and appropriate remuneration policy for the various groups of employees at APG. This will continue to take shape in 2019.

Good Corporate Governance

APG is the pension scheme administrator for 4.6 million participants. As such, the organization has a social role in the Netherlands. This makes good corporate governance even more important.

The Supervisory Board focuses mainly on the corporate strategy, risk management and good corporate governance, personnel developments, effective and efficient business operations, and the culture and performance of the Executive Board and the Supervisory Board. In this context the Supervisory Board aims to achieve the level demonstrated by best practices. After all, APG – on behalf of its pension fund clients – expects the same from the companies in which it invests.

Key themes discussed by the Supervisory Board in 2018 were the progress and realization of APG's strategy, the sale of Loyalis and other APG Group subsidiaries, the annual report, performance management, the business planning for 2019-2021, and the composition of the Executive Board and the Supervisory Board.

Relationship with the regulatory authorities

It has been declared that APG is subject to the regulatory framework Solvency II due to its insurance subsidiary Loyalis. APG's pension fund clients are also subject to supervision from De Nederlandsche Bank (the Dutch Central Bank or DNB) and the Autoriteit Financiële Markten (the Dutch Financial Markets Authority or AFM). As such, we have both direct and indirect supervision relationships with DNB and AFM.

The sale of Loyalis will create a new situation. The Supervisory Board wants work together with the Executive Board to engage with regulatory authorities about an effective and efficient framework for supervision that suits the new situation in a proactive and constructive manner.

Delegations from the Supervisory Board and the Executive Board have been in contact with the supervision teams of DNB and AFM several times during the year in the context of a transparent relationship.

The employees of APG are the driving force behind the change that APG is going through.

Organization and meetings of the Supervisory Board

As of July 22, 2018, Bart Le Blanc stepped down as chair of the Supervisory Board of APG Group and gave up his membership of this board. He had been a member of the Supervisory Board since 2014, and finished his term as scheduled. Bart Le Blanc remained a member of the Supervisory Board of APG Asset Management, and was installed as chair of that Board on July 22. We are very grateful to Bart. He is a knowledgeable and dedicated chair, who helped shape the reform that took place at APG in the past four years. Moreover, Bart was an important link in the relationship with shareholders and regulatory authorities. We are pleased that he will continue his work for APG in the capacity of chair of the Supervisory Board of APG Asset Management.

Bart's role as chair for APG Group was temporarily taken on by Pieter Jongstra. The Supervisory Board was pleased to be able to announce the appointment of Jaap van Manen as chair before the end of the year. He was installed effective January 1st, 2019. In the interim, the Supervisory Board consisted of six persons: Pieter Jongstra (acting chair), Dick van Well (acting vice-chair), Edith Snoeij, Maes van Lanschot, Claudia Zuiderwijk, and Roger van Boxtel. In 2018 Pieter Jongstra was reappointed to the Supervisory Board for a new four-year term effective February 4, 2019. We believe that all of the current members of the Supervisory Board are fully independent as defined in the Corporate Governance Code.

The Supervisory Board as a whole convened for a formal meeting seven times in the past year. In most cases, all members of the Supervisory Board and the Executive Board were present for these meetings. The meetings were held in Heerlen or Amsterdam. Below is a table showing the attendance rate of each member of the Supervisory Board for meetings of the Supervisory Board and its committees.

Attendance of Supervisory Board members	Supervisory Board	ARC	RemCo	GovCo
Bart Le Blanc*	4/4	nvt	4/5	nvt
Maes van Lanschot	8/8	6/8	nvt	nvt
Edith Snoeij	6/8	nvt	8/8	4/4
Pieter Jongstra	8/8	7/8	nvt	3/4
Claudia Zuiderwijk	7/8	8/8	8/8	nvt
Roger van Boxtel	5/8	nvt	nvt	3/4
Dick van Well**	5/8	2/3	6/8	nvt

* Member of the Supervisory Board until 7-22-2018

** Chair of ARC effective 7-22-2018

In addition to the regular meetings, the Supervisory Board – as a whole or in the form of a smaller delegation – met several times in 2018 to consult with Executive Board members and/or relevant APG employees about, among other things, the strategy and its implementation, the relationship with shareholders and regulatory authorities, the sale of Loyalis, the composition of the Executive Board and the Supervisory Board, and the governance of APG Group and APG Asset Management.

Furthermore, the Supervisory Board convened without the Executive Board or other APG employees on two occasions.

The Supervisory Board has three committees: the audit and risk committee, the remuneration and selection committee, and the corporate governance committee.

Audit and Risk Committee

This committee consists of Pieter Jongstra (chair until July 22, member thereafter), Maes van Lanschot, Claudia Zuiderwijk, and Dick van Well (acting chair from July 22 until December 31, 2018). The committee convened eight times in 2018, and most meetings were attended by all committee members. The committee shares its reports and key points of attention with the Supervisory Board. Among other things, it discussed performance management and ways to make the execution of the strategy measurable, legal & tax, APG's ICT management, the annual report, the risk management system and the internal control system, compliance. It also discussed quarterly reports on finances, risks, and internal audits, the business planning, the Group Risk & Compliance annual plan, the internal auditor's annual plan and the audit approach, recommendations and reports from the external auditor, including the management letter and the audit report. The chair of the Audit and Risk Committee regularly meets with the portfolio holder of Finance and Risk Management individually.

Meetings of the Audit and Risk Committee are attended by the portfolio holder of Finance and Risk Management of the Executive Board, the external and internal auditors, and the directors of Group Risk & Compliance and Group Finance. In 2018 the Audit and Risk Committee held two separate meetings with the external auditor and two with the internal auditor. These meetings were not attended by the members of the Executive Board.

Remuneration and Selection Committee

This committee consists of Edith Snoeij (chair), Claudia Zuiderwijk, and Dick van Well. Bart Le Blanc was a member of this committee until July 22, 2018. The committee shares its reports and key points of attention with the Supervisory Board. In 2018 this committee met eight times and had several further meetings about the composition of the Executive Board and the recruitment of the new member of the Executive Board and the chair of the Supervisory Board.

Key issues in the meetings of the Remuneration and Selection Committee were the remuneration of the Executive Board, the remuneration policy of the Executive Board and the Supervisory Board, the succession planning of the Executive Board and Supervisory Board, the outcomes of the employee engagement survey, and the progress and development of The Making of You.

Corporate Governance Committee

This committee consists of Edith Snoeij (chair from July 22, 2018, member before that date), Pieter Jongstra (chair until July 22, 2018, member thereafter), and Roger van Boxtel. The committee met four times in 2018. The committee's reports and key points of attention have been shared with the Supervisory Board.

The committee mainly focuses on advising about compliance with national and international guidelines and practices for good governance, compliance with internal documents on good governance (regulations, agreements with shareholders, etc.), the evaluation and self-evaluation of the Supervisory Board, permanent education of the Supervisory Board, and reporting to and relationships with regulatory authorities.

Key topics in the Governance Committee meetings in 2018 were the relationship with regulatory authorities, evaluation of the governance structure of APG and APG Asset Management, the corporate insurance policies (to cover the liability of members of the Executive and Supervisory Boards), and APG's supervisory regime.

Supervision of APG Asset Management and Loyalis

APG Asset Management and Loyalis each operate under a separate license from AFM and DNB, respectively. APG Asset Management and Loyalis both have Supervisory Boards. Maes van Lanschot is also on the Supervisory Board of APG Asset Management. Observations relating to APG Asset Management and Loyalis are reported in the Supervisory Board of APG Group on a regular basis.

Evaluation and permanent education

In 2018, there was one educational session for the Supervisory Board. It dealt with the following topics: Supervisory regime of APG Group and regulatory supervision and Expanding on the characteristics of the leadership profile. Furthermore, external and internal speakers informed the members of the Supervisory Board of – among other things – trends in boardroom dynamics, legislation for financial supervision, integrity and corporate ethics, cyber-crime, risk management, asset management, participant communication and innovation, and leadership.

The Supervisory Board discussed its own performance on a number of occasions. Among other matters, it touched on the follow-up of the external evaluation from 2016, the cooperation with the Executive Board, and the composition of the Supervisory Board in relation to the future needs of APG and its stakeholders. From these discussions, the Supervisory Board concluded that it would like to continue in its current composition. A full external evaluation of the Supervisory Board is scheduled to take place in 2019.

The Supervisory Board continuously evaluates its meetings and committee meetings by evaluating the proceedings of each meeting together and with the Executive Board after each meeting or committee meeting. Notes are taken at each evaluation, and any conclusions and action points are followed up after each meeting or committee meeting.

Annual report en financial statements 2018

The Supervisory Board approves the annual report from the Executive Board and the 2018 financial statements, as well as the auditor's report. The Supervisory Board proposes to the shareholders that they adopt this report and the annual figures, and approve the dividend proposed.

Amsterdam, March 28, 2019

The Supervisory Board
Jaap van Manen, chair
Pieter Jongstra, vice-chair
Roger van Boxtel
Maes van Lanschot
Edith Snoeij
Dick van Well
Claudia Zuiderwijk

Chapter 6

6.1

Consolidated balance sheet as at December 31, 2018

Before profit appropriation In thousands of euros

Assets	12-31-2018	12-31-2017
Fixed assets		
Intangible fixed assets (1)	251,832	301,733
Tangible fixed assets (2)	21,948	22,369
Financial fixed assets (3)	128,612	152,563
	402,392	476,665
Investments insurance business (4)	3,192,073	3,146,229
Current assets		
Receivables, prepayments, and accrued income (5)	300,529	283,459
Receivables from reinsurance (6)	60,442	42,590
Cash (7)	458,510	621,653
	819,481	947,702
Total assets	4,413,946	4,570,596

Liabilities	12-31-2018	12-31-2017
Group equity (8)		
Equity capital	1,090,283	1,186,742
	1,090,283	1,186,742
Provisions		
Insurance liabilities (9)	2,857,863	2,918,888
Deferred taxes (10)	1,700	1,589
Other provisions (11)	75,832	87,609
	2,935,395	3,008,086
Long-term liabilities (12)	10,911	10,911
Current liabilities and accrued liabilities (13)	377,357	364,857
Total liabilities	4,413,946	4,570,596

6.2

Consolidated profit and loss account for 2018

In thousands of euros

	2018	2017
Net turnover		
Insurance premiums (14)	268,827	254,437
Investment results (15)	46,079	78,857
Management fees (16)	684,404	683,801
Other operating income (17)	36,990	34,988
Total operating income	1,036,300	1,052,083
Change in provision for insurance liabilities (18)	-75,483	-88,693
Payments (19)	271,479	261,395
Costs of outsourced work and other external costs (20)	140,425	149,469
Personnel costs (21)	389,683	382,310
Amortization and depreciation on intangible and tangible fixed assets (22)	59,983	90,114
Other changes in value in intangible and tangible fixed assets (23)	–	74,875
Other operating expenses (24)	151,121	131,692
Total operating expenses	937,208	1,001,162
Operating result	99,092	50,921
Interest income and similar yield (25)	–	130
Interest charges and similar expenses (26)	3,205	3,030
Result before taxes	95,887	48,021
Taxes (27)	-46,492	1,043
Result from participations (28)	-1,518	-1,785
Group result after taxes	47,877	47,279

6.3

Consolidated cash flow statement for 2018

In thousands of euros

	2018	2017
Cash flow from operating activities		
Operating result	99,092	50,921
Adjustments for:		
• Amortization and depreciation on intangible and tangible fixed assets (22)	59,983	90,114
• Other value impairments in intangible and tangible fixed assets (23)	–	74,875
• Net investments for commercial purposes for own account (4)	-56,953	13,321
• Net investments for commercial purposes at the risk of policy holders without guarantee (4)	11,110	-3,119
• Changes in working capital:		
- Increase in receivables and accrued income (5)	-17,070	5,943
- Increase in receivables from reinsurance (6)	-17,852	-6,791
- Increase in current liabilities and accrued liabilities, corrected for corporate income tax (13)	15,296	-34,569
• Change in gross insurance liabilities for own account (9)	-46,298	-89,156
• Change in insurance liabilities for policyholders' risk without guarantee (9)	-14,727	8,109
• Change in other provisions (11)	-11,777	-16,351
Cash flow from business operations	*20,804*	*93,297*
Interest received	112	165
Interest paid	-3,205	-3,030
Corporate income tax paid	-34,901	-52,513
Cash flow from operating activities	-17,190	37,919
Cash flow from investment activities		
Investments in fixed assets	-4,553	-11,725
Expenditure in connection with capital contributions to non-consolidated participating interest	-300	–
Cash flow from investment activities	-4,853	-11,725
Cash flow from financing activities		
Dividends paid	-145,000	-88,000
Dividend received	4,000	–
Cash flow from financing activities	-141,000	-88,000
Net cash flow	-163,043	-61,806
Share price differences and exchange differences on cash	-100	259
Change in cash	-163,143	-61,547
Opening balance of cash (7)	621,653	683,200
Closing balance of cash (7)	458,510	621,653
Change in cash	-163,143	-61,547

6.4

Accounting policies

Introduction

Activities

As a financial service provider, APG Groep NV (APG Group) provides management advice, asset management, pension administration, pension communication and employer services. Furthermore, in the pension market, income supplements are offered to individuals.

Group relationships

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 2018, 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 100.

APG Group has two shareholders: Stichting Pensioenfonds ABP (APB) for 92.16 percent and Stichting Sociaal Fonds Bouwnijverheid (Stichting SFB) for 7.84 percent.

Continuity

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

Sale of participating interest Loyalis

In 2017 APG Group started a strategic reorientation regarding the position of its insurance subsidiary Loyalis within APG Group. Following this, in mid 2018 the decision was made to sell it. In late 2018, APG Group signed an agreement with the buyer, a.s.r. The agreed sale price is €450 million. The agreement stipulates certain conditions precedent, including approval from De Nederlandsche Bank (the Dutch Central Bank, hereafter DNB) in the form of a No Objection Statement. A.s.r. has submitted the request for approval to DNB. Loyalis will be included in the consolidation up to the moment its shares are transferred to a.s.r. The sale and termination of decisive influence on policy are expected to be completed in 2019.

The carrying amount of Loyalis' assets and liabilities as at the balance sheet date are €3,434.9 million and €2,988.3 million, respectively. The income, expenses, and results from ordinary business operations as well as the relevant taxes that can be attributed to Loyalis are included in the notes on pages 89 and 90.

General

The financial statements pertain to the 2018 financial year ending on the balance sheet date of December 31, 2018 and have been prepared on the basis of generally accepted financial reporting policies in the Netherlands and the statutory provisions concerning financial statements contained in Title 9, Book 2 of the Dutch Civil Code. Article 2:402 of the Dutch Civil Code was applied for the format of the company profit and loss account. Consequently, it is sufficient to report the result from participations and the other result after deduction of taxes as an individual item on the company profit and loss account. 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 true 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 paragraph. It may subsequently transpire that the reported amounts differ from the actual amounts. 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 relevant part of the item in the financial statements.

Accounting policies for consolidation

In the consolidated financial statements, equity investments in entities where APG Group can exercise control over management decisions and financial policy are fully consolidated. Intercompany transactions and mutual financial obligations are eliminated. The results and identifiable assets and liabilities of newly acquired entities are included in the consolidated financial statements from the date of acquisition. The date of acquisition is the point in time when dominant control can be exercised within the relevant entity. The entities included in the consolidation continue to be consolidated until the moment they are sold. Deconsolidation takes place at the moment decisive control is transferred. In that case, the relevant company is recorded as a financial fixed asset.

A list of consolidated entities is included as part of the notes to the company financial statements. Joint ventures are not consolidated, but are included under the financial fixed assets. The accounting policies of group companies are adjusted as necessary to ensure they are in line 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. 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 association and other key officers in the management of APG Group are also designated as related parties.

Recognition

An asset or liability is recognized on the balance sheet from the moment contractual rights or liabilities arise with regard to that instrument. An asset is recognized on the balance sheet when it is probable that the future economic benefits of the asset will flow to the company and the amount of the asset can be measured reliably. A liability is recognized on the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of this liability and the amount at which the settlement will take place can be measured reliably.

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

Income is recognized in the profit and loss account when an increase in future economic benefits related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably.

Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into the functional currency at the rates prevailing on the balance sheet date. The exchange rate differences arising from settlement and conversion are credited or debited to the profit and loss account, unless hedge accounting is applied. Non-monetary assets that are carried at acquisition price in a foreign currency are converted at the exchange rate prevailing 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 prevailing 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.

Financial instruments

Financial instruments include investments in equities and bonds, trade and other receivables, cash, loans and other financing liabilities, derivative financial instruments (derivatives), trade payables and other payable items.

The following categories of financial instruments are included in the financial statements: real assets, fixed-income investments, other investments, other financial liabilities, and derivatives.

Financial assets and financial liabilities are recognized on the balance sheet from the moment contractual rights or liabilities arise with regard to that instrument. A financial instrument is no longer recognized on the balance sheet if a transaction results in the transfer of all or virtually all rights to economic benefits or risks in relation to the position to a third party. Financial instruments (and separate components of financial statements) are presented in the consolidated financial statements in accordance with the economic reality of the contractual provisions. Presentation is based on separate components of financial instruments as financial assets, financial liabilities, or equity capital. Financial and non-financial contracts may contain agreements that qualify as derivatives. Such agreements are separated from the basic contract and recognized as derivatives if their economic characteristics and risks are not closely related to the economic characteristics and risks of the basic contract, a separate instrument with the same terms would qualify as a derivative, and the combined instrument is not valued at fair value with recognition of changes of the value in the profit and loss account.

Financial instruments that are not separated from the contracts in which they are incorporated, are recognized in line with the basic contract.

Derivatives that have been separated from the basic contract will be recognized in line with the accounting policy for derivatives to which cost price hedge accounting is not applied, are stated at cost or fair value, whichever is lower.

Derivative financial instruments and hedge accounting

Derivative financial instruments are stated at cost or market value, whichever is lower, unless hedge accounting is applied. APG Group has taken out FX forwards to hedge the currency risk of its foreign subsidiaries' expected future outgoing cash flows in foreign currencies. These FX forwards are stated at cost, using the hedge accounting method. 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. Any ineffective component of the hedge relationship (the loss) is recognized in the profit and loss account. Internal derivatives based on back-to-back agreements between APG Group and APG Asset Management are recognized in APG Group's company financial statements on the basis of cost price or market value, whichever is lower.

Valuation differences that arise in the valuation of the FX forwards 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, provided the hedge is effective. The ineffective component will be 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 offsetting 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 will conduct a quantitative effectiveness assessment at each formal reporting moment as well as upon inception of the hedge relationship, as a minimum.

Hedge accounting

When using cost price hedge accounting, the first valuation and the basis for recognizing the hedge instrument on the balance sheet and determining its result depends on the hedged position. If the hedged position is recognized on the balance sheet at cost price, the derivative is also carried at cost price.

If derivative instruments expire or are sold, the cumulative profit or loss until that point, which had not yet been recognized in the profit and loss account, will be included on the balance sheet as an accrued item until the hedged transactions take place. If the transactions are no longer expected to take place at all, the cumulative profit or loss will be transferred to 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 offsetting 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 will conduct a quantitative effectiveness assessment at each formal reporting moment as well as upon inception of the hedge relationship, as a minimum.

Risk paragraph

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

Solvency II states the risks for the insurer and plays an important role in the risk policy of the insurance business. The financial risks based on the standard model of the Solvency II framework, to the extent that they are material, are explained individually below. The following categories are considered significant financial risks:

- actuarial and insurance risks;
- market risk.

Actuarial and insurance risks

The insurance risk is the risk that future payments and costs cannot be covered by contributions, investment yields, and available provisions. The key risks for the insurance business are the longevity risk (for annuity policies), the incapacity risk (for occupational disability policies), the contribution and loss provision risk, the risk of surrender, and the cost risk.

A liability adequacy test (LAT) is mandatory to assess the valuation. The LAT involves making a comparison between the balance sheet provision and the market value provision, whereby the latter is equated with the technical provisions (consisting of the best estimate and the risk margin) under Solvency II. At year-end 2018, the difference between the two, the ‘excess value,’ was 72 million for the life business and 155 million for the non-life business.

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

	Life 2018	Life 2017	Non-life 2018	Non-life 2017
• Impact of a 20% drop in mortality rates / increase to longevity risk	-50.9	-50.4	-6.7	-6.0
• Impact of a rise in occupational disability rates of 35% (first year) / 25% (permanent)	n/a	n/a.	-123.4	-104.3
• Contributions and loss provision risk	n/a	n/a	-79.4	-88.4
• Impact of 40% mass surrender shock	-32.0	-53.8	-17.6	-19.4
• 10% cost increase and 1 percentage point cost inflation	-29.3	-34.1	-8.6	-8.5

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

The **longevity risk** is the probability of a loss due to the fact that insured individuals receiving periodic (temporary or lifelong) payments receive those payments 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 mortality rates.

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

The life insurance business does not offer any products with additional occupational disability coverage and consequently has no sensitivity to incapacity risk.

The occupational disability risk is most important risk for the non-life insurance business. This is the risk of losses resulting from differences between the actual and assumed occupational disability, and the actual and assumed trend in expectations concerning incapacity. Moreover, unemployment risk plays an important role for occupational disability insurance policies with partial cover. There is no separate shock available for this in the SII standard model. The unemployment risk is part of the **contributions and loss provision risk**.

The **risk of surrender** (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. However, surrender also means there is less future cost coverage and less result on mortality.

The risk of unnatural decrease in the life insurance portfolio is mainly a factor for the NPAP portfolio. The decrease in the impact on the excess value at the life insurance business for 2018 compared to 2017 (see Table 1) predominantly results from the rationalization of the NP product which was implemented in 2017 and 2018.

From 2016, a contribution provision for occupational disability policies was added. This has resulted in a surrender shock for the non-life business.

The **cost 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 costs incurred in performing insurance contracts. This gives rise to the risk that the future continuous costs will be higher than the bases used to determine the best estimate of the technical provisions, while the cost markup included in the contributions cannot be increased. The sensitivity to cost risk is measured in line with the specifications of the Solvency II standard formula.

Interest rate risk

The interest rate risk is the risk that the value of a financial instrument may fluctuate due to changes of the market rate. The insurance business runs an interest rate risk on both the asset and the liability side of the balance sheet. On the asset side, the insurance business has fixed-rate investments that change with the interest rate. On the liability side, liabilities are discounted using the risk-free interest rate: the DNB interest rate term structure excluding the Ultimate Forward Rate (UFR).

Interest rate risk arises due to a different level of sensitivity to interest rates between the investments and the liabilities. The insurance business considers interest rate risk undesirable. As such, the interest rate policy is based on immunization of the interest rate risk using swaps. In immunization, swaps are purchased in such a way that the interest rate sensitivity of the fixed-rate 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 interest rate fluctuations (non-parallel shifts on the interest rate curve). The so-called hedge ratio for the insurance business as a whole is 100.03%. (2017: 98%).

Table 2: Impact of a 1 percentage point market rate fluctuation on the result before taxes
(in millions of euros)

	Decrease 1%-point market rate 2018	Increase 1%-point market rate 2018	Decrease 1%-point market rate 2017	Increase 1%-point market rate 2017
Life				
• investments	75.1	-75.1	73.1	-73.1
• liabilities	-130.1	130.1	-132.7	132.7
• interest rate swaps	56.7	-56.7	58.5	-58.5
Impact on result	1.7	-1.7	-1.1	1.1
Non-life				
• investments	56.8	-56.8	51.3	-51.3
• liabilities	-60.1	60.1	-55.2	55.2
• interest rate swaps	1.7	-1.7	2.1	-2.1
Impact on result	-1.6	1.6	-1.8	1.8

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

	Fair value 2018	Underlying value 2018	Fair value 2017	Underlying value 2017
Futures	-2.1	-408.9	2.8	-352.9
Forwards	0.0	-3.9	0.2	-30.3
Swaps	15.6	428.5	6.4	363.5
Total	13.5		9.4	

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

The swap portfolio is used to bring the interest rate sensitivity of the investments into line with the interest rate sensitivity of the liabilities. This hedges the majority of the interest rate risk. The remaining interest rate risk is considered acceptable by the insurance business. The swap portfolio is constantly monitored and adjusted if necessary. The outstanding interest rate risk is reported in the monthly risk report. For the sake of efficient portfolio management, the asset managers mainly use futures and swaps, within risk frameworks. The decrease of the swap rate (-8 bps on the 10-year rate) caused a rise in the interest swaps market value in 2018. The notional of the interest rate swaps was increased, while the notional of the interest rate futures was decreased. This shift took place in the fixed-income portfolio. In doing so, the manager decreased the portfolio's sensitivity to fluctuations of the swap rate. The market value of the opposite future position decreased in 2018 because German treasury yields, like the swap rate, dropped (-6 bps on the 10-year yields).

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 in listed equities for its own account and risk because the accompanying volatility is no longer in line with its desired risk profile. It does still invest in listed equities for the risk and account of its clients, because they can be part of the investment mix the client has selected.

At year-end 2018, the insurance business has a non-listed (private equity) portfolio for its own account and risk of €5.8 million (2017: €9.5 million). The decrease compared to last year is due to the sale of companies or stakes in companies, the proceeds of which were paid out to the insurance business, as well as to an increase in the value of the remaining portfolio. The impact of a private equity price drop of 42.7% (2017: -50.9%) - the current Solvency II shock - would result in a decrease in value of €2.5 million (2017: €-4.8 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 through a limited number of unlisted companies.

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

	2018	2017
Residential property	123.0	132.5
Infrastructure	3.1	35.5
Total real estate	**126.1**	**168.0**

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

	2018 Total	2018 Total in %	2017 Total	2017 Total in %
Residential property	-37.2	-30.2%	-39.9	-30.1%
Infrastructure	-0.8	-25.1%	-11.2	-31.5%
Total real estate	**-38.0**	**-30.1%**	**-51.1**	**-30.4%**

It also invests in infrastructure through an unlisted external investment vehicle. The total stake was reduced as a result of the sale of infrastructure and residential real estate.

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. Infrastructure has been shocked by 30% and corrected for an anti-cyclical markup or markdown (2018 -4.9%; 2017 +1.5%) since 2015.

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

Spread risk

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

The fixed income portfolio is widely diversified across debtors, securities, and regions. However, European banks and financial institutions are heavily represented. Almost all of these investments (99.2%) are in investment-grade debtors. The market value of the total portfolio is €2.2 billion (2017: €2.0 billion).

In terms of rating (using the ratings provided by S&P and Moody's), the creditworthiness of 86% of the fixed income portfolio is rated A or higher (2017: 85%).

The fixed income portfolio is mainly invested in Europe. More than 96% of the government portfolio is invested in government bonds of countries with a high creditworthiness. The portfolio does not contain treasuries from Italy, Greece, or Portugal. The exposure to treasuries from Spain and Ireland amounts to €31 million (2017: €42 million).

The sensitivity to the spread risk, measured according to Solvency II, increased on balance in 2018 (-€83 million; -3.8%) compared to 2017 (-€81 million; -4.0%) as the result of portfolio growth.

6.5 Accounting policies for valuation of assets and liabilities

Fixed assets

Intangible fixed assets (1)

The intangible fixed assets are carried at acquisition price or at manufacturing cost, net of straight-line amortization. The amortization term is based on the expected economic life. On every balance sheet date, an assessment is carried out to determine whether there is any indication that a fixed asset may be subject to an impairment. If there are indications that the recoverable value (in terms of the higher of value in use or realizable value) is lower than the book value, an impairment is recognized chargeable to the profit and loss account and this is explained in the notes. The reversal of earlier impairments is also recognized via the profit and loss account. An impairment loss for goodwill is not reversed in a subsequent period.

In the event of acquisition of a company, all identifiable assets and liabilities of the acquired company are recognized in the balance sheet at their fair value on the date of acquisition, 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 has been agreed for the acquisition of the acquired company. Goodwill arising on acquisition is measured on initial recognition as the difference between the acquisition price and (its share in) the fair value of the identifiable assets and liabilities.

Research costs are recognized in the profit and loss account. Expenses for development projects are capitalized as part of the manufacturing cost if it is likely that the project will be commercially and technically successful (i.e. if it is likely 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 useful economic life of the asset.

Tangible fixed assets (2)

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

Financial fixed assets (3)

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

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

Deferred tax assets, including receivables arising from loss compensation, are recognized on the balance sheet to the extent it is likely that there will be future fiscal gains against which temporary differences and non-compensated fiscal losses can be offset. Calculation takes account of tax rates applicable in future years that have already been enacted. Recognition is at face value. If the deferred tax asset is of a short-term nature, it is included under receivables, prepayments, and accrued income.

On every balance sheet date, an assessment is carried out 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 will remain lower 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 divided into the following three categories:

- Real assets
- Fixed-income securities
- Other investments

Valuation of real assets

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

For unlisted investments (real estate investments, for example), 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 unobservable market variables for the asset. Unobservable input variables can be used if observable input variables are unavailable. This allows the fair value to be determined on the reporting date despite the absence of observable variables in situations in which there is no or virtually no active market for the asset or liability. In this case, the valuation is based on the best estimate by management, which would use the market to determine the value of a financial instrument.

Valuation of fixed-income securities

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

For unlisted and inactive fixed-income securities, observable market data is used (level 2). Fair value measured at level 2 uses observable inputs other than listed prices included in level 1 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 recent 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 carried at fair value on the initial recognition. After the initial recognition, they are carried at amortized cost. This value usually corresponds to the face value less any provisions deemed necessary for bad debts.

Receivables from reinsurance (6)

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

Cash (7)

Cash is carried at face value.

Group equity (8)

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

Provisions

Insurance liabilities (9)

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

Life insurance liabilities

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

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

Periodic benefits already in payment and deferred

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

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

The resulting cash flows are then converted to present value using a current risk-free yield curve; this is based on the DNB interest term structure excluding the UFR.

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

Unit-linked insurance

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

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

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

Other

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

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

Non-life insurance liabilities

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

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

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

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

Provision for periodic benefits

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

IBNR provision

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

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

Deferred taxes (10)

The provision for deferred taxes includes the deferred tax liabilities resulting from (temporary) differences between commercial and fiscal assets. The calculation takes into account rates that apply for coming years, if these have already been set. Recognition is at face value. If 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, if they are long term, at the present value of the expected future expenses. The discount rate used is based on the year-end interest rate for investment-grade Dutch corporate bonds, taking into account the remaining duration of the provisions.

Personnel-related provisions

Personnel-related provisions, including the restructuring provision, where they are long-term, are valued at the present value of the expected future expenses, taking into account the relevant actuarial assumptions. 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 expected expenditure required to settle the liabilities and losses.

Other personnel-related provisions

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

Other provisions

The other long-term provisions, including the provision for the separation of the administrative organization and the provision for major maintenance, are included at present value. The discount rate used is based on the year-end interest rate for investment-grade Dutch corporate bonds, taking into account the remaining duration of the provisions. Short-term provisions are created on the basis of the face value of the expected expenditure required 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)

Long-term liabilities are carried at fair value on the initial recognition. After the initial recognition, long-term liabilities are carried at amortized cost. This value usually corresponds to the face value.

Current liabilities and accrued liabilities (13)

Current liabilities and accrued liabilities are carried at fair value on the initial recognition. After the initial recognition, current and accrued liabilities are carried at amortized cost. This value usually corresponds to the face value.

6.6 Accounting policies for determination of results

General

Items in the profit and loss account are largely a function of the accounting policies in respect of the investments and the provisions for insurance liabilities applied in the preparation of the balance sheet. Both realized and unrealized results are accounted for directly in the result.

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

Net turnover

Insurance premiums (14)

The insurance premiums are the premiums and single premiums relating to the financial year, including the addition to the provision for indexation granted on benefits based on the policy terms and conditions.

All premiums attributable to the financial year are recognized, except the premiums for surviving dependents' pension (ANW) and term life insurance. The ANW and term life insurance premiums received in advance are added to the provision for unearned premiums. Reinsurance concerns the term life portfolio and the Disability Pension Supplement Plan and amounts to a percentage of the benefits.

Investment results (15)

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

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

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

Management fees (16)

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

Other operating income (17)

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

Operating expenses

Provision for insurance liabilities (18)

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

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

Payment (19)

Payments are attributed to the period to which they relate.

Personnel costs (21)

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

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

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

Interest income and similar yield (25)
Interest income and similar yields are attributed to the reporting year, taking into account the effective interest rate of the relevant assets where necessary. 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 expenses (26)
Interest charges and similar expenses are attributed to the reporting year, taking into account the effective interest rate of the relevant liabilities where necessary.

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

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

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

Leasing
Lease contracts whose economic benefits and disadvantages are not for the account and risk of the company are classified and reported as operational leases. The lease obligations are recognized in the profit and loss account over the contractual lease period on a straight-line basis, taking into account any reimbursements received from the lessor..

Accounting policies for the cash flow statement

The cash flow statement was drafted using the indirect method and provides insight into the changes to the balance sheet item of cash. Cash flows in foreign currency are converted at the average exchange rate.

Notes to the consolidated balance sheet

In thousands of euros

Fixed assets

Intangible fixed assets (1)

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

The movement in these items is as follows.

	Goodwill	Cliënt contracts	Insurance portfolio	Software	Total 2018	Total 2017
Opening balance	125,648	163,722	2,961	9,402	301,733	453,950
Investments	2,225	–	–	2,680	4,905	5,176
Divestments	-444	–	–	-1,777	-2,221	–
Amortization	-13,392	-32,555	-2,961	-3,677	-52,585	-82,737
Decreases in value	–	–	–	–	–	-74,656
Closing balance	**114,037**	**131,167**	**-**	**6,628**	**251,832**	301,733
Cumulative purchase value	260,234	488,326	-	57,114	805,674	1,196,826
Cumulative amortization and decreases in value	-146,197	-357,159	–	-50,486	-553,842	-895,093
Book value	**114,037**	**131,167**	**-**	**6,628**	**251,832**	301,733
Amortization rates	5-10 %	5-10 %	10 %	20-25 %		

The economic life of the intangible fixed assets, with the exception of purchased software, is based on the period over which future economic benefits from underlying contract agreements with a long term are derived. Of the goodwill recognized at year-end 2018, €114.0 million has a remaining economic life of approximately ten years (2017: €125.6 million). Of the client contracts recognized at year-end 2018, €131.2 million has a remaining economic life of approximately five years (2017: €163.7 million).

The price reductions implemented for the benefit of our participants resulted in a long-term decrease in the value of the goodwill and client contracts by €74.6 million in 2017. This decrease in value is based on APG Rechtenbeheer N.V.'s assessment of the recoverable value (made up of the value in use of the goodwill and the client contracts). In 2017, it was estimated at €77.0 million, lower than the book value at year-end 2017. The estimate of the recoverable value at year-end 2017 took into account a 7.5% discount rate. The cash flow prognoses are based on the management's future market expectations.

At year-end 2018, the management has no indication that these assets are subject to impairments.

The investment in 2018 concerns €2.2 million of goodwill created upon the purchase of Entis BV by Entis Holding BV, and will be subject to straight-line amortization over the course of 10 years.

Software includes intangible fixed assets that have already been fully amortized but 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. Furthermore, there are no liabilities due to the acquisition of intangible fixed assets.

Tangible fixed assets (2)

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

The movement in this item is as follows.

	Furniture and fittings	Data processing equipment	Other	Total 2018	Total 2017
Opening balance	6,821	12,662	2,886	22,369	23,579
Investments	731	5,786	1,039	7,556	8,035
Divestments	-2	-268	–	-270	-1,023
Depreciation	-1,321	-5,535	-542	-7,398	-7,377
Changes in value	–	–	–	–	-219
Other movements	-200	-150	41	-309	-626
Closing balance	**6,029**	**12,495**	**3,424**	**21,948**	22,369
Cumulative purchase value	28,147	54,901	8,186	91,234	86,473
Cumulative depreciation and decreases in value	-22,118	-42,406	-4,762	-69,286	-64,104
Book value	**6,029**	**12,495**	**3,424**	**21,948**	22,369
Depreciation rates	<20 %	20-25 %	10 %		

The item ‘other’ includes leasehold renovations, among other things. No security has been provided.

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 has been included as part of the notes to the company financial statements on page 93.

The movement in these items is as follows.

	Deferred tax assets	Loans	Participating interests	Other	Total 2018	Total 2017
Opening balance	143,818	2,920	2,215	3,610	152,563	148,577
Purchases and benefits/allocations	2,306	1,735	300	1,206	5,547	3,689
Sales and repayments	-694	–	–	-667	-1.361	-1.799
Result from participation	–	–	-809	–	-809	-1.785
Changes in value	-22,287	–	–	-264	-22,551	351
Other movements	-4,427	-43	–	-307	-4,777	3,530
Closing balance	**118,716**	**4,612**	**1,706**	**3,578**	**128,612**	152,563

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

The deferred tax asset mainly relates to temporary differences between the commercial and fiscal valuation of the goodwill created as a result of the detaxation in 2008 (and agreed on with the Tax and Customs Administration), and of the investments and insurance liabilities of the insurance business. The change in value in 2018 relates to a write-off of the deferred tax asset due to the decrease of the corporate tax rate, as included in the Taxation Plan 2019.

A deferred tax asset or liability is formed for any temporary differences in value on the balance sheet date. In case of a deferred tax asset, this asset will be included insofar as any tax losses that may accompany an increase of the differences on which the asset is based can be expected to be offset by positive results within the applicable time frames.

Investments insurance business (4)

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

Fair value hierarchy

Investments are carried at fair value. They are categorized based on the following hierarchy.

Published prices in active markets (level 1)

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

Investments that belong to this category are:

1. Fixed-income securities
2. Listed investment funds
3. Futures

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

Fair value measured at level 2 uses observable inputs other than listed prices included in level 1 for the asset or liability, either directly or indirectly. Level 2 involves the following input variables:

- Listed prices for similar (not identical) assets or liabilities in active markets;
- Input variables other than listed prices observable for the asset, mainly based on income, yield curves, and observable market data. Input variables arising mainly from or confirmed by observable market data by correlation or other means (market-confirmed inputs).

Investments that belong to this category are:

1. Interest rate swaps
2. FX forwards

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

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

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

Fair value measured at level 3 uses unobservable market variables for the asset. Unobservable input variables can be used if observable input variables are unavailable. This allows the fair value to be determined on the reporting date despite the absence of observable variables in situations in which there is no or virtually no active market for the asset or liability. In this case, the valuation is based on the best estimate by management, which would use the market to determine the value of a financial instrument. Examples are certain private equity investments and private placements.

Investments that belong to this category are:

1. Private equity
2. Unlisted investment funds (real estate, infrastructure, mortgages, and direct lending contracts).

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

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

Market values	Level 1 2018	Level 1 2017	Level 2 2018	Level 2 2017	Level 3 2018	Level 3 2017	Total 2018	Total 2017
Real assets	120,316	137,403	-	-	160,802	164,247	281,118	301,650
Fixed Income	2,511,665	2,450,979	-	-	298,463	285,691	2,810,128	2,736,670
Other	-2,054	2,834	15,643	6,595	78,354	90,167	91,943	99,596
Total investment portfolio	**2,629,927**	2,591,216	**15,643**	6,595	**537,619**	540,105	**3,183,189**	3,137,916

The table above shows the total investment portfolio including derivatives with a negative value which are stated under the other investments (2018: €8.9 million; 2017: € 8.3 million).

The movements in the investments of the insurance company were as follows:

	Real assets	Fixed-income securities	Other investments	Total 2018	Total 2017
For own account					
Opening balance	177,131	2,336,628	11,627	2,525,386	2,538,713
Reclassification	319	-19	-303	-3	–
Purchases and sales	-82,047	116,630	1,871	36,454	-5,724
Change in value	36,589	11,070	2,545	50,204	-7,603
Closing balance	131,992	2,464,309	15,740	2,612,041	2,525,386
Derivatives with negative value	-	-	8,865	8,865	8,309
Net position of investments	131,992	2,464,309	24,605	2,620,906	2,533,695
For policyholders' risk with guarantee					
Opening balance	33,784	251,445	24,443	309,672	312,539
Reclassification	3,579	–	-3,579	–	–
Purchases and sales	-6,277	-19,572	-816	-26,665	-10,239
Change in value	-1,029	-2,257	-320	-3,606	7,372
Closing balance	30,057	229,616	19,728	279,401	309,672
Derivatives with negative value	-	-	16	16	2
Net position of investments	30,057	229,616	19,744	279,417	309,674
For policyholders' risk without guarantee					
Opening balance	90,736	148,598	63,525	302,859	299,420
Reclassification	9,304	-1	-9,300	3	–
Purchases and sales	19,464	-33,356	3,296	-10,596	-14,700
Change in value	-434	961	-1.046	-519	18,139
Closing balance	119,070	116,202	56,475	291,747	302,859
Derivatives with negative value	-	-	3	3	1
Net position of investments	119,070	116,202	56,478	291,750	302,860
Total investment portfolio	–	–	–	3,192,073	3,146,229
Of the closing balance:					
Listed	–	–	–	2,633,193	2,599,530
Unlisted	-	-	-	588,880	546,699

Current assets

Receivables, prepayments, and accrued income (5)	12-31-2018	12-31-2017
Accounts receivable	20,263	15,829
Receivables from related parties	169,782	167,901
Amounts not yet invoiced	26,659	28,013
Taxes and national insurance contributions	–	6,397
Corporate income tax	34,471	22,758
Accounts receivable from investments	1,659	10,292
Receivable insurance premiums	15,568	12,275
Other receivables and accrued income	32,127	19,994
Total	300,529	283,459

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

The receivables include items totaling zero (2017: zero) falling due after more than one year. No security has been provided and no interest was received on the receivables..

Receivables from reinsurance (6)	12-31-2018	12-31-2017
Reinsurance portion of provisions	54,526	41,640
Receivables from reinsurance	5,916	950
Total	60,442	42,590

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

Cash (7)	12-31-2018	12-31-2017
Current account bank balances	288,091	398,798
Deposits	145,000	190,000
Cash from investments	25,419	32,855
Total	458,510	621,653

A sum of €4.5 million of the cash (2017: €4.8 million) may not be freely disposed of. Similarly, the cash from investments may not be freely disposed of.

No other forms of security have been provided, nor have any supplementary terms and conditions been entered into. Given the nature of the deposits (short-term), the interest rate risk is very low. The deposits are with financial institutions of good creditworthiness. As a result, the credit risk is limited.

Group equity (8)

	12-31-2018	12-31-2017
Equity capital	1,090,283	1,186,742
Group equity	**1,090,283**	**1,186,742**

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 primary 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 calculated as the actual equity capital divided by the capital requirement, multiplied by 100%. APG uses the Solvency II standard model to calculate the capital requirement.

Solvency is reported on periodically. Depending on the level of the (expected) solvency, measures or tighter measures may be taken. The solvency ratio for APG Group at year-end 2018 was 182% (2017: 190%) based on Solvency II. Excluding the proposed dividend, the Solvency II ratio at year-end 2018 was 215% (2017: 223%). APG Group has set an internal minimum for the Solvency II ratio of 169%.

Official reporting to De Nederlandsche Bank on solvency figures and accompanying notes will take place no later than June 3, 2019, in accordance with the statutory regulations. The ratio presented was based on the information currently available.

Capital requirement

In calculating the capital requirement for APG Group, the capital requirement of APG Asset Management based on MiFID was taken into account, along with the capital requirement for insurance business Loyalis based on Solvency II. From the group perspective, the market risk, counterparty credit risk, and diversification within APG Group were also considered. APG Group's capital requirement based on Solvency II was €438 million at year end 2018 (2017: €429 million).

Available capital

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

Based on this calculation, APG Group's available capital at year end 2018 was €799 million (2017: €813 million) (excluding the proposed dividend, the available capital at year end 2018 was €944 million (2017: €958 million)). The available capital was based entirely on market values. The capital is composed of 96% Tier-1 capital (2017: 95%) and 4% Tier-3 capital (capital from active tax positions, 2017:5%).

The available capital is determined by the actual capital, taking into account a 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.

		2018		2017
Opening balance		1,186,742		1,229,953
Group result after taxes	47,844		47,279	
Conversion differences for foreign participations	664		-2,490	
Total result		*48,541*		*44,789*
Dividends paid in cash	-145,000		-88,000	
Total direct movements in relationship with the shareholders		*-145,000*		*-88,000*
Closing balance		1,090,283		1,186,742

Provisions

Insurance liabilities (9)

The insurance liabilities relate to life insurance and non-life insurance. A portion of the non-life liabilities has been reinsured. The reinsurance portion of the provision for non-life insurance in the amount of €54.5 million (2017: €41.6 million) is included under receivables from reinsurance. The total liability is included in the provision for insurance liabilities.

	12-31-2018	12-31-2017
Provision for life insurance	1,887,791	2,005,770
Provision for non-life insurance	970,072	913,118
Total	2,857,863	2,918,888

The movements in the provision for insurance liabilities is as follows.

	For own account	For policyholders' risk without guarantee	For policyholders' risk with guarantee	Total 2018	Total 2017
Opening balance	1,997,743	301,298	619,847	2,918,888	2,999,934
Premium and other allocations	206,517	18,000	33,022	257,539	240,549
Interest added	42,700	-1,825	481	41,356	9,014
Profit sharing/indexation	-2,051	-	-	-2,051	-
Release for expenses	-12,378	-3,290	-5,798	-21,466	-20,675
Release for payments	-147,429	-27,501	-109,016	-283,946	-271,816
Change to assumptions	-14,439	-	-	-14,439	3,694
Other changes (expiry and surrender)	-37,479	-111	-428	-38,018	-41,812
Closing balance	2,033,184	286,571	538,108	2,857,863	2,918,888

The provision for life insurance liabilities comprises:

	12-31-2018	12-31-2017
Periodic benefits already in payment and deferred	884,885	914,057
Pension insurance contracts	169,314	161,559
Unit-linked insurance with guarantees	538,108	619,847
Unit-linked insurance without guarantees	286,571	301,298
Risk insurance	8,913	9,009
Total	1,887,791	2,005,770

Changes in accounting estimates for life

New mortality rates were established in the Assumptions Review based on observations up to and including 2017 and the mortality tables published by the Actuarial Association in 2018. The mortality rates established in the 2018 Assumptions Review are higher than the previous assumptions. This has led to a decrease of the annuities provision of over €12.2 million.

The provision for non-life insurance comprises:

	12-31-2018	12-31-2017
Insurance policies for occupational disability	960,615	903,282
Sick pay	6,360	6,875
Other	3,097	2,961
Total	970,072	913,118

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

Changes in accounting estimates for non-life

New mortality rates were established in the Assumptions Review based on observations up to and including 2017 and the mortality tables published by the Actuarial Association in 2018. The mortality rates established in the 2018 Assumptions Review are higher than the previous assumptions. This has led to a decrease of the occupational disability provision of €0.2 million. The Assumptions Review also established recovery/outflow likelihoods for occupational disability and WGA. This has led to a decrease of the occupational disability/WGA provision of €2.5 million.

Deferred taxes (10)

The provision for deferred taxes mainly results from the different fiscal valuation of fixed assets.

	2018	2017
Opening balance	1,589	25,313
Allocations	1,014	370
Release	-224	-18,208
Utilized	-679	-5,886
Closing balance	**1,700**	**1,589**

Other provisions (11)

The movements in the other provisions were as follows:

	Personnel-related provisions	Provision for reorganisation	Provision for separating of the administrative organization	Other provisions	Total 2018	Total 2017
Opening balance	27,762	55,001	3,767	1,079	87,609	103,961
Allocations	12,608	3,953	–	3,247	19,808	21,817
Withdrawals	-6,789	-13,655	-1,785	-373	-22,602	-24,737
Release	-1,233	-4,644	-1,982	-1,608	-9,467	-12,021
Other movements	616	-150	–	18	484	-1,411
Closing balance	**32,964**	**40,505**	**–**	**2,363**	**75,832**	**87,609**

Of the total, an amount of €26.6 million has an expected remaining term to maturity of more than five years (2017: €21.0 million). €13.5 million is expected to be settled in 2019 (2017: €28.9 million).

Personnel-related provisions

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

Provision for reorganization

This provision was created to cover the costs of reorganizations related to voluntary departure schemes facilitated by the employer and redundancy analogous to the various stages of the change programs within the group. €4.0 million was allocated to this provision in 2018 (2017: €13.9 million). This reorganization provision is created when a detailed plan of the reorganization is formalized and this has been announced to those affected. Withdrawals from the provision take place when the relevant expenses related to voluntary departure or redundancy occur. It emerged in 2018 that the total expected expenses for reorganization are lower than initially thought, resulting in a release of €4.6 million (2017: €8.4 million).

Provision for separation of the administrative organization

This provision includes the unavoidable costs for temporary partial vacancy of the Basisweg office building, taking into account the likelihood of subletting. The building has been partially sublet since mid-2013. The term of the provision is equal to the term of the rental agreement, which runs to the end of 2020.

In 2018 it was agreed with the landlord to terminate this contract prematurely at year-end 2018. Due to the premature termination of the contract, there is no further reason to maintain the provision for vacancy. As such, the remaining provision will be released at year-end 2018.

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)

	2018	2017
Opening balance	10,911	23,767
Drawn down	–	–
Repayments	–	-12,856
Closing balance	**10,911**	**10,911**

Of the closing balance, an amount of zero relates to financing by related parties (2017: zero). Of the closing balance an amount of €10.9 million has a remaining term to maturity of more than five years (2017: €10.9 million). The interest rate is 7.25% per annum (2017: 7.25% per annum). No security has been provided. The fair value of the long-term liabilities is €23.2 million (2017: €23.4 million). At the initiative of the lender, a repayment at nominal value of €12.9 million took place in 2017.

Current liabilities and accrued liabilities (13)

	21-31-2018	12-31-2017
Debts arising from investments	15,258	1,464
Payments payable	18,812	19,195
Amounts received in advance	4,495	–
Amounts invoiced in advance	16,938	17,278
Accounts payable	24,357	20,639
Vacation pay and vacation days	22,098	23,642
Other personnel-related liabilities	28,554	30,164
Taxes and national insurance contributions	20,472	28,000
Corporate income tax	227	1.819
Amounts owed to related parties	148,507	158,997
Amounts not yet paid	24,542	24,062
Invoices to be received	3,157	4,284
Liabilities in connection with pensions	8	5
Liabilities relating to derivatives	9,450	6,811
Liabilities from reinsurance	6,985	13,130
Rent reduction for office building	932	972
Other liabilities	32,565	14,395
Total	377,357	364,857

The liabilities relating to derivatives include a sum of €0.6 million (2017: €1.5 million) in cash collateral received to hedge the settlement risk of FX forwards. These were concluded to finance the future costs of the activities of the foreign participations. The accounts payable include a sum of €15.6 million (2017: €14.8 million) in debts to the Dutch Tax Authority.

Of the rent reduction for an office building, €0.3 million relates to 2019 and €0.6 million relates to the years 2020 to 2024, inclusive (2017: in total €1.0 million).
The current liabilities do not include any further liabilities falling due after more than one year (2017: zero). No interest has been paid on the current liabilities.

Off-balance sheet liabilities and assets

At the balance sheet date, liabilities under current rental agreements in the amount of €173.6 million are outstanding (2017: €100.0 million), of which €21.1 million is due within one year (2017: €22.8 million), €65.7 million is due between one and five years (2017: €60.9 million) and €86.8 million is due after five years (2017: €16.3 million). Rental costs of €20.7 million (2017: €20.3 million) were reported for the reporting year.

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 €80.4 million (2017: €91.2 million), of which €10.8 million is due within one year of the end of the financial year (2017: € 10.8 million), €45.6 million is due between one and five years (2017: €44.4 million) and €24.0 million is due after five years (2017: €36.0 million). Minimum purchasing volumes were agreed in the contracts. If the actual purchase volumes realized are lower than the minimum volume applicable at that time, APG Group is required to pay 25% of the difference. In the event of early termination by APG Group, termination compensation amounts have been agreed on, depending on the time of termination. The maximum potential liability arising from this is €3.3 million.

The liabilities in connection with these long-term car lease contracts total €7.2 million (2017: €8.1 million), of which €3.1 million is due within one year of the end of the financial year (2017: €3.5 million), and €4.1 million is due between one and five years (2017: €4.6 million). There are no liabilities due beyond five years. Leasing costs of €5.2 million (2017: €5.4 million) were recognized in the year. The leasing company calculated by the leasing liability on the basis of depreciation plus allowances for fuel, insurance, servicing, and taxes.

The liabilities in connection with maintenance and other contracts total €28.2 million (2017: €17.4 million), of which €10.3 million is due within one year of the end of the financial year (2017: €9.4 million), and €17.9 million is due between one and five years (2017: €8.0 million). There are no liabilities due beyond five years.

As at year-end 2018, the group had committed itself to investing a total of €0.6 million in data processing equipment and software (2017: €0.2 million).

In 2018, APG Group entered into a long-term contract for the purchase of professional services, ensuing from the sale of Inovita B.V. The liability in connection with this contract totals €6.5 million, of which €2.0 million is due within one year of the end of the financial year and €4.5 million is due between one and five years. Minimum purchasing volumes were agreed in the contract. If the actual purchase volumes realized are lower than the minimum volume applicable at that time, APG Group is required to pay 30% of the difference.

Specifically for the insurance business' investments in private equity and infrastructure, future commitments have been entered into for a total amount of €147.9 million (2017: €6.1 million). The liabilities arising from derivatives concluded to hedge the financing of the foreign subsidiaries amount to €101.7 million as of the balance sheet date (2017: €92.0 million). The fair value of these derivatives is €0.4 million positive (2017: €2.0 million negative). The liabilities have a term of less than one year. The contract conditions include the exchange of collateral to hedge the settlement risk.

There are a number of fiscal entities at APG Group, specifically for corporate income and turnover tax. Within a tax group, the individual companies bear joint and several liability for each other's tax liabilities. 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; 2018: zero, 2017: €0.3 million). The amount of the future payments to be received is uncertain.

6.8

Notes to the consolidated profit and loss account

In thousands of euros

Net turnover

Insurance premiums (14)	2018	2017
Life insurance		
Own expense and risk	86,400	88,024
Policyholders' risk	17,539	18,273
	103,939	106,297
Non-life insurance		
Own expense and risk	164,888	148,140
Policyholders' risk	-	-
	164,888	148,140
Total	268,827	254,437

Investment results (15)	Real assets	Fixed-income securities	Other investmenst	Total 2018	Total 2017
Dividends	11,121	–	–	11,121	18,249
Interest	–	33,528	6,935	40,463	42,701
Changes in value	24,006	-23,755	-5,756	-5,505	17,907
	35,127	9,773	1,179	46,079	78,857
Result from financial transactions	–	–	–	–	–
Total	35,127	9,773	1,179	46,079	78,857
For own account	*36,589*	*11,069*	*2,545*	*50,203*	*45,058*
For policyholders' risk with guarantee	*-1,029*	*-2,257*	*-320*	*-3,606*	*11,968*
For policyholders' risk without guarantee	*-433*	*961*	*-1.046*	*518*	*21,831*
	35,127	9,773	1,179	46,079	78,857
Result from financial transactions	–	–	–	–	–
Total	35,127	9,773	1,179	46,079	78,857

The result from financial transactions includes costs related to the purchase and sale of investments as well as currency gains/losses.

Management fees (16)

	2018	2017
Asset management	467,494	449,047
Pension administration	216,910	234,754
Total	684,404	683,801

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	2018	2017
Asset management	472,940	454,434
Pension administration	225,043	233,890
Insurance operations	316,515	335,201
Support companies	155,603	156,208
APG Group company	52,356	36,210
Eliminations	-186,157	-163,860
Total	1,036,300	1,052,083

The segmented information is mainly in accordance with the legal structure of APG Group, whereby there is segmentation 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, please 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 policy holders. This concerns amounts to be paid out for life insurance €207.6 million, (2017: €201.0 million) and non-life insurance €70.3 million, (2017: €64.0 million) less reinsured life insurance amounts €3.2 million, (2017: €0.0 million) and non-life insurance €3.3 million, (2017: €3.6 million).

Costs of outsourced work and other external costs (20)

This item includes the cost of hiring external staff, auditor’s costs, and consultancy costs.

Personnel costs (21)	2018	2017
Wages and salaries	289,714	279,445
Pension charges	29,719	28,019
Social security charges	31,148	28,411
Other staff costs	39,102	46,435
Total	389,683	382,310

Employee pension scheme

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

Specific schemes apply for most employees abroad.

Number of employees

In 2018, the group employed an average of 3,140 people (2017: 3,238), divided into the following segments.

	2018	2017
Management and departments	323	283
APG Rechtenbeheer	1,156	1,175
APG Asset Management	757	720
Loyalis	226	234
APG Deelnemingen	140	210
Support units	538	616
Total	3,140	3,238

In 2018, an average of 171 people were employed outside the Netherlands (2017: 163). These employees are all employed by 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 remuneration	Remuneration for committee membership	Employer's charges and taxes	Total 2018	Total 2017
Pieter Jongstra	39,904	12,939	11,097	63,940	60,773
Edith Snoeij	30,361	13,771	9,268	53,400	51,656
Maes van Lanschot	30,361	12,611	9,024	51,996	51,656
Roger van Boxtel	30,361	5,060	7,438	42,859	42,541
Claudia Zuiderwijk	30,361	10,120	8,501	48,982	48,618
Dick van Well	32,602	8,422	8,615	49,639	41,029
Bart Le Blanc*	25,370	2,819	5,920	34,109	66,850

* = until July 22, 2018

Bart Le Blanc's term as member and chair of the Supervisory Board of APG Groep ended on July 22, 2018.

Executive Board	Direct salaries	Compensation for lower pension accrual	Personnel costs	Pension charges	Total 2018	Total 2017
Gerard van Olphen	509,875	56,915	10,382	18,789	595,961	586,107
Wim Henk Steenpoorte*	407,900	42,577	10,382	17,769	478,628	131,335
Annette Mosman**	352,446	39,029	9,326	16,032	416,833	–
Ronald Wuijster ***	433,847	49,189	7,786	14,554	505,376	–
Francine Roelofsen - van Dierendonck****	63,308	7,096	1,730	2,961	75,095	–
Angelien Kemna*****	–	–	–	–	–	464,472
Eduard van Gelderen******	–	–	–	–	–	391,468
Mark Boerekamp*******	–	–	–	–	–	84,413

* = from September 14, 2017
** = from February 6, 2018
*** = from March 6, 2018
**** = from November 1, 2018
***** = until November 1, 2017
****** = until July 1, 2017
******* = until February 9, 2017

The column ‘direct salaries’ contains the fixed annual salary, the vacation allowance, and the year-end bonus. The column ‘compensation for lower pension accrual’ stems from a generic scheme at APG Group whereby the reduction in the employer pension contribution due to the capping of pension accrual on salary (2018: €105,075, 2017: €103,317) accrues to the employee. The column ‘personnel costs’ contains the employer’s charges; the column Pension charges contains the charges for pension contributions. The table above does not include compensation related to mobility and vitality (2018: €58,865, 2017: €55,630).

On February 6, 2018, Annette Mosman joined the Executive Board, taking on the portfolio of Finance and Risk Management. On March 6, 2018, Ronald Wuijster joined the Executive Board and took on the portfolio Asset Management. Just like the other members of the Executive Board, Mr. Wuijster does not receive variable remuneration. Mr. Wuijster’s remuneration has been set 12% below the level of his predecessor upon his appointment. It has been conditionally agreed that midway through his term in 2021, Mr. Wuijster’s salary will increase by €39,500 (excluding indexations as per the collective agreement and pension capping). This agreed remuneration remains below the market benchmark and 5% below the level of his predecessor.

On November 1, 2018, Francine Roelofsen-van Dierendonck joined as a member of the Executive Board of APG Group and took on Participant and Employer Services, a new portfolio within the Executive Board. This appointment saw the board expanded from four to five members.

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

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

Amortization and depreciation on intangible and tangible fixed assets (22)	2018	2017
Amortization of intangible fixed assets	52,585	82,737
Amortization due to impairment	–	74,875
Depreciation of tangible fixed assets	7,398	7,377
Total	59,983	164,989

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

The price reductions implemented for the benefit of our participants resulted in a long-term decrease in the value of the goodwill and client contracts by €74.6 million in 2017. No sustainable impairments arose in 2018.

Other operating expenses (24)	2018	2017
Accommodation costs	36,980	40,596
Automation costs	95,061	67,426
Other	19,080	23,670
Total	151,121	131,692

The increase in automation costs can largely be attributed to research costs that will be charged to APG instead of to the APG funds starting in 2018, in line with MiFID II. The item 'other' includes postage charges, office supplies, telephone charges, and other tangible expenses.

Interest income and similar yield (25)
The interest income is the income realized from current accounts and deposits.

Interest charges and similar expenses (26)
The financial charges are mainly interest charges on long-term liabilities. No interest charges or similar expenses pertained to relations with related parties (2017: €0.6 million).

Taxes (27)
The taxes in the consolidated profit and loss account can be specified as follows.

	2018	2017
Current period		
- Current year	-26,842	-32,994
- Adjustments to previous years	–	14,340
Change in deferred taxes		
- Temporary differences	2,530	19,697
- Impact of tax rate change	-22,180	–
Total	-46,492	1,043
Effective tax burden as %	48.5%	-2.2%

The effective tax rate deviates 23.5 percentage points from the applicable tax rate of 25.0%. This is largely due to the reduction of the corporate tax rate, as included in the Taxation Plan 2019, which reduced the value of the future tax asset.

Result from participations (28)
The result from participations is the result from participations not included in the consolidation.

6.9

Consolidated profit and loss account 2018 Loyalis

In thousands of euros

	2018
Net turnover	
Insurance premiums (14)	268,827
Investment results (15)	46,079
Management fees (16)	–
Other operating income (17)	1,609
Total operating income	316,515
Change in provision for insurance liabilities (18)	-75,483
Payments (19)	271,479
Investment costs	4,038
Costs of outsourced work and other external costs (20)	17,310
Personnel costs (21)	18,860
Amortization and depreciation on intangible and tangible fixed assets (22)	–
Other changes in value in intangible and tangible fixed assets (23)	–
Other operating expenses (24)	28,400
Total operating expenses	264,604
Operating result	51,911
Interest income and similar yield (25)	–
Interest charges and similar expenses (26)	14
Result before taxes	51,897
Taxes (27)	-29,450
Result from participations (28)	–
Group result after taxes	22,447

6.10 Consolidated cash flow statement 2018 Loyalis

In thousands of euros

	2018
Cash flow from operating activities	
Operating result	51,910
Adjustments for:	
• Amortization and depreciation on intangible and tangible fixed assets (22)	–
• Other value impairments in intangible and tangible fixed assets (23)	–
• Net investments for commercial purposes for own account (4)	-56,953
• Net investments for commercial purposes at the risk of policy holders without guarantee (4)	11,109
• Changes in working capital:	
- Decrease in receivables, prepayments, and accrued income (5)	4,973
- Increase in current liabilities and accrued liabilities, corrected for corporate income tax (13)	10,504
• Change in gross insurance liabilities for own account (9)	-46,298
• Change in insurance liabilities for policyholders' risk without guarantee (9)	-14,727
• Change in other provisions (11)	-4,146
Cash flow from business operations	*-43,628*
Interest received	97
Interest paid	-111
Corporate income tax paid	–
Cash flow from operating activities	-43,642
Cash flow from investment activities	
Investments in fixed assets	–
Expenditure in connection with capital contributions to non-consolidated participating interest	–
Cash flow from investment activities	–
Cash flow from financing activities	
Dividends paid	-15,000
Settlement of separation of the administrative organization	–
Cash flow from financing activities	-15,000
Net cash flow	-58,642
Share price differences and exchange differences on cash	–
Change in cash	-58,642
Opening balance of cash (7)	138,717
Closing balance of cash (7)	80,075
Change in cash	-58,642

6.11 Notes to the consolidated cash flow statement

The statement of cash flows has been prepared using the indirect method. For a description of the composition of the cash, please refer to the notes to the consolidated balance sheet.

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

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

The cash flow from financing activities includes the dividend payment in the course of the financial year as well as several settlements with Stichting Pensioenfonds ABP.

6.12 # Other notes

Transactions with related parties

Transactions with related parties are conducted on market terms and conditions.

Some of the office buildings are leased from Stichting Pensioenfonds ABP under market conditions. The total contract term is 12 years and 8 months, commencing January 1, 2008. The costs amounted to €6.3 million in the reporting year (2017: €8.0 million) and will amount to €6.4 million for 2019. The future liabilities arising from this contractual relationship are included under the lease obligations entered into as included in the category of off-balance sheet liabilities.

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

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

Independent auditor's fees

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

In millions of euros	2018	2017
Audit of the financial statements	1.2	1.0
Other audit assignments (including work in relation to ISAE 3402)	2.6	2.3
Tax consultancy services	–	–
Other non-audit services	–	–

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

The other audit assignments include €1.6 million (2017: €1.3 million) for audit-related work for reports to clients of APG Group in the context of the services provided by APG Group.

Post-balance sheet events

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

6.13

Company financial statements

Company balance sheet as at December 31, 2018 (before profit appropriation)

In thousands of euros

Assets	12-31-2018	12-31-2017
Fixed assets		
Intangible fixed assets (1)	–	3.377
Tangible fixed assets (2)	818	1,084
Financial fixed assets (3)	989,902	1,032,794
	990,720	1,037,255
Current assets		
Receivables, prepayments, and accrued income (4)	227,529	182,324
Cash (5)	102,938	221,499
	330,467	403,823
Total assets	1,321,187	1,441,078

Liabilities	12-31-2018	12-31-2017
Equity capital (6)		
Paid-up and called-up share capital	705,297	705,297
Share premium	416,380	416,380
Statutory reserves	4,812	4,148
Other reserves	-84,083	13,638
Undivided result for the financial year	47,877	47,279
	1,090,283	1,186,742
Provisions (7)	19,976	27,124
Long-term liabilities (8)	10,911	10,911
Current liabilities and accrued liabilities (9)	200,017	216,301
Total liabilities	1,321,187	1,441,078

Company profit and loss account for 2018

In thousands of euros

	2018	2017
Result from participation after taxes	54,960	61,017
Other result after taxes	-7,083	-13,738
Result after taxes	47,877	47,279

6.14 Accounting policies for valuation and determination of results

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

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

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

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 movement in this item is as follows.

	Insurance portfolio	Software	Total 2018	Total 2017
Opening balance	2,961	416	3,377	21,310
Investments and divestments	-	-416	-416	–
Depreciation	-2,961	–	-2,961	-17,933
Decreases in value	-	-	-	-
Closing balance	–	–	–	3,377
Cumulative purchase value	–	–	–	178,352
Cumulative depreciation and decreases in value	–	–	–	-174,975
Book value	–	–	–	3,377
Depreciation rates	10 %	20-25 %		

Tangible fixed assets (2)

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

The movement in this item is as follows.

	Furniture and fittings	Data processing equipment	Total 2018	Total 2017
Opening balance	818	266	1.084	1,189
Investments	–	–	–	–
Divestments	–	-266	-266	–
Depreciation	–	–	–	-105
Changes in value	–	–	–	–
Closing balance	818	–	818	1,084
Cumulative purchase value	818	–	818	1,232
Cumulative depreciation and decreases in value	–	–	–	-148
Book value	818	–	818	1,084
Depreciation rates	n/a	20-25 %		

No security has been provided.

Financial fixed assets (3)

The item 'financial fixed assets' concerns participations and a deferred tax asset. The movement in this item is as follows.

	2018	2017
Opening balance	1,032,794	1,063,046
Investments	–	–
Divestments	–	–
Result for the financial year	54,960	61,017
Dividends paid	-110,905	-105,882
Other movements	13,053	14,613
Closing balance	989,902	1,032,794

The closing balance includes an active deferred tax asset of €5.4 million (2017: €8.0 million).

Current assets

Receivables, prepayments, and accrued income (4)	12-31-2018	12-31-2017
Receivables from group companies	148,268	136,720
Other receivables and accrued income	79,261	45,604
Total	227,529	182,324

The receivables, prepayments, and accrued income predominantly pertain to claims on group companies and prepaid amounts. These have a term of less than one year.
No security has been provided and no interest was received on the receivables.

Cash (5)	12-31-2018	12-31-2017
Current account bank balances	47,938	121,499
Deposits	55,000	100,000
Total	102,938	221,499

The entire amount of the cash can be freely disposed of (the same applied in 2017).

Equity capital (6)

	12-31-2018	12-31-2017
Paid-up and called-up share capital	705,297	705,297
Share premium	416,380	416,380
Statutory reserves	4,812	4,148
Other reserves	-84,083	13,638
Undivided result for the financial year	47,877	47,279
Total	1,090,283	1,186,742

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

	Paid-up and called-up share capital	Share premium	Statutory reserves	Other reserves	Undivided result for the financial year
Opening balance	705,297	416,380	4,148	13,638	47,279
Changes due to profit appropriation	–	–	–	47,279	-47,279
Changes to statutory reserves	–	–	–	–	–
Dividends paid	–	–	–	-145,000	–
Result for the financial year	–	–	–	–	47,844
Other movements	–	–	644	–	–
Closing balance	**705,297**	**416,380**	**4,812**	**-84,083**	**47,844**

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 with a nominal value of €1 each. Furthermore, in 2011 upon the acquisition of the minority interests in APG Rechtenbeheer NV (previously APG Algemene Pensioen Groep NV) and Loyalis NV, 55,297,170 new ordinary shares were issued, each with a nominal value of €1.

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

Statutory and other reserves
The statutory and other reserves include direct changes in capital related to the acquisition and reallocation of subsidiaries from previous years in the amount of €1.6 million (2017: €1.6 million). Furthermore, it includes a reserve for conversion differences in the amount of €3.2 million (2017: €2.5 million) for the foreign participations. The changes in the statutory reserve for conversion differences is reported under other changes.

Undivided result for the financial year
This reports the result for the year under review.

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

Proposal for the appropriation of the result

In accordance with the policy adopted, a proposal will be submitted to the General Meeting of Shareholders that a dividend in the amount of €145.0 million be paid out: €47.9 million from the net result and the remaining sum of €97.1 million from the freely distributable reserves.

Provisions (7)

	Deferred taxes	Personnel-related Provisions	Provision for reorganization	Total 2018	Total 2017
Opening balance	679	5,310	21,135	27,124	64,636
Allocations	–	1,596	1,342	2,938	750
Withdrawals	-679	-2,941	-3,415	-7,035	-11,511
Release	–	–	-3,051	-3,051	-26,751
Closing balance	–	3,965	16,011	19,976	27,124

Long-term liabilities (8)

	2018	2017
Opening balance	10,911	23,767
Benefits	-	-
Repayments	–	-12,856
Closing balance	10,911	10,911

Of the closing balance, an amount of zero relates to financing by related parties (2017: zero). Of the closing balance an amount of €10.9 million has a remaining term to maturity of more than five years (2017: €10.9 million). The interest rate is 7.25% per annum (2017: 7.25% per annum). No security has been provided. The fair value of the long-term liabilities is €23.2 million (2017: €23.4 million). At the initiative of the lender, a repayment at nominal value of €12.9 million took place in 2017.

Current liabilities and accrued liabilities (9)

Current liabilities and accrued liabilities (9)	12-31-2018	12-31-2017
Accounts payable	4,262	3,219
Debts to group companies	181,398	203,312
Taxes and national insurance contributions	6,227	7,417
Vacation pay and vacation days	2,703	1,781
Other liabilities	5,427	572
Total	200,017	216,301

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

The current liabilities and accrued liabilities do not contain any items falling due after more than one year.

Off-balance sheet liabilities and assets

The liabilities arising from derivatives concluded to hedge the future costs of APG Asset Management NV's foreign subsidiaries amount to €101.7 million (contract price). The liabilities have a term of one year. Liabilities between APG Group NV and APG Asset Management NV directly related to this have been formalized by means of back-to-back agreements.

Liability statements

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

Liability of fiscal entity

There are a number of fiscal entities at APG Group, specifically for corporate income and turnover tax. Within a tax group, the individual companies bear joint and several liabilities for each other's tax liabilities. 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 in proportion 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

In 2018, APG Groep NV employed an average of 323 people (2017: 283), all of whom were working in the Netherlands.

Remuneration of Executive Board members

For a description of the remuneration of Executive Board members, please refer to the consolidated balance sheet.

List of capital interests

The following capital interests (100% interests, with the exception of Entis Holding B.V. 76% interest), are included in the consolidation:

Capital 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**
APG Service Partners BV	Heerlen
Entis Holding BV	Amsterdam
– Entis BV	Utrecht

Capital interests not included in the consolidation

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

In 2018, APG Deelnemingen NV sold its subsidiaries InAdmin NV, Inovita BV, and Inotime BV.

Chapter 7

7 Other information

7.1 Profit appropriation scheme under the articles of association

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

Independent auditors' report.

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

Report on the accompanying financial statements 2018

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of APG Groep N.V. as at December 31, 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we audited

We have audited the 2018 financial statements of APG Groep N.V., Heerlen (referred to below as 'the company'). The financial statements comprise:

1. the consolidated and company balance sheets as at December 31, 2018;
2. the consolidated and company profit and loss accounts at December 31, 2018;
3. the consolidated cash flow statement for 2018; and
4. the notes containing a summary of the accounting policies and other disclosures..

Basis for our opinion

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

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

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

Audit approach

Summary

- Materiality
  - Materiality of € 10 million
  - 1% of the operating income (excluding income from investments)
- Group audit
  - 97% of the total assets
  - 96% of operating income
- Key issues
  - Insurance liabilities of the life and non-life business
  - Valuation of the 'level 3' investments
- Opinion
  - Unqualified opinion

Materiality
Based on our professional judgement we determined the materiality for the financial statements as a whole at €10 million (2017: €10 million). The materiality is determined with reference to the relevant benchmark, that is total operating income excluding investment revenues (approximately 1%). We consider the total operating income excluding investments revenues as the most appropriate benchmark as this is a stable benchmark that reflects the activities of APG Groep N.V. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of €500,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

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

Our group audit mainly focused on significant group components, i.e. APG Asset management N.V., APG Rechtenbeheer N.V., and Loyalis N.V., as well as the non-significant entity APG Diensten B.V. We used other KPMG auditors for the audit of the Loyalis N.V. and APG Asset Management N.V. units and performed the audit of the APG Rechtenbeheer N.V. and APG Diensten B.V. components ourselves. These units represent 96% of the operating income and 97% of the assets.

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

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

Scope of our audit in relation to fraud
Based on the Dutch audit standard, we are responsible to obtain a reasonable measure of certainty that the financial statements as a whole do not contain any material misstatements due to fraud or errors. We use the management's evaluation in relation to fraud risk management (prevention, detection, and response) when determining our audit procedures, including ethical standards that promote an honest company culture.

When identifying fraud risks, we evaluated fraud risk factors and discussed them with APG Groep N.V. and the Supervisory Board. Fraud risk factors are events and circumstances that may indicate an incentive or pressure to commit fraud, or that create an opportunity to commit fraud. We used forensic specialists to conduct this risk analysis.

Based on the audit standard, we have acknowledged the following predefined fraud risk in relation to override of internal control by management.

In our audit procedures we evaluated the internal control relevant to mitigating these risks and conducted data-oriented audit procedures, including detailed audits of (administrative) journal entries and documentation relating to the financial administration. Our procedure further consists of:

- Assessing the documentation relating to the creation of the (valuation of the) technical provisions and the Solvency II figures for the life and non-life insurance business;
- Conducting detailed audits of journal entries with an increased risk of override of internal control by management;
- Data-oriented detailed audits of contribution income and benefit payments, particularly focusing on policy and claims administrations with an increased risk of errors; and
- A combination of data-analysis and data-oriented detailed audits of the payment organization (amounts, bank account numbers, and other relevant master data).

Our audit procedures are not comparable to a specific fraud investigation, which will typically be more in-depth. The procedures we conducted have not identified any signals or instances of fraud.

Scope of our audit in relation to non-compliance with legislation and regulations

We have identified the legislation and regulations that can reasonably be expected to have a material impact on the financial statements based on our general and sector-specific knowledge, Practical Guideline 1143 issued by the Dutch Institute of Chartered Accountants, and on conversations with the Executive Board and the Supervisory Board. Moreover, we discussed the guidelines and procedures of APG Groep N.V. in relation to legislation and regulations.

We have identified and addressed the following risks relating to non-compliance with legislation and regulation:
- Solvency II;
- Mifid II; and
- AIFMD.

We have communicated the legislation and regulations we identified to our audit team and remained alert to any signals of non-compliance with this legislation and these regulations during the audit.

Based on the audit standards, the procedures that must be followed to identify non-compliance of legislation and regulations are limited to discussing it with the Executive Board and the Supervisory Board and going over any notes and/or correspondence with regulatory authorities and/or legal advisors that relates to non-compliance with legislation and regulations. These tasks are part of our procedures for the related items in the financial statements.

Based on the procedures we conducted, we have not identified any signals or instances of non-compliance with legislation or regulations. However, we are not responsible for the prevention of non-compliance nor can we be expected to detect non-compliance with all legislation and regulations.

Key audit matters

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

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

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

Description

The insurance liabilities for the life insurance and non-life insurance business amount to €2,919 million. This includes €1,888 million in liabilities for life insurance and €971 million in liabilities for non-life insurance. When valuing the insurance liabilities, APG must make assumptions for economic and actuarial parameters and use complex actuarial models.

For the related liability adequacy test, in order to be able to determine whether the liabilities included are sufficient, assumptions must be made in relation to, among other things, incurred but not reported (IBNR) and payments, the application of the future interest rate, work-related disability, portfolio development, life expectancy, and future costs.

In view of the major impact the valuation of the technical provisions has on the company's results, this constitutes a key audit matter.

Note 9 of the financial statements and the risk management section on pages 57 and 58 of the financial statements contain an explanation of the key starting points and risks for valuing the insurance liabilities.

Our approach

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

With the assistance of our actuarial specialists, we audited the insurance liability and related liability adequacy test with reference to qualitative and quantitative analyses, and calculations drawn up internally.

In this process, we tested the calculations performed internally, including the actuarial and economic assumptions used, such as the interest rate curve, mortality rates, survival likelihoods, portfolio developments, and cost projections, against empirical data, market data, and estimated versus actual outcomes from the past.

We also focused on the adequacy of the explanation and risks as included in the notes to the financial statements under note 9 and in the risk management section contained on pages 57 and 58.

Our observation

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

Valuation of the 'level 3' investments

Description

The investments reported in APG Groep N.V.'s financial statements are a significant balance sheet item.

It is indicated on page 71 of the notes to the financial statements that the valuation for €537 million of the investments (8% of the balance sheet total) is based on the management's best estimate, so-called level 3 investments. The determination of the market value of these investments is (more) complex and involves subjective estimates. This therefore is a key audit matter.

APG has outsourced the management and accounting of these investments to APG Asset Management and the level 3 investments concern investments in open-end funds managed by third-party asset managers.

Our approach

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

We also confirmed the reconciliation between the financial accounting and the current financial reports from fund managers.

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

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

Our observation

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

Statement concerning the other information contained in the annual report

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

- the report of the Executive Board;
- the message from the Supervisory Board; and
- the other information.

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

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

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

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

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

Description of the responsibilities for the financial statements

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

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

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

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.
Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

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

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

Amstelveen, March 28, 2019
KPMG Accountants N.V.

J.J.A. van Nek RA

7.3

Management and key representatives

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

Members of the Supervisory Board

Jaap van Manen (1950)

Chair

Most important (additional) positions:
- Partner Strategic Management Centre
- Co-founder of BoardResearch.org
- Emeritus professor of Corporate Governance (University of Groningen)
- Chair of the Committee Code of Good Governance at the Association of Universities in the Netherlands
- Member of the Supervisory Board of Bornet Groep Rotterdam B.V.
- Member of the Executive Board of Stichting Maatschappij en Veiligheid
- Member of the Executive Board of Stichting Endowment at Museum Boijmans van Beuningen
- Member of the Executive Board at Stichting Globetrotter
- Central Bank Governance Advisor with the International Monetary Fund, Washington D.C.
- Chair of the committee investigating hospital bankruptcies

Nationality: Dutch
First appointment: January 1st, 2019
Term of appointment: 4 years

Pieter Jongstra (1956)

Vice-chair

Most important (additional) positions:
- Member of the board and treasurer at Stichting Ondersteuning Nederlandse Bachvereniging
- Member of the panel of experts on Re-evaluation Interest Rate Derivatives Rabobank
- Chair of the Netherlands Institute of Chartered Accountants (NBA) (concluded in 2018)
- Treasurer of Stichting voor de Jaarverslaggeving (via position as chair of NBA) (concluded in 2018)
- Treasurer and jury member of Koning Willem I Stichting (concluded in 2018)

Nationality: Dutch
First appointment: February 4, 2015
Second appointment: February 4, 2019
Term of appointment: 4 years

Edith Snoeij (1956)

Most important (additional) positions:
- Member of the Executive Board of Pensioenfonds KPN (operational)
- Chair of the Supervisory Board of pensioenfonds PnoMedia
- Chair of the Supervisory Board of pensioenfonds PMA
- Chair of the Supervisory Board of Stichting Waarborgfonds en Kenniscentrum Ruimte-OK
- Member of the AGFA committee (Advisory Committee on the Basic Rights and Performance of Civil Servants) and the AMAR committee at CAOP (general military regulations)
- Member of the board at Stichting Bestuur Leerstoelen
- Member of the Objections Committee Sociaal Plan Reclassering Nederland
- Member of the advisory and arbitration committee at Rijksdienst
- Chair of the research program Labor Market Care and Welfare
- Board member for Oefenen.nl

Nationality: Dutch
First appointment: April 26, 2012
Second appointment: April 26, 2016
Term of appointment: 4 years

Maes van Lanschot (1952)

Most important (additional) positions:
- Chief financial officer TropIQ Health Sciences B.V.
- Managing director of Landgoed Zwijnsbergen B.V.
- Chair of Stichting Christelijk Gymnasium Sorghvliet

Nationality: Dutch
First appointment: May 15, 2013
Second appointment: May 15, 2017
Membership: Supervisory Board of APG Asset Management N.V.
Term of appointment: 4 years

Roger van Boxtel (1954)

Most important (additional) positions:
- President of the Dutch National Railways (NS)
- Chair of the Supervisory Board of Museum De Fundatie
- Member of the Advisory Board of ECP
- Member of the Algemene Leden-vergadering Ajax
- Member of the Executive Board of VNO-NWO (via his role as president of NS)
- Chair of the JC Bloem Prijs
- Chair of Amsterdam Sinfonietta (as of April 1, 2019)
- Member of the Community of European Railway and Infrastructure companies (CER), Brussels (via his role as president of NS) (as of February 1, 2019)
- Member of the Management Committee Community of European Railway and Infrastructure companies (CER), Brussels (as of February 21, 2019)
- Chair of Stichting Geschiedschrijving Gorinchem (concluded in 2018)
- Member of the board for VUmc Alzheimerstichting (concluded in 2018)

Nationality: Dutch
First appointment: July 16, 2015
Term of appointment: 4 years

Claudia Zuiderwijk (1962)

Most important (additional) positions:
- Chair of the Executive Board of the Chamber of Commerce
- Member of the Supervisory Board of KPN N.V.
- Member of the board and jury member of Koning Willem I Stichting (via role as chair of KvK)
- Member of Forum Smart Industry (via role as chair of KvK)
- Member of the panel of experts on Re-evaluation Interest Rate Derivatives Rabobank
- Ambassador for NEMO Science Museum
- Member of the board for PubliQ (concluded in 2018)
- Member of the Advisory Committee 'Committee of Recommendation Gemeente Haarlemmermeer' (via role as chair of KvK) (concluded in 2018)

Nationality: Dutch
First appointment: July 27, 2015
Term of appointment: 4 years

Dick van Well (1948)

Most important (additional) positions:
- Member of the Supervisory Board for Dura Vermeer Groep N.V. (and temporary chair of the Supervisory Board from April 5, 2018, to January 1, 2019)
- Member of the Supervisory Board, chair of the Selection, Remuneration, and Appointments Committee and member of the Audit Committee for Stedin Netbeheer B.V. (concluded in 2018)
- Member of the Supervisory Board of Avenue Beheer B.V.
- Member of the Advisory Board of LSI Projectinvestment N.V.
- Member of the Supervisory Board of Rijnmond Bouw B.V.
- Independent chair of the Executive Board of Stichting Administratie-kantoor PPF Participatie Fonds
- Member of the board for Nationaal Programma Rotterdam Zuid
- Chair of Stichting IkZitopZuid
- Chair of the Supervisory Board for Kikx Holding B.V.
- Member of the board for Stichting Continuïteit Feyenoord
- Advisor to Groene Groep (concluded in 2018)

Nationality: Dutch
First appointment: November 14, 2016
Term of appointment: 4 years

Bart Le Blanc (1946)

Chair of the Executive Board
until July 22, 2018

Most important (additional) positions:
- Chair of Investment Committee United Nations, Office for Project Services (UN-OPS), Copenhagen/New York
- Non-executive director Andreas Capital S.A., Luxemburg
- Member of the Supervisory Board of ETC Nederland B.V.
- Member of the board of Stichting Instituut GAK

Members of the Executive Board

Gerard van Olphen (1962)

Principal position: Chair of the Executive Board

Additional positions:
- Member of the Supervisory Board for Hartstichting
- Member of the the Board at Duisenberg School of Finance.
- Supervisory Board of Netspar
- Chair of task group Financiering Klimaatberaad

Nationality: Dutch
First appointment: March 9, 2016

Annette Mosman (1967)

Principal position: Member of the Executive Board/ responsible for Finance and Risk Management

Additional positions:
- Board member and treasurer at Vereniging NOC*NSF
- Member of the Supervisory Board and Audit Committee of Stichting Jeroen Bosch Ziekenhuis
- Member of the Supervisory Board, chair of the Audit Committee and Investment Committee of Stichting KWF Kankerbestrijding

Nationality: Dutch
First appointment: February 6, 2018

Wim Henk Steenpoorte (1964)

Principal position: Member of the Executive Board/ responsible for APG Pension Fund Services.

Additional positions:
- Chair of the Supervisory Board for De Vereende N.V.
- Chair of the Supervisory Board for DAP Holding N.V.
- Member of the Supervisory Board for Intersolve B.V.
- Chair of the Board for Sivi

Nationality: Dutch
First appointment: September 14, 2017

Ronald Wuijster (1966)

Principal position: Member of the Executive Board/ responsible for Asset Management.

Additional positions:
- Chairman of the asset management committee of the Pension Federation (concluded in 2018)
- Member of the accreditation committee at DSI (concluded in 2018)

Nationality: Dutch
First appointment: March 6, 2018

Francine Roelofsen-van Dierendonck (1976)

Principal position: Member of the Executive Board/ responsible for Participant and Employer Services.

No additional positions.

Nationality: Dutch
First appointment: November 1, 2018

Composition of the works council

Mr El Arouti
Mr Beving
Mr Brouns
Ms Cramer
Mr Van Eijsden
Mr Geurts (secretary)
Mr Hoofs
Mr Kleijer (chair)
Mr Kuperus
Mr Lucic
Mr Nowacki
Mr Raadschelders
Mr De Ridder
Mr Stroucken
Ms Szlachta-Pleuger
Ms Voss-Martinow (acting secretary)
Mr Wieringa

7.4 Terms and definitions

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

- Strategic risk: The risk that strategic objectives will not be achieved because of changes in the areas of competitive relations, political decision-making, stakeholders, reputation and/or business climate, or the organization's capacity to adapt to these changes.
- Reporting risk: The risk that due to errors in the administrative processes or systems, inaccuracies appear in the reporting products.