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PGGM N.V. Annual Report

2014

PGGM

Voor een waardevolle toekomst

Contents

The original financial statements were drafted in Dutch. This document is an English translation of the original. In the case of any discrepancies between the English and the Dutch text, the latter will prevail.

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* The Executive Committee (EC) is responsible for the day-to-day management of PGGM N.V. The EC comprises the officers responsible for the company's six business units and its subsidiaries. Effective 1 May 2015, the Chief Marketing Officer (CMO) ceases to be a member of the EC. The EC is chaired by the Chief Executive Officer (CEO), who makes up the Executive Board together with the Chief Financial Risk Officer (Vice-chairman).

Foreword

To help people realise a valuable future. That is our mission. We do this for our institutional clients, their participants and our members. In this regard we especially focus on the finances underlying this valuable future: the pension. Indeed, in a valuable future, it is expected that a pension scheme be well provided for and that everyone receives the right pension.

We consider the effective administration of pensions tremendously important, which is why we offer our clients (and their participants) reliable pension administration, effective pension communication, responsible asset management and effective pension board advisory services. That is, and will remain, our core business.

However, we believe that pension is more than just money. A valuable future also includes enjoyable living conditions, well-organised healthcare and an extended work life. And, as PGGM, we want to contribute to this as well. We do this on the basis of our identity as a not-for-profit cooperative pension fund service provider. Furthermore, we do this together with our social partners in a way that allows us to continuously add value.

Our clients, who needless to say critically monitor us, are satisfied with our pension management, asset management and pension board advisory services. They characterise our services as reliable, transparent and expert, and this is something we are proud of. But they also think that we could make further gains in terms of flexibility and versatility. Due to the greying population, longer life expectancy, uncertain financial markets, low interest rates, changing job market and changing living patterns, our pension systems need to adapt, and therefore our clients as well. We are under extreme pressure to make the necessary changes to the pension system and we must optimally facilitate these changes.

In 2014, we provided increased focus to our strategy. We expanded our multi-client platform with new clients: Stichting Pensioenfonds Smurfit Kappa Nederland, Stichting Beroepspensioenfonds Loodsen (effective 1 January 2015) and Stichting Philips Pensioenfonds (effective 1 January 2016). The assets we manage on behalf of our clients grew to almost € 182 billion in 2014. With the sale of PGGM Levensverzekeringen N.V. we definitively abandoned our in-house managed retail activities. However, as a consequence of this sale we recorded a negative € 24.6 million result for the 2014 financial year. In the area of responsible investment, we published a new implementation framework and in consultation with our clients, we identified seven areas of focus for responsible investment. In addition, we shaped our social agenda and selected nine projects that we will be working on. In addition, the number of members in our PGGM&CO members' organisation was once again on the increase, rising to almost 690,000 members.

The structure of this annual report is another way for us to define our focus. This year we took the next step in providing integrated reporting. This is a method of reporting in which we present a cohesive picture by providing the 'story behind the figures' in its proper context. The structure of this annual report largely is the result of a stakeholders' dialogue in which internal, as well as external stakeholders identified the themes they consider important for PGGM. This annual report addresses these themes and describes developments in 2014, as well as our plans for 2015. We adhered to the GRI G4 (Core) international reporting guidelines in preparing this integrated annual report, supplemented by the Financial Services Sector Supplement (FSSS).

To be able to optimally facilitate our clients, we initiated the Decisive Innovation programme in 2014. The objective of this programme is to create a versatile organisation at a structurally € 50 million lower cost in comparison to 2013.
In the context of the Decisive Innovation programme we immediately took a number of steps last year. For example, we implemented organisational changes in our Pension Management business unit and we adjusted our remuneration policy. These initiatives, taken all together, had their impact; we achieved € 8 million in savings in 2014. We therefore achieved our first success and that gives us energy for the coming years in which the Decisive Innovation programme will continue to play an important role.

As such, a number of key innovations are planned for 2015. For example, we will continue to internalise our asset management as a means of reducing the total costs for our clients. We will assess how to organise our members' organisation, so as to maximise innovation and the service provided to our members. In addition, we will be investing in ICT as a means of innovation and to become more versatile and efficient.

These changes will bring us increasingly closer to the organisation we want to be. An organisation that supports its clients in making innovations and that is capable of quickly and reliably implementing innovations. An organisation driven by the interests of people. An organisation in which we supplement the changed pensions of our clients' participants with our social agenda and member proposition. This way we help people realise a valuable future.

2014 was an eventful year for our employees. The announcement of our Decisive Innovation programme, which involves the elimination of work representing at least 200 FTEs, is very drastic. All the more so, because it is not possible to immediately provide clarity to individual employees concerning their individual situation. Nevertheless, all of our employees fully devoted themselves to servicing our clients, as well as to the implementation of an extensive change programme, including the transition of new clients. I would therefore like to take this opportunity to sincerely thank all colleagues for their efforts and dedication.

Else Bos
CEO PGGM

PGGM in three minutes

To help people realise a valuable future. That is our mission. Everything we do focuses on and contributes to this mission.

We do this on the basis of our identity as a not-for-profit cooperative pension fund service provider and we do it in a way that enables us to continuously add value in the areas of pension, healthcare, living and work.

In this context we adhere to a three-pronged approach. An approach that at the same time defines our pillars:

- From the perspective of our core business, the pillar 'institutional', we do our utmost for our clients: pension funds and their participants.
- From the perspective of the pillar 'members', we do our utmost for the almost 690,000 members in the health and social sector affiliated with our members' association PGGM&CO.
- From the perspective of the pillar 'social agenda' we develop initiatives to provide broader support to our clients and members thus enabling them to achieve a valuable future.

Our clients are our first priority. Their interests are our interests. At the present time we work for seven different pension funds. Over the coming years, this number will increase through the addition of the Stichting Beroepspensioenfonds Loodsen (effective 1 January 2015) and the Stichting Philips Pensioenfonds (effective 1 January 2016). As a pension fund service provider, we do absolutely everything we can to help our clients provide their participants with good and affordable pensions. We do this by providing pension management, asset management and pension board advisory services. In this respect, every client is unique for us and we tailor our services to the pension funds and to the ambitions of the pension fund boards.

In addition to dedicating ourselves to providing good pensions, we focus on developing and realising solutions for the future; solutions that will safeguard pensions even in the long term. We help our clients find answers to important questions about the structure of the pension system. Whereby we believe in values such as sustainability, collectivity and solidarity.

Together with our clients, we are convinced that financial and social returns go hand-in-hand, and that on the basis of responsible investment we can have a great deal of impact. This is why we leverage the controlling power of the money we manage on behalf of our clients to make a positive contribution to sustainable global development. We do this by investing responsibly and by encouraging other companies to engage in responsible enterprise at the same time.

Providing a pension fund service is our core business. But we are more than just a pension fund service provider. As a not-for-profit cooperative financial institution, we stand up for our members. They have indicated that a valuable future means more than just a financially sound future, it also requires a good living environment, good healthcare and the opportunity to work longer. Consequently, we are considering solutions that make this possible. We establish a link between the pensions, healthcare, living and work domains. In the first instance, we are doing this for our members, but ultimately this also benefits society as a whole.

We also want to support our members individually. The financial choices they make, as well as the decisions they make on other significant events in their lives, such as redundancy, divorce and informal care, can have a long-term impact and play a role in the realisation of a valuable future.

Sustainability is part of our DNA. We are fully aware of the impact the actions we take today will have on the world of tomorrow. Consequently, we endeavour to minimise our negative impact and enhance our positive impact. We implement this on the basis of an active integral sustainability policy with four themes that touch all of the pillars of our organisation. The key for us is to view and approach these sustainability themes as a cohesive whole.

PGGM in 2014

Clients	Stichting Pensioenfonds Zorg en Welzijn (Pension Fund Foundation for the Health and Social Sector) Stichting Pensioenfonds voor Architectenbureaus (Pension Fund Foundation for Architecture Firms) Stichting Pensioenfonds voor de particuliere Beveiliging (Pension Fund Foundation for Private Security Firms) Stichting Pensioenfonds voor Huisartsen (Pension Fund Foundation for General Practitioners) Stichting Rabo PGGM Premiepensioeninstelling (Rabo PGGM Premium Pension Institution Foundation) Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf (Sector Pension Fund Foundation for Painting, Decorating and Glazier Businesses) Stichting Pensioenfonds Smurfit Kappa Nederland (Pension Fund Foundation Smurfit Kappa Netherlands).
Assets under management (€ billions)	182
Invested in the Netherlands (€ billions)	19
Number of members	690,000
Number of employees	1,477 (1,412 FTE)
Employee benefit expenses (€ millions)	156.2
Annual revenues (€ millions)	271.7
Net result (€ millions)	-24.6

Vision, mission and strategy

We are an organisation that works with money, but that revolves around people. A great deal is changing; in society, in the pension sector, in the economy and in our organisation. If there is anything that keeps us on course, it is the realisation that we do this for our clients and their participants, our members and society. In other words for people. For us it is ultimately all about people.

We have combined our beliefs in our vision for the future. For us this is a future with enjoyable living conditions, well-organised healthcare, a future that facilitates an extended work life and in which personal finances are in good order. The pension, the financial aspect, this is now our primary focus. Indeed, in a valuable future, it is essential for a pension scheme to be well provided for. Our employees provide excellent pension fund services with the assistance, among other things, of a reliable pension administration system and effective pension communication, responsible asset management and support in the form of pension board advisory services. That is our core business and this is where we excel. And that will continue to be the case.

In addition, we also reflect on the pension of the future, together with our clients. This is why we look at the overall picture. We do not do this alone. We look for cooperation with organisations that are as socially committed as we are, to finding answers to the major greying issues in various domains together. In addition to pension, we focus on three other domains:

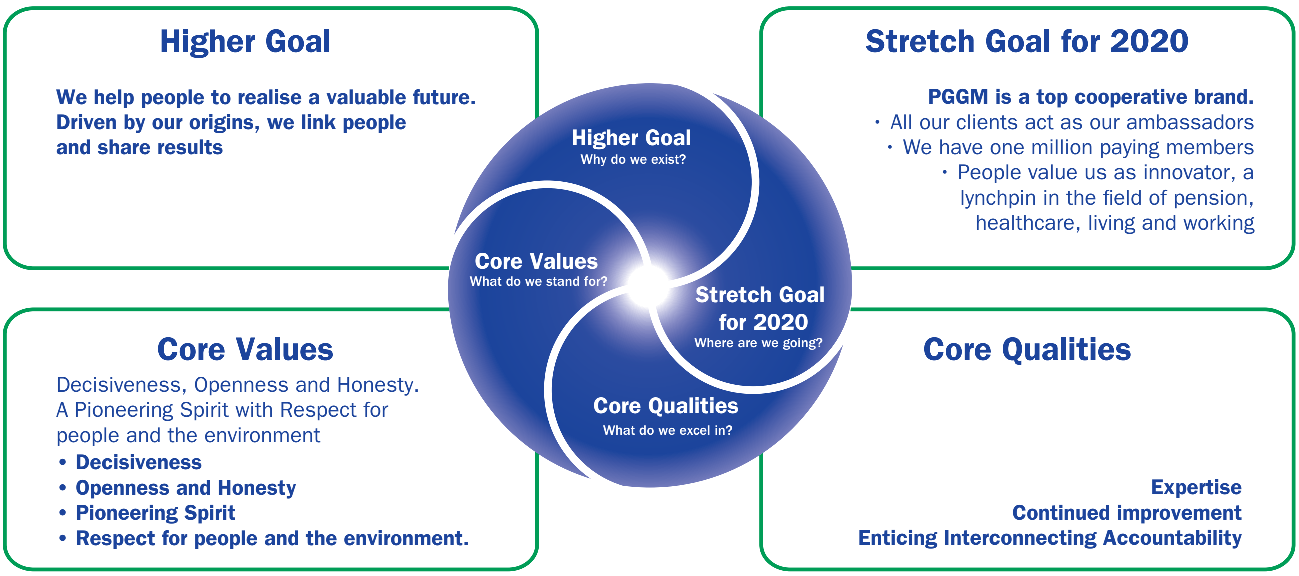
- Healthcare: because the issue is whether healthcare will continue to be affordable and accessible to everyone in the future. We want to age in a healthy condition so that we can enjoy our pension.
- Living: because we want to live independently as long as possible.
- Work: because we have to work longer, but at the same time we have to be able to do so.

It is not a given that these domains are a natural fit. Nevertheless, we aim to use an integrated approach in dealing with these domains.

Mission

Our mission, our higher goal, is to implement this vision in actual practice, by helping people realise a valuable future. We do this for our institutional clients, their participants and our members. This mission is of paramount importance to PGGM, and keeps us on course in this period of turbulence.

In addition to a higher goal, we also have a stretch goal: to transform PGGM into a top cooperative brand. This stretch goal is designed to stimulate and challenge us to achieve controlled growth, to reflect our ambition and to help us achieve our higher goal. We do this by continuing to work in accordance with our core values and core qualities.



Strategy

Our strategy must ensure that we can actually achieve our mission. We describe our strategy from various perspectives: our three pillars (institutional, members and social agenda) and from the perspective of our business operations (cooperative and sustainable business operations). Each perspective has a number of focal points for the coming years.

Institutional

We are the pension fund service provider of choice for our institutional clients. We want to continue serving them well and keep them satisfied so they continue to choose us in the future and act as our ambassadors. The Pensioenfonds Zorg en Welzijn (PFZW) (Pension Fund for the Healthcare and Social Sectors) was our first and is our largest client, and it is from there that we originate. However, in recent years we have managed to attract additional clients, such as the Stichting Pensioenfonds voor Architectenbureaus, the Stichting Pensioenfonds Particuliere Beveiliging, the Stichting Pensioenfonds voor Huisartsen, the Stichting Rabo PGGM Premiepensioen-instelling and the Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf. This growth produces economies of scale that result in lower costs, as well as diversity that makes a positive contribution to innovation and learning effects.

This positive experience has enabled PGGM to play a role in the market's consolidation. Due to our origins, our institutional proposition to a significant degree focuses on pension funds in the health and social sector. We believe strong collectivity in this sector is essential and we want to be of service in this respect. However, we also welcome suitable clients from outside the health and social sector. We look carefully at who fits in with us and at the rate at which we can and want to grow.

Members

All cooperatives are financed directly or indirectly by their members. This principle of reciprocity is a key cooperative principle. This is why we are aiming for one million paying members by 2020. The future will have to bear out in which form: by product, service or membership. Due to our origins, our members' association focuses on individual members in the health and social sector. We want to deliver value to these members in the future; value with such relevance that they are prepared to pay for it; whether it be by product, service or for membership. That members consciously choose us furthermore produces loyalty. A factor that will be of extra importance in the future, should the pension system change significantly.

Social Agenda

We want to define and promote our social agenda more emphatically and explicitly in association with our institutional and members' propositions. In the knowledge that through our competencies, network and scale, we can continuously add value for our clients and members. Through cooperation with partners, we make a visible contribution to social renewal in word and deed by linking pensions to healthcare, living and work. We do this primarily for our members and clients but, ultimately, it will positively impact on everyone in the Netherlands.

Cooperative and sustainable business operations

A valuable future for our clients (pension funds), their participants and members of the cooperative is unthinkable without respect for people, the environment and society. After all, a good pension is worth more in a liveable world.

We want to be an economically healthy business, but not with profit and growth as its highest goal. The cooperative enterprise is built on collectivity, solidarity and transparency. This is not just about products and services, but about (mutual) participation, consultation and the promotion of interests as well. That requires a continuous dialogue between the enterprise and its clients and between the cooperative and its members.

Sustainability integrated into the strategy's pillars

Sustainability forms part of our beliefs and is therefore integrated into the above-referenced four pillars. Sustainability means that we are fully aware of the impact the actions we take today will have on the world of tomorrow. Consequently, we endeavour to minimise our negative impact and enhance our positive impact. We implement this on the basis of an active integral sustainability policy with four themes:

Institutional Proposition	We use the majority of our clients’ invested assets for a sustainable economy
Members’ Proposition	We stimulate the association’s members to make their contribution to sustainability
Social Agenda	We do our utmost to ensure a sustainable system for old age
Cooperative and Sustainable Business Operations	We conduct our business in a sustainable manner

Stakeholder dialogue and materiality analysis

One of our beliefs is that a valuable future can most easily be achieved through mutual cooperation. It is for good reason that we are a cooperative at the centre of society. We attempt to add value as an organisation. We do this together and in dialogue with a large number of stakeholders; internal as well as external, national and international, and from within and outside the pension sector.

Stakeholders

The (stakeholder) dialogue was initiated by first identifying a broad spectrum of stakeholders. We used stakeholder mapping to first identify all of our internal and external stakeholders. The key stakeholders are identified below.

Materiality Analysis

We then identified which themes are important for these stakeholders. These themes are not always related to our core business or to that of our stakeholders. The result of this phase is a detailed materiality analysis. The materiality analysis consists of a strategy chart with the most important themes.

Our initial materiality analysis only contained our four sustainability themes (a sustainable system for old age, responsible investment, sustainability and our members and sustainable enterprise). These four themes were expanded in 2014. During meetings with stakeholders, we discussed sustainability, as well as other themes. Furthermore, in 2014, we developed a social agenda with themes and we refined our vision and our stretch goal. All of these developments resulted in a new list of themes:

Internal Stakeholders

Members' Council
Cooperative Council
Supervisory Board
Management and Employees

PGGM

Client Council

External Stakeholders

Prospects
Clients
Participants – Employers
Members
Social Partners
Financial Sector
Suppliers
Public Administration
Regulators and Supervisory Bodies
Social Organisations
Media
(International) Partnerships
Focus Groups

Materiality Analysis 2014 Strategy Chart

Institutional Proposition	1 Controlled Growth	2 Reliable Pension Administration	3 Cost of Pension Administration	4 Pension Awareness	5 Investing in the Netherlands	6 Responsible Investment	7 Future of Pension System
Members' Proposition		8 Growing Members' Organisation					
Social Agenda		9 Aging in Good Health	10 Job Market Dynamics	11 Circular Economy			
Cooperative and Sustainable Business Operations		12 A Healthy Cooperative*	13 Good Employment Practices				

* This includes the themes CO2 footprint (14), Corporate Social Responsibility (15) and Sustainable procurement (16). These themes are discussed separately in this annual report.

	Materiality Analysis Themes	Explanatory Notes
1	Controlled growth	We aim for controlled growth. With our clients we are leading in a consolidating pension landscape. Read more on page 18
2	Reliable pension fund services	We provide reliable pension fund services. For our clients' participants, it is of major importance that we make the right information available via the right channels, provide effective pension administration services and pay on time. They must be able to rely on this. Read more on page 20
3	Pension administration costs	Our aim is to keep the costs for our clients as low as possible, because we realise that the ultimate added value is the most important yardstick. Read more on page 21
4	Pension awareness	We believe that increased pension awareness is important to everyone involved in pension schemes. The interest in and the knowledge of pensions is still relatively low. We therefore aim to create greater awareness among our clients' participants of their pension (choices), from a moral perspective (a valuable future), as well as from a legislative perspective (AFM and DNB obligations).
5	Investing in the Netherlands	The assets we manage on behalf of our clients enable us to make a positive contribution to the Dutch economy. Read more on page 22
6	Responsible investment	Pursuant to our beliefs, we are active in the field of responsible investment. This means that we are not only tasked to earn money with our investments, but also to more forcefully leverage the controlling power of money to make a positive contribution to sustainable global development. Read more on page 24
7	Future pension system	We understand that the pension system must be adjusted to suit the requirements and characteristics of the present time. Due to the greying population, our longer life expectancy and changes in society, the current pension system is no longer optimal. Read more on page 28
8	Growing members' organisation	We are aiming for one million paying members by 2020. We want to help these members during their most important life events by providing insight, overview, (saving) tips and specific benefits. Read more on page 32

	Materiality Analysis Themes	Explanatory Notes
9	Aging in good health	We realise that health is the highest objective when people are asked about what they wish for as they get older. Physical and mental ailments are a major threat to a valuable future. Read more on page 34
10	Job market dynamics	We are observing major changes on the job market, particularly in the health and social sector. The dynamics are increasing on many fronts, among other things due to the flexible pension age, the need for combining paid and unpaid labour, and the increased flexibility of employment contracts. Read more on page 35
11	Circular economy	We want to contribute to the transition to a circular economy. Read more on page 36
12	A healthy Cooperative	We strive for (financially) healthy and sustainable business operations that give substance to our cooperative ideology. Read more on page 38
13	Good employment practices	We consider a good remuneration system, a sustainable work climate and good terms and conditions of employment very important. These practices ensure that our employees contribute to our success with motivation and enjoyment. Read more on page 40
(14)	CO_2-footprint	We critically assess the impact of our actions on the environment and society. Read more on page 43
(15)	Corporate Social Responsibility (CSR)	We feel ourselves committed to society, locally, as well as nationally. Read more on page 45
(16)	Sustainable procurement	We express our sustainable procurement policy in various ways, for example by developing sustainability criteria for the services and products we procure, and by conducting round table and engagement meetings with suppliers. Read more on page 46

In the following sections of this annual report we describe the developments that took place for most themes in 2014 and what we will be focusing on in 2015.

Institutional

Controlled growth

We aim for controlled growth. With our clients we are leading in a consolidating pension landscape.

Reliable, innovative and binding

We want to continue to be a stable player in the pension market over the long-term. As a reliable, innovative and binding platform for pension funds. We have a clear view of the consolidating pension landscape in which small funds are absorbed by larger pension funds and in which there is increased clustering around a number of larger funds (magnet funds). This consolidation is driven by (social partners on the boards of) pension funds. Together with our largest client (Stichting Pensioenfonds Zorg en Welzijn (PFZW)) we want to play a role in this. First, by acting as a magnet for the health and social sector, and second, by providing synergy to funds participating in the joint implementation platform.

This is why we opt for controlled growth. That does not mean growth for the sake of growth, but creating customer loyalty on the basis of their own desire to be one of our clients and to jointly make use of our scale and expertise. We consider growth a means of continuously providing our clients with high quality services at low cost. On the basis of our background as a pension fund, we are second to none in terms of our knowledge of our clients' perspective and we can support them expertly and integrally in carrying out their tasks.

In this respect we focus on the Dutch pension funds. These can include sector, corporate and occupational pension funds. We do not focus on international clients; we specifically are a national player in the Dutch market.

Growth in number of clients

We work for different pension funds. As a pension fund service provider, we help our clients provide their participants with a good and affordable pension.
We do this by providing pension management, asset management and pension board advisory services.

In 2014, we expanded our multi-client platform with three new clients: Stichting Pensioenfonds Smurfit Kappa Nederland, Stichting Beroepspensioenfonds Loodsen (effective 1 January 2015) and Stichting Philips Pensioenfonds (effective 1 January 2016). We have signed pension management service contracts with Stichting Beroepspensioenfonds Loodsen and Stichting Philips Pensioenfonds and an asset management and pension board advisory services contract with Stichting Pensioenfonds Smurfit Kappa Nederland. As such we have achieved our goal to sign fifteen service contracts prior to the end of 2014. In comparison to 2013, we bade farewell to the Stichting Beroepspensioenfonds voor zelfstandige kunstenaars (AENA, occupational pension fund foundation for self-employed artists). All of AENA's pension rights and liabilities have been transferred to the PNO Media pension fund on the basis of a collective value transfer.

Clients in 2014

Clients	Services		
Name	**Pension Mgt.**	**Asset Mgt.**	**Board Advice**
Stichting Pensioenfonds Zorg en Welzijn (Pension Fund Foundation for the Health and Social Sector)	●	●	●
Stichting Pensioenfonds voor Architectenbureaus (Pension Fund Foundation for Architecture Firms)		●	●
Stichting Pensioenfonds voor de particuliere Beveiliging (Pension Fund Foundation for Private Security Firms)		●	●
Stichting Pensioenfonds voor Huisartsen (Pension Fund Foundation for General Practitioners)	●	●	●
Stichting Rabo PGGM Premiepensioeninstelling (Rabo PGGM Premium Pension Institution Foundation)	●		●
Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf (Sector Pension Fund Foundation for Painting, Decorating and Glazier Businesses)	●	●	●
Stichting Pensioenfonds Smurfit Kappa Nederland (Pension Fund Foundation Smurfit Kappa Netherlands).		●	●
Stichting Beroepspensioenfonds Loodsen*	●		
Stichting Philips Pensioenfonds**	●		

* Effective 1 january 2015 ** Effective 1 january 2016

Assets under management PGGM	2008	2009	2010	2011	2012	2013	2014
Assets under management (€ billions)	71	88	103	115	134	154	182

Growth in assets under management

In 2014, our assets under management experienced strong growth. While the assets under management at the beginning of the year were € 154 billion, by year-end 2014 this had risen to almost € 182 billion, an increase of almost 20 per cent.

Multiple factors contributed to this increase, such as the premium contributions and the returns realised. In 2014, the prices of most investments rose, including the price of bond and debenture investments, due to continuously declining interest rates. In addition, the Stichting Pensioenfonds Smurfit Kappa Nederland entrusted us with its capital on 1 July 2014.

Stichting Rabo PGGM Premiepensioeninstelling

Although we continue to have faith in a collective pension market, we are not oblivious to developments in the market. One of the ways in which we try to effect controlled growth, is by working on new, more individualised pension products outside the mandatory pension market, together with market parties. An example of this is the Rabo PGGM Premium Pension Institution (PPI) that we developed in 2013 in cooperation with the Rabobank.

2014 is the first full market year for the Rabo PGGM PPI. It immediately was a successful year that exceeded its milestone of acquiring 1,000 affiliated employers. Effective from 1 January 2015, the PPI has 1,150 SME employers as client and approximately 11,000 participants are accruing pension via the so-called Rabo BedrijvenPensioen (company pension). This makes the Rabo PGGM PPI one of the fastest growing Premium Pension Institutions in terms of the number of clients.

In 2014, the further market development and continued development of the Rabo BedrijvenPensioen was a key area of focus. In December 2014 we launched the Pension Explorer, an innovative tool for clients. We jointly designed and developed this unique online tool with the Rabo PGGM PPI. The Pension Explorer provides immediate insight into the expected pension. This includes the effect of better or worse than anticipated investment results. Participants are challenged in innovative ways to think about the desired lifestyle during retirement. This provides insight into personal pension goals. At a single glance it is clear whether sufficient savings are being accumulated and what can be done to make any necessary adjustments. Pension Explorer was as much as possible developed for multi-client use, so that other clients can make use of it as well in the future.

In 2015, key initiatives include the continued development of the client portfolio and offering Rabobank clients with their own consultant the possibility of acquiring the Rabo BedrijvenPensioen. In addition, the development of an online advisory service will be continued in order to simplify and increase access to the Rabo BedrijvenPensioen. Aside from this, the Rabo BedrijvenPensioen's market potential will continue to be a continuous area of attention. Indeed, although the Rabo BedrijvenPensioen is considered a reliable product with a good price-quality ratio, specific efforts are required over the coming period to look for possibilities to expand its market domain.

Algemeen Pensioenfonds (APF)

In addition to the normal means of growth, such as attracting new clients and the development and/or continued development of new products, we also positioned ourselves for potentially new forms of consolidation in 2014. In 2015, a new type of pension fund will be introduced that could fulfil an important role in this respect: the Algemeen Pensioenfonds (General Pension Fund) (APF). The APF makes a new form of grouping pension schemes possible and could be a solution for smaller pension funds looking for economies of scale, lower costs and fewer administrative charges.

In advance of its introduction, we explored the options, requirements and wishes for the actual use of an APF, together with a group of pension fund managers. It is clear that the APF's significance to a pension fund various by fund. In 2015, we will therefore continue to develop an APF in close collaboration with the market.

Focus in 2015

We expect the consolidation of the pension market to continue in 2015. While the emergence of the APF can play a role in this respect, especially for the smaller (company) pension funds, we expect fewer major pension funds (sector pension funds) to outsource their funds compared to previous years. Among other things these funds are waiting for the new pension contract, and want to have more certainty about this before they decide what to do.

In the current environment with extremely low interest rates, cost control also plays a key role. A transition costs money and funds, more than ever before, are extremely cost conscious. In addition, administrative pressures have significantly risen: current market conditions, increased laws and regulations, demographic trends, intergenerational debates and changed communications with participants are absorbing a great deal of time and effort. Because so much is going on, we expect that a number of funds will await further developments before taking their next steps.

Reliable pension fund services

We provide reliable pension fund services. For our clients' participants, it is of major importance that we make the right information available via the right channels, provide effective pension administration services and pay on time. They must be able to rely on this. For our organisation that means the right and timely pension payments and invoicing, the right and timely registration of data and the provision of information, and excellent pension fund services. To meet these requirements our core business must operate smoothly and be confronted with the fewest possible surprises.

Service Level Reporting (SLR) scores and client satisfaction

We formulate agreements with our clients concerning the level and quality of our services. We report on this every quarter through means of Service Level Reports (SLRs). These reports contain our service scores expressed in the form of Key Performance Indicators (KPIs). Examples of KPIs include the accurate, timely and complete registration of data, information provision, and pension payments and invoicing. All KPIs are defined in terms of standards that can be expressed as a figure or percentage. For example, the client satisfaction standard for telephone services was 7.8 in 2014.

In 2014, all KPIs met the specified standards, although there were incidents in certain areas. An example of this is a payment batch that our bank was not able to process on time. The consequence was that payment was only made after the weekend instead of before the weekend. We respond effectively to all incidents. For example, for the payment that could not be processed on time, we decided to adjust our policy and to no longer submit payment batches on Fridays. This enables us to take faster action in case of emergencies.

Aside from the SLR scores, we also regularly measure client satisfaction with our services. Not only that of our clients, but also of their employees and participants registered under their pension scheme. In 2014, the client satisfaction scores of our clients and their employees registered under their pension scheme were somewhat lower than our own targets. Our clients were critical of various aspects, including our versatility, flexibility and speed. This was offset by the fact that the client satisfaction of participants was somewhat higher than our own targets. The 2014 client satisfaction surveys highlighted a number of areas for potential improvement, including the pension management process. We have started to work on this.

That the pension management for our existing clients is in good shape is evident from the fact that we received various ISAE 3402 certifications in 2014.

Redesigned pension management services

What can we do to even better serve our clients' participants when they contact their pension fund with questions about their pension? Is it possible to make better use of the internet? Can cost efficiency be improved? Can we respond even better to the perceptions of employees and employers concerning their pension?

These questions together with the findings of our client satisfaction surveys caused us to entirely redesign our pension management services for the Stichting Pensioenfonds Zorg en Welzijn in 2014. The client's experience is a priority in the redesigned approach. A 'pension journey' concept was developed for this purpose. The journey assumes that a participant makes a journey in his/her life that consists of five phases. Start working, begin to accrue pension, leave the sector, retire and receive a pension. This pension journey involves all kinds of contacts with the pension fund. These contacts are now dealt with in one go by our pension management teams. That means that our employees are no longer responsible for solving just one part of the client's request, but instead solve the entire problem together. This new approach will be implemented in 2015 and is designed to contribute to increased satisfaction and loyalty on the part of pension funds, participants and employers.

Integration of A&O Services

Welcoming new clients as a result of the acquisition of A&O Services presented us with special challenges in 2014. The integration of A&O Services, whose largest client is the Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf, turned out to be more complex than originally anticipated. We found out that more time was required to adapt our ICT systems. This project is expected to be completed by mid-2015.

AIFM License

In April 2014, we were notified that the Netherlands Authority of the Financial Markets (AFM) had granted us an Alternative Investment Fund Managers (AIFM) license. We are the first pension fund service provider in the Netherlands to receive this license. The AIFM license we applied for provides investment institutions with a 'European passport' for alternative investments. The license should provide greater insight into potential system risks in the financial sector and contribute to improved management of these risks.

The AIFM license guidelines are consistent with a number of changes we were already planning to make, such as the separation of policy and implementation. With this in mind, in 2014, a full-fledged Fiduciary Advice department was set up. This department formulates and subsequently also evaluates client investment mandates.

Focus in 2015

In 2015, we will continue to develop our multi-client platform for asset management, as well as pension management. Online service will be a key focus of our pension management services. This way we anticipate changes in society. This requires significant changes to our IT architecture. The focus initially will be on two crucial projects. The modernisation of the pension administration system (to be able to make use of new software and internet-related possibilities) and a change to the software development methodology.

Both projects contribute to the ability to integrate large volumes of new client data without any problems in the future. In addition, this will make our pension management cheaper and more versatile, which will ultimately give us more clout. This way we guarantee the quality and reliability of our pension management services for existing, as well as new clients.

Pension administration costs

Our aim is to keep the costs for our clients as low as possible, because we realise that the ultimate added value is the most important yardstick. This is why our basic premise is to achieve a healthy balance between ambition and costs. We want to add as much value as possible for our clients, so that they can build up the capital of their participants at acceptable costs.

Lower costs through Decisive Innovation

We want to be a top cooperative brand. Our professionalism is a condition for this and this is our strength. By optimally leveraging economies of scale, we supply high quality and affordable products and services to our clients.

However, we are not yet sufficiently leveraging our maximum possible economies of scale. In addition, we are aware that new clients are looking for competitive pricing and that existing clients are asking for lower costs. This applies to the external asset management costs, as well as to the internal costs of our other services. Parallel to this trend, there has been an increase in pension administration costs in recent years. In other words, the benefits are declining, while the costs are rising.

To achieve our vision and to continue to be able to implement our strategy, we decided to initiate the Decisive Innovation programme in the summer of 2014. The objective of the Decisive Innovation programme is to create a versatile organisation at a structurally lower cost over a period of three years. Furthermore, the structural cost reduction target has been set at € 50 million (20 per cent) in comparison to the 2013 cost level.

In practice this means that we will be working more decisively and efficiently, investing in ICT and that we will be reducing the complexity of our organisation and processes. As a result we at a minimum expect to be able to reduce our internal costs. In 2014, we already achieved 8 million of the targeted € 50 million in savings as a result of this programme.

To reduce the external asset management-related costs we investigated potential cost reduction measures in the second half of 2014. From our analysis it is evident that the largest savings can be achieved by internalising these activities.

Focus in 2015

In 2015, we will continue to elaborate measures in the context of the Decisive Innovation programme, for example by implementing changes to our business operations. The chapter on A Healthy Cooperative contains more information on this.

In addition, in 2015, we will start working on measures that have already been identified for reducing external asset management-related costs. One of the major items on the agenda is the further internalisation of asset management. We will engage in a dialogue with our clients for this purpose. In addition, we will assess how we can reduce other external costs. For example the costs of the management fees paid.

Investing in the Netherlands

The assets we manage on behalf of our clients enable us to make a positive contribution to the Dutch economy. The fragile economic recovery, the uncertain future earning capacity of the Dutch economy and the increasing government cutbacks have motivated us to make investing in the Netherlands a theme. As an institutional investor, we sense a responsibility to add value to society by investing more in the Netherlands.

Increase in invested assets in the Netherlands

At year-end 2014, we had invested over € 19 billion in the Netherlands. This represents 10.5 per cent of the assets under management. At year-end 2013, this was approximately € 17 billion (11.6 per cent).

As at 31 December 2014	
Total invested assets (€ billions)	182
Investments in the Netherlands (€ billions)	19
Percentage of total invested assets	10.5%

The increase in the amount that we invest in the Netherlands is due to the following developments, among other things.

BAM

In 2014, we increased our financial commitment to our successful joint venture with BAM for public private partnership projects by € 100 million to € 340 million. We once again expect to be able to finance infrastructure projects with BAM in the Netherlands and elsewhere over the coming years.

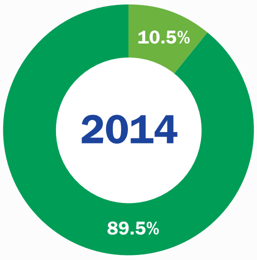
Rabobank

In 2014, a major risk sharing transaction was concluded for the Stichting Pensioenfonds Zorg en Welzijn with the Rabobank. The size of the credit portfolio that is subject to joint risk is € 3.2 billion. This concerns over 500 business loans of which more than half was provided to Dutch companies. On the one hand this transaction yields a good return and on the other hand the Rabobank provides additional room for granting new credit to Dutch (and other) companies. This can contribute to the economic recovery of our country.

In addition, on behalf of the Stichting Pensioenfonds Zorg en Welzijn we took an interest of 20 per cent in an existing investment portfolio of Nordian Capital Partners, a spin-off of Rabo Private Equity. This investment portfolio consists of fifteen Dutch SME investments. Aside from this, we committed new capital to Nordian that can be used for new investments in Dutch SME companies over the coming years.

INPUT

ASSETS UNDER MANAGEMENT IN THE NETHERLANDS



- € 19 billion invested in the Netherlands (10.5%)
- € 162.9 billion invested in other countries (89.5%)

€ 181.9 billion total invested assets

The Dutch economy represents **1%** of the global economy;
PGGM invests **10.5%** of its assets under management In the Netherlands.

INVESTMENTS IN SOLUTIONS IN THE NETHERLANDS

€ 513 million in:

- Local heating network
- Healthcare
- Green deposits
- Wind farm
- Dutch companies with a sustainability policy

INFLUENCE

ACTIVITIES RELATED TO DUTCH LISTED COMPANIES

Number of companies in the portfolio	Engaged in dialogue	Attended	Voted at
30	**14** companies	**13** shareholder meetings	**37** shareholder meetings

OUTCOMES

FINANCIAL RETURN FOR PENSION PARTICIPANTS OVER THE PAST 40 YEARS

Average return on the total investment portfolio:

8,4%

SOCIAL RETURN DUE TO INVESTMENTS IN SOLUTIONS

Local heating network

CO_2 reduction corresponds to the emissions of **19.500** households.

Source: Milieu Centraal, 'Bereken je CO_2-uitstoot'.

Ennatuurlijk

Our investment in Ennatuurlijk demonstrates that it is not always easy to invest in the Netherlands. Ennatuurlijk is a local heating company and an Essent spin-off. The company is an example of the 'greening' of the Dutch energy supply. In 2014, our investment in this company generated a great deal of publicity when Ennatuurlijk's clients claimed compensation because in their view they had been charged an excessive rate for many years. We are awaiting the outcome of the legal proceedings that were instituted against Ennatuurijk in this matter.

Netherlands Investment Institute (NLII)

By investing in the Netherlands, we, together with our clients, respond to society's call for a larger share of pension assets to be invested to strengthen the Dutch economy. The pension assets generated through mandatory savings can play an important role this way now that banks are not able to assume their traditional credit provider roles to the same extent as before the outbreak of the financial crisis. If pension assets earn a good return in the Netherlands, help strengthen economic growth and at the same time help improve the stability of the banking system, then this is to the benefit of the participants in the pension funds.

This consideration was a key motivation to invest effort, together with a number of partners, in 2014 in the creation of the Netherlands Investment Institute (NLII). We did this by making human resources, as well as expertise available. In addition, we are participating in NLII's share capital in the amount of € 100,000.

The NLII's objective is to balance the supply and demand for long-term financing, thus facilitating investments that currently are barely or not at all being realised. Among other things, this includes the financing of the SME sector and public private partnerships for infrastructure. The NLII furthermore facilitates a platform that brings together the expertise of government, investors and entrepreneurs. The expectation is that the NLII will launch its first projects over the course of 2015.

At the same time, we are seeing similar initiatives emerging at the EU level, focused on refloating the European economy. These initiatives call on institutional investors to finance projects that currently have difficulty getting off the ground.

Netherlands Mortgage Institution (NHI)

In addition to the NLII, in 2014, we also worked together with a number of partners on plans for the Netherlands Mortgage Institution (NHI), which, among other things, aims to narrow the banks' financing gap; the portion of the mortgage portfolio that cannot be financed by bank and savings deposits. The details have been virtually worked out, but its foundation is still dependent on approval by the European Commission. In addition, the working group involved with the creation of the NHI is also still in discussion with Eurostat concerning the processing of the bonds to be issued by the NHI.

Focus in 2015

We see opportunities for responsible investment in the Dutch economy, but we also experience obstacles. For example, in relation to permit applications and local legislation. In addition, the opportunities for making sizable investments are limited. There are few suitable projects, the risks are often high and finding the right partners is a challenge. Of course we will continue to carefully look at the opportunities we come across in 2015.

Responsible Investment

Pursuant to our beliefs, we are active in the field of responsible investment. This means that we are not only tasked to earn money with our investments, but also to more forcefully leverage the controlling power of money to make a positive contribution to sustainable global development. Over the coming years, the investment portfolios of our clients will increasingly focus on investments in solutions related to the themes climate change and the reduction of pollution and emissions, water scarcity, healthcare and food security. This way we also harvest financial and social return. In addition, responsible investment will increasingly be integrated into all our investment activities, from policy advice through to implementation.

Responsible investment in focus areas

At the request of our clients, we invest the pension assets we manage in responsible ways. This way we provide for responsible, stable and good investment results that are consistent with our clients' ambitions for their pensions. Integrating responsible investment into the investment approach means that we consciously take account of environmental, social and governance (ESG) factors in all our investment processes. In consultation with our clients, we have selected seven areas of focus that have a social impact and that are material in terms of the risk return profile of our investments. These seven areas are as follows:

- Climate change and reduction of pollution and emissions;
- Water scarcity;
- Healthcare;
- Food security;
- A stable financial system that serves the real economy;
- Good corporate governance;
- Safeguarding human rights.

In this chapter we briefly review developments within these areas of focus in 2014. The PGGM 2014 Annual Responsible Investment Report we prepared for our clients contains additional information on this.

Climate change and reduction of pollution and emissions
In 2014, we invested in a GDF SUEZ green bond for renewable energy. In addition, we made our voice heard among policymakers throughout the world, such as at the UN Climate Summit and at the European Commission (EC) to make a plea for conditions that keep investing in 'green growth' (economic growth with more renewable energy and less wastage) attractive. And with good effect: the EC presented the '2030 Climate and Energy Plan', calling for a CO_2 emission reduction target of 40%, the percentage we had lobbied for.

To limit the risks of climate change to investments, we signed the Montreal Carbon Pledge in September 2014. By signing this Pledge, we promise that we will measure and report the CO_2 footprint of our investment portfolio. We will present a reduction plan in 2015. The chapter on Sustainability contains more information about our own CO_2 footprint.

In addition to making our voice heard, we also invest in projects for generating renewable energy. An example of this is a wind energy project in Mexico that we are attempting to start off in a consortium. In 2013, this project was halted following protests by local pressure groups. In 2014, the consortium searched for new sites for this project and we urged the Mexican governments to make maximum efforts to consult the local population in order to create greater support for the project.

Water scarcity
In 2014, we encouraged the CDP, an organisation that sets standards for transparency in water scarcity for listed companies, to increasingly shift the focus of their annual reporting on water to 'business value at water risk'. This is the business value that is at risk due to exposure to water problems. This information is available effective from 2015. This enables investors to identify water opportunities and risks for companies, and use this information as a basis for making their investment decisions.

Furthermore, in 2013-2014, we invested in three Chinese water companies that purify industrial waste water extracted from rivers and consequently contribute to solving the major water scarcity and water pollution issues in North-east China.

Healthcare
In 2014, we called on multiple companies to participate in the non-profit Global Health Innovation and Technology (GHIT) fund, in order to collectively improve access to medicines. Six companies have since joined this fund. In 2014, we also invested in Gilde Healthcare Services II, a fund that invests in the healthcare sector, primarily in the Benelux and Germany.

Food security
In 2014, in part via the Black River Food Fund I, we invested in the Chinese AustAsia dairy farm that each day produces over 80 percent more milk than local farms. This level of efficiency is required to promote food security in China. We are also engaged in a dialogue in the area of sustainable food production. For example, we successfully continued the engagement project for a sustainable palm oil sector: five palm oil producers have instituted a moratorium on the deforestation and cultivation of peat bogs.

A stable financial system that serves the real economy
We are dependent on the health of the financial system in terms of our ability to achieve returns for clients. Seven years following the financial crisis, confidence in the financial sector is still low. As a financial institution, we are responsible for contributing to a sustainable financial system that can restore society's confidence; a prerequisite for achieving good returns over the long-term.

In 2014, we described our role, as well as that of our clients, in a sustainable financial system. In addition, we assessed the behaviour of parties in the sector with which we cooperate or in which we invest, we developed new compensation guidelines and as a member of the Enhanced Disclosure Task Force (EDTF) we worked on improving the transparency of international banks concerning risks and risk control measures. It is encouraging to see that in 2014, a large number of banks in the United States and Europe have improved their annual reporting. The major banks in the Netherlands currently score well in international comparisons.

Good corporate governance
In 2014, we encouraged a number of companies to develop an acceptable remuneration policy. In addition, we called on various companies to account for a lack of independent supervision. As a result, a number of companies in Asia appointed independent external directors.

We do not always achieve the desired result, however. For example, the IT company Oracle refused to consider proposals calling for the compensation structures to be adjusted and allowing shareholders to nominate independent directors. If Oracle continues to refuse to make the necessary adjustments, we can decide to sell our investments in the company in consultation with our clients.

Safeguarding human rights
At the beginning of 2014, there was a great deal of debate concerning the implementation of the prolonged and carefully prepared decision to exclude investments in five Israeli banks involved in financing settlements in the territories occupied by Israel. In the first months of the year, numerous national and international news reports on this decision, which we took jointly with the Stichting Pensioenfonds Zorg en Welzijn, as well as various interest groups issued positive as well as negative responses. The negative responses suggested that the decision was a politically inspired one. This was not the case; the exclusion is in line with our responsible investment policy frameworks. In addition, there were suggestions of a boycott of Israel, but this also was not the case. We continue to invest in other Israeli companies on behalf of our clients.

For us this was an important opportunity to explain the responsible investment principles and to demonstrate that it is not necessary for a pension investor to avoid controversial topics. We evaluated the process and drew lessons learned from it. For example, we need to involve stakeholders more extensively and sooner in such sensitive decisions.

Instruments for responsible investment
In 2014, we published a new Responsible Investment Implementation Framework. The Implementation Framework uses six instruments: investment in solutions, ESG Integration, engagement, voting, legal proceedings and exclusions. We apply these instruments for the purpose of promoting social solutions, encouraging companies to make sustainability improvements, and excluding companies that carry out activities that we do not want to support.

In relation to investment in solutions, we want to use pension assets to earn financial returns and at the same time have a positive impact on the world. In 2014, we developed proposals for quadrupling these investments over the period leading up to and including 2020 within the climate change, water scarcity, healthcare and food security areas of focus. In 2014, these investments amounted to € 4.6 billion.

PGGM's Instruments for Responsible Investment

YES
What we want to stimulate

Social return in the area of:
- Climate change and reduction of pollution and emissions
- Water scarcity
- Healthcare
- Food security

Instrument:
Investments in solutions

CHANGE
What we want to improve

Make companies and markets sustainable through means of ESG Integration, active shareholdership and cooperation with financial service providers.

Instruments:
- ESG Integration (including ESG Index)
- Engagement
- Voting
- Legal proceedings

NO
What we do not want

Immediate exclusions:
- Controversial weapons
- Tobacco

Exclusions after engagement re:
- Human rights and social conditions
- The Environment
- Corporate governance

Instrument:
Exclusions

AREAS OF FOCUS

Climate change and reduction of pollution and emissions

Water scarcity

Healthcare

Food security

A stable financial system that serves the real economy

Good corporate governance

Safeguarding human rights

INVESTING IN SOLUTIONS

Total:
€ 4.7 billion

New in 2014:
€ 123 million

Solution for climate change: **sustainable energy in Europe**

Solution for water scarcity: **water purification plant in China**

Solution for healthcare: **healthcare fund in (among others) the Netherlands**

Solution for food security: **food production in Asia**

EXCLUSIONS

Total:
124 companies and government bonds of 13 countries

New in 2014:
2 companies due to production of controversial weapons

Government bonds of the Central African Republic due to violation of human rights

ESG-INTEGRATION

ESG factors were analysed in 100% of the new investments in external investment funds in 2014.

ENGAGEMENT

Engaged in dialogue
510 companies

21 results related to environment

32 results related to social factors

80 results related to corporate governance

VOTING

Voted at **3,395** shareholder meetings

37,281 votes cast

LEGAL PROCEEDINGS

Recovered **€ 2,709,696** in investment losses via legal proceedings

We increased our focus in the area of engagement in 2014. We primarily enter into a dialogue with legislators and regulators and with companies that have a halo effect in their sector, region or chain. This way we are attempting to exert greater influence on the improvement of standards at the market level. For example, in the Netherlands we are in discussion with the Ministry of Justice to develop a system of collective compensation proceedings in which a group of misled investors with a shared common interest can instigate legal proceedings.

Responsible Investment Annual Report

The PGGM 2014 Annual Responsible Investment Report we prepared for our clients contains additional information about our policy and our results in the area of responsible investment.

Focus in 2015

For 2015, we have formulated agreements with our clients concerning responsible investment-related activities that are consistent with our new implementation framework, as well as the result goals of our clients. Examples of this include the expansion of our investment in solutions in equity listed on the stock exchange, measuring the social impact of all investment categories where possible and preparing a reduction plan to reduce the CO2 footprint of our equity portfolio.

In addition, we will continue to work on a sustainable financial system in 2015, by formalising a number of behaviour-related agreements in support of a sustainable financial sector, we will continue to pursue focused and joint engagement programmes and we will deliver a plan outlining potential ESG integration opportunities in other phases of the investment processes. With these spearheads we aim to support our clients in order to once again contribute to a high-quality future for their participants in a sustainable world in 2015.

Future pension system

We understand that the pension system must be adjusted to suit the requirements and characteristics of the present time. Due to the greying population, our longer life expectancy and changes in society, the current pension system is no longer optimal. The debate about the future of our pension system is important to all of our stakeholders, which is why we consider this a core theme. Not only because of current developments in relation to continuity, funding ratio, mandatory participation, the new pension contract, the Algemeen Pensioenfonds (APF), the consolidation of the pension landscape and the changing laws and regulations, but also because of the contribution we make to this debate.

Issues for a viable pension system

We have been intensively involved in modernising the pension system for a number of years. And this will continue to be the case next year. Although many now agree that the pension system requires modernisation, this unanimity does not apply to the potential solutions put forward for this purpose.

The current pension system is under pressure due to the economic, demographics, job market-related and sociocultural developments. For example, in recent years, issues have arisen as a result of the increased life expectancy, declining birth rates (reduction of the number of young people in the population) and the greying population. Furthermore, the Dutch pension system was designed for workers working their entire career for the same employer or in the same sector, while actual practice is changing. This is evident from the increase in the number of self-employed workers without employees, for example. In the meantime, intergenerational solidarity and the growing need for freedom of choice and an individual approach with individual responsibility and a reduced role for government is a frequently debated topic in society at large.

National Pension Dialogue

To come up with solutions to the issues in the current pension system, State Secretary Jetta Klijnsma initiated a National Pension Dialogue in 2014. The objective of this dialogue is to outline possible directions for pursuing the development of the future Dutch pension system. The Pension Dialogue started off with a debate segment.

For some time we have been making our contribution to the social debate related to the viability of the pension system via publications and presentations. For example, on the basis of the research project ‘Be Prepared’, we spoke with our clients, as well as other participants to the Pension Dialogue about developments, potential issues and potential problem-solving approaches. In 2014, the focus in this respect was on the impact of the new Financial Assessment Framework (nFTK), the flat rate premium methodology, the arrival of the Algemeen Pensioenfonds (APF) and the continued development towards a collective defined contribution agreement.

Naturally we also participated in the debates held in the context of the National Pension Dialogue in 2014. Our approach consistently was to present the facts free from any value judgements, to proactively and creatively look for problem-solving approaches and to clearly identify the consequences across their full breadth.

Sustainable pension system

We hope that the Pension Dialogue will result in a sustainable pension system and we look forward to making an active contribution to this reform. We recognise and acknowledge the issues, problems and imbalances in the current pension system, but we would like to retain the good basic principles such as solidarity and collectivity. We are focusing our efforts on this in collaboration with our clients and partners, such as pension funds, other pension fund service providers, insurance companies, the Pension Federation, the Dutch Fund and Asset Management Association (DUFAS) and Eumedion. We promote the interests of our clients and our own interests as a pension fund service provider in this respect. Two key areas are a priority for us in this process. High-quality pension administration and services and low implementation costs.

Restrictions on pension accrual

One of the developments to which we devoted a great deal of time and energy in 2014, is the restriction of the Witteveenkader, which sets the tax limits for (mandatory) pension accrual. The result of this restriction is that effective 1 January 2015, many people will be accruing less pension. This has forced many pension funds to reduce the pension accrual rate. This is offset by the fact that employees will be accruing pension for a longer period of time due to the increase in the pensionable age. With this measure, Cabinet is achieving a significant cost reduction. The impact of the adequacy of the pension to be accrued will only become clear over the long-term, however. Indeed, this measure only applies to new accruals.

In addition to a reduction of the accrual rate, a cap was introduced as well. Pension accrual above € 100,000 will no longer be tax-efficient. Together with others, we have urged that measures be introduced that allow pension funds to offer a net pension to this group that enables its members to continue to save on a voluntary basis. Furthermore, there now is a solution for the partner's pension.

The New Financial Assessment Framework (nFTK)

The New Financial Assessment Framework (nFTK) went into effect on 1 January 2015. We also closely monitored this development in 2014. A debate about shaping the new pension contract has been going on for some years. For some time there were two contracts. A nominal contract (focused on certainty) and a fair value contract (focused on indexation). Cabinet ultimately opted for a single contract with elements from both versions. This means that pension funds do not have to make a choice.

In the nFTK, the financial breaks and setbacks are spread more equally over time, the indexation rules will be refined and there is a stable contribution. State Secretary Klijnsma describes the revision of the FTK as 'technical maintenance'. However, the question is whether the planned revisions will be met. For example, there are doubts about the options for giving substance to the ambition of providing for an indexed pension.

Developments in europe

A pension is a national matter in a formal sense only. The European Union to a greater or lesser degree influences all aspects of Dutch pension administration. The financial regulations are the exclusive purview of the EU. Financial regulations are designed to provide stability, but do not always take the specific characteristics of the Dutch pension funds as players on the financial markets into account. Brussels is offsetting the importance of long-term investments and stimulating the economy against the 'containment' of the financial markets. There is increased recognition that the long-term horizon of pension funds makes them crucial players in the economy.

In 2014, a new European Parliament was elected and a new European Commission was installed. Although there is a far greater focus on the usefulness and necessity of regulations, the trend continues to be harmonisation and integration. This creates opportunities and threats On the one hand, the Netherlands with its highly developed pension system has an example setting role. On the other hand, European developments are putting the specific (as well as deviating) Dutch pension system under pressure. Europe is watching the debate over the future of the Dutch pension system with a great deal of interest. Will the rest of Europe look a little more like the Netherlands, or will the Netherlands look a little more like the rest of Europe? In this situation, forming a coalition with Denmark, Britain and Germany, among others, is crucial. Indeed, the Dutch pension sector cannot manage on its own. This makes it essential to bid a final farewell to the 'no attitude' and adopt a constructive attitude. The following examples provide a good overview of how we respond to this.

Pension Fund Directive (IORP): no quantitative requirements

The revised IORP Directive was presented in March 2014. As a result, the entire year was characterised by negotiations between member states on the European Council. Prior to the negotiations, the Dutch pension sector was highly satisfied with the fact that the IORP did not contain any quantitative requirements. However, there were concerns about the level of detail of some directives and the possibility of delegating authorities to EIOPA, the European pension regulator.

In December 2014, the European Council under Italian chairmanship reached a compromise. In relation to the original proposal published in March, this compromise was an enormous improvement and we are happy with the result. For example, the current proposal no longer contains the delegated EIOPA authorities. Every material item must be agreed upon at the political level.
In addition, the risk evaluation report and the Pension Benefit Statement (PBS, comparable to the Dutch Uniform Pension Statement (UPO)) has moved from being highly prescriptive and rule-based to being more principle-based, and is more in line with Dutch legislation. The IORP negotiations will continue in 2015. It is now up to the European Parliament to write a report after which the European Council and the European Parliament must reach joint agreement.

Financial Regulations (EMIR and FTT)

Two dossiers were receiving close scrutiny in 2014: the Financial Transaction Tax (FTT) and the EMIR derivative regulations. There is little to report on FTT-related progress. In the letter of appointment to Commissioner Moscovici (ECFIN) by European Commission Chairman Juncker, the completion of the FTT had been identified as a specific dossier. However, the eleven member states involved in negotiations on this matter are not making any substantive progress.

In terms of the EMIR, 2014 was an important year due to expiry/continuation of a temporary pension fund exemption from the mandatory derivative clearing announced in these regulations. Since pension funds make use of derivatives to manage currency and interest rate risks, the EMIR regulations have a high level of impact on the pension income of participants.
The regulations assume that the market (central clearing houses and large investment banks) will quickly come up with a fitting solution for pension funds. At the beginning of 2015, the European Commission announced an extension of the exemption for pension funds given the market's reticence to come up with solutions and the evident substantial impact on the pension income of participants.

PKA Partnership

Since 2011, we have been closely working with the Danish PKA, responsible for the administration of pensions in the Danish healthcare sector. During the initial years we broadly explored opportunities for cooperation between our two organisations, while greater focus has emerged during 2014. The joint exploration of modernising pension ambitions while retaining shared values (collectivity and solidarity) and the continued development of responsible investment appear to be bearing fruit. Above all, we are reviewing subject areas where shared interests at the European level are at issue. This involves the European financial regulations, the promotion of supplementary pensions in Europe and communication with participants. In relation to the last topic, since 2013, we have actively been participating, together with the PKA, in the TTYPE project, which is working on a European Pension Register.

Pension Register in European context: the TTYPE Project

Since its start in 2013, we have been shaping the TTYPE (Track and Trace Your Pension in Europe) Project together with five other pension providers in the Netherlands, Finland and Denmark. The objective of the project is to develop a pension tracing service for the mobile European worker. A European pension register can provide added value as a means for providing direction to effective communication with participants. A cost effective implementation and phased approach are crucial in this respect. Our reasons for participating in structuring the TTYPE Project are threefold. It provides an opportunity to work with the European Commission in a positive way, the topic could provide substantive inspiration for our lobby related to the European communication directives contained in the IORP and it provides opportunities for innovation in the continued development of the pension register.

At the end of 2013, we started to conduct research into the status of (digital) pension communications in Europe. We were positively surprised by the number of member states with pension tracing services or that are developing these services. In 2014, we started work on developing the initial design of a pension tracing service at the European level. An initial meeting with European experts in March 2014, resulted in a great deal of enthusiasm for the initially presented ideas. These ideas were subsequently worked out into a fully-fledged design. This design has since been completed and is characterised by an approach that makes it possible for national tracing services and providers in EU countries to join at their own level. This way the design provides room to accommodate the diversity that exists within Europe.

The design phase of the TTYPE project will be closed in the first half of 2015, with a concluding event in Brussels, among other things. Naturally we will also be looking at the next steps required to actually realise our design.

Focus in 2015

At the beginning of 2015, the debate segment of the National Pension Dialogue was officially closed. But that does not mean that we are there yet. The dialogue about the continued development of the pension system will therefore carry on in 2015 as well. During this process we will be faced with a number of specific developments and innovations, for example in relation to the new Financial Assessment Framework (nFTK). For our clients these developments mean that the decision concerning the transition to the nFTK—for example, in relation to financial management, the crisis plan and the feasibility test—will occur this year. A recovery plan must be submitted to the regulatory authority before the end of June 2015, and a feasibility test before the end of September. We will provide our clients with advice and support in this respect.

In addition, we are seeing that tens of pension funds in the market are currently seriously wrestling with the question ‘in what form will we continue with our pension scheme?’. One of the solutions to this is the Algemeen Pensioenfonds (APF), a new type of pension fund that can in all probability be established effective from 1 July 2015. We are closely monitoring developments in this area. The chapter on Controlled Growth contains more information on this topic.

At the European level, the above-referenced dossiers will continue to require our attention in 2015. In addition, the so-called Juncker Investment Plan will become a key area of focus, especially with an eye on our role as a long-term investor. The plan of the European Commission Chairman Juncker has three pillars: creating a European Fund for Strategic Investments, a project pipeline (the ‘Juncker List’) and a roadmap for making investing in Europe more attractive by dealing with issues in the regulations. For the European Commission this Capital Markets Union approach will be key over the coming year. We note that this creates a dynamic as a result of which the media, politicians and other stakeholders will give substance to the plan on the basis of their own notions. As a result, investors may be faced with considerably increased social attention. This is reminiscent of the atmosphere pertaining to the investment in the Netherlands theme. This will force investors to actively participate in the debate over the coming period in order to clarify their position and identify opportunities.

Members

Growing members' organisation

We are aiming for one million paying members by 2020. We want to help these members during their most important life events by providing insight, overview, (saving) tips and specific benefits. Via the pillars coach, forum and discount, we provide our members with benefits, such as an inspiring community and a valuable product range, in the pension, healthcare, living and work domains. The value we create this way has resulted in a growing number of members making use of our products and services, being prepared to pay for them and expressing their satisfaction by recommending us to others.

Growth in the number of PGGM&CO members

Our Cooperative has an active members organisation for people currently or previously working in the health and social sector. Many members of our Cooperative are faced with reforms in healthcare. Reorganisations are the norm and work pressures are high. Some members are confronted with redundancy or are required to do more work with fewer colleagues. For others, their tasks as informal caregiver are increasing. We would like to effectively help these (and other) members via PGGM&CO to find and strengthen their personal and financial balance in these turbulent times.

In 2014, the number of PGGM&CO members rose by more than 40,000 to almost 690,000 members. The growth in new members was primarily due to the campaign related to healthcare insurance and due to more specific member recruiting activities. These activities are conducted at the request of and in cooperation with employers, and during specific events in the health and social sector.

Generative dialogue

PGGM&CO members consider a valuable future important, but are also experiencing turbulent times in their personal, as well as working lives. A sense of purpose, a renewed balance and belonging are important concepts for them. The PGGM&CO's objective consequently is to play a vital, visible and purpose instilling role by bringing members into contact with each other and by facilitating them.

To achieve this, a 'generative dialogue' was initiated in 2014. Ideas are provided to and discussed with a group of members during the generative dialogue. The ideas are then taken to the next stage with these members and this mutual inspiration has a bonding effect. This method of facilitating and bonding is consistent with our cooperative ideology. The ultimate goal of the generative dialogue is to be a Cooperative of significance for and by members.

In 2014, the Members' Council was actively involved in the generative dialogue, for example through means of interactive sessions in the Members' Council. In these sessions, the Members' Council and the Cooperative Council had the opportunity to proactively contribute their thoughts about new products and services. Additional interactive sessions with the Members' Council will be organised in 2015. The chapter Governance in the 2014 PGGM Coöperatie U.A. Annual Report contains additional information about the activities of the Members' Council.

Valuable product range

Due to the scale of our Cooperative and our insight into the wishes and needs of members, PGGM&CO is able to support members in choosing specific products that make an actual contribution to their financial and personal balance. In 2014, partly as a result of the generative dialogue, PGGM&CO's product range was expanded as follows:

- Assistance and discount in choosing general personal liability, home and contents insurance. These insurance policies are offered in cooperation with VvAA Schadeverzekeringen NV.

Number of PGGM&CO members

	2008	2009	2010	2011	2012	2013	2014
Number of PGGM&CO members	469.000	553.000	553.000	563.000	577.000	650.000	690.000

- Discounts on third party healthcare insurance. PGGM&CO in the past was already assisting members in choosing the right healthcare insurance. After completing a member survey, this assistance was expanded with substantial discounts on basic and complementary insurance. Arrangements have been made for this purpose with three healthcare insurance companies: CZ, IZZ and ONVZ.

From discussions with members it became clear that there was no need for healthcare insurance policies to provide healthcare-specific coverage. On the other hand, members wanted to choose from multiple healthcare insurance companies, enjoy significant discounts and they wanted an offer that met the needs of all members. In addition, it had to be possible for members who were already insured with one of the insurance companies to transfer their policy if the PGGM&CO's discount turned out to be higher.

The general insurance policies on which PGGM&CO members will receive a discount do, however, contain some healthcare-specific elements. For example, the personal liability insurance policy includes First Aid coverage and co-insures volunteer work and informal care. The home insurance policy also includes vandalism by patients and the contents insurance policy also insures effects in a locker at work, as well as borrowed medical effects.

In 2014, we also researched the possibility of introducing a 'member mortgage' in the future. Naturally we will select a suitable partner for this purpose who manages his own mortgage fund and this way can provide mortgages. The member mortgage will be developed for PGGM&CO members who are participants in the Pensioenfonds Zorg en Welzijn and will be financed with the collective pension assets of the Stichting Pensioenfonds Zorg en Welzijn. We hope to give these plans further substance in 2015.

Members' Meetings '(Anticipated) Redundancy'

In part as a result of the generative dialogue, PGGM&CO organised two members' meetings with the theme '(Anticipated) Redundancy' in 2014. Approximately 350 members registered for each of the meetings. The members' meetings received an average satisfaction score of 7.8.

Members Survey 'Informal Care and Dementia'

In July 2014, we conducted our second 'Informal Care and Dementia' members survey. The online survey was developed in cooperation with Alzheimer Nederland and was completed by 1,095 people. It is evident from the survey results that the load of informal caregivers has considerably increased compared to 2013. A striking finding is that eight in ten informal caregivers combine this task with their work or part-time work. Just like 2013, the assistance required by persons developing dementia accounts for the largest, especially mental load.

The results of the survey are reported in the 'Informal Care and Dementia in the Experience of PGGM&CO Members' brochure and has been discussed by the Members' Council.
In part as a result of the survey, a General Consultation concerning informal care was held in the Dutch House of Representatives on 16 December 2014. A delegation of the Aging in Good Health sounding board attended the consultation on behalf of the Members' Council.

PGGM Innovation Teams (PITs)

Another way in which the generative dialogue took shape in 2014, is the working in PGGM Innovation Teams (PITs). In 2014, five of these teams focused on concepts for products or services within the redundancy and informal care themes that can create bonding among members individually and consequently among members and PGGM&CO. The PITs include employees from all of our business units. They were freed up from their regular activities for several days.

This method of working has resulted in a number of new concepts that have been discussed by the Members' Council and for which pilots have since been initiated. Examples of this include ZIJN, a community concerning vitality and personal balance; VernieuwdeZorg, a concept whereby members inspire and help each other to actively contribute to change; and Deel de Zorg, a concept designed to support informal caregivers. To be able to continue the dialogue on these and future concepts, in October 2014, it was decided to develop a community platform specifically for PGGM&CO. This platform will be launched in the first half of 2015 and effective from its introduction will be the point of departure for all of PGGM&CO's generative innovation concepts.

Focus in 2015

For PGGM&CO, the focus in 2015 will also be on increasing the individual bond among members, and taking the next step in becoming a future-proof members organisation. This will be accomplished in various ways, for example by offering assistance and discounts on travel, accident and car insurance. Naturally, PGGM&CO will once again offer these benefits in cooperation with a selected partner and at the request of members will take any healthcare-specific elements into account in this respect.

Social Agenda

Themes

We want to help people realise a valuable future. We do this on the basis of our beliefs and our vision of society. Creating value for the social issues of today is the cornerstone of our vision and strategy. This is why it is natural for us to play a social role. We do this via our Social Agenda.

In 2014, the Social Agenda was created in consultation with over eighty mostly external stakeholders. Together we opted for a social agenda comprising three themes: aging in good health, job market dynamics and the circular economy. This way the Agenda contributes to a liveable, healthy and active society with an effectively operating job market.

The emphasis of these themes is not only on words, but specifically on deeds as well. Each theme therefore includes three projects to which we will be making a contribution in cooperation with others:

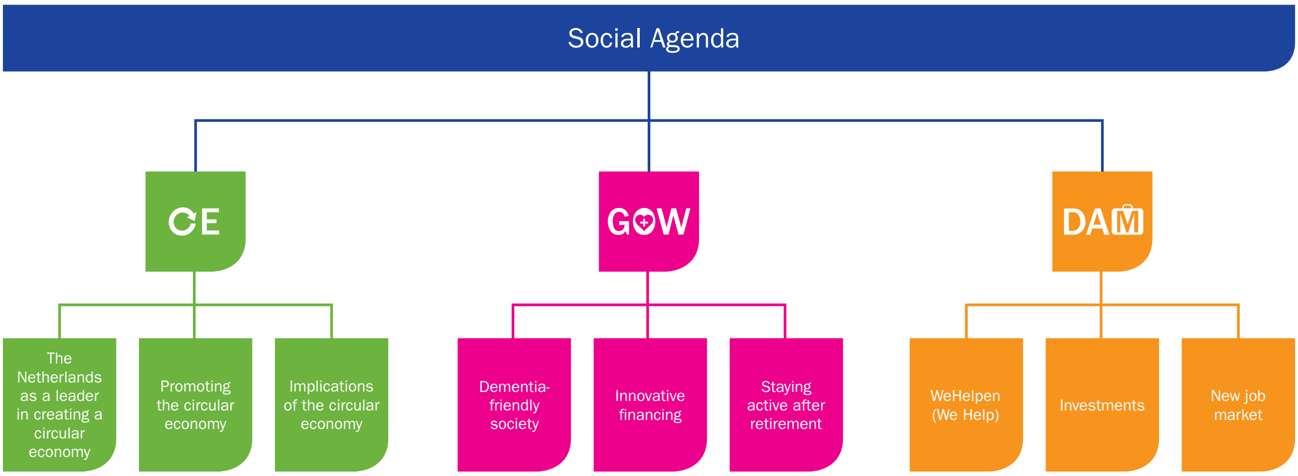
Aging in Good Health

We realise that health is the highest objective when people are asked about what they wish for as they get older. Physical and mental ailments are a major threat to a valuable future. Working on ways and means that enable aging in good health therefore is not only good for people themselves, it is a key condition for staying productive at a later working age (50+) and for the ability to use social capital for informal care and/or volunteer work. This is of even greater importance in relation to the rising pensionable age and the increasing need for a participation society.

Dementia-friendly Society

We are one of the four founders of the Dementia Delta Plan; a public-private platform that wants to put up a barrier to dementia. This will happen in three pillars:

- Search for a cure;
- Better care;
- Dementia-friendly society.



Within our organisation we will develop these projects with the help of crowd resourcing and crowd organising. We started working on this in 2014. The approach we chose is new to us, but up to now is proving to be effective. The projects within each theme each have its own development, schedule, milestones, objectives and dynamic, in 2014, as well as in 2015. We elaborate on this below.

Precisely in a multi-stakeholder organisation it is important to clearly indicate where our added value lies. We embrace the broad ambition of the Delta Plan, but that does not mean that we must make a contribution in all areas. We believe that we are in a position to especially support the third pillar. This is why we made a contribution to the realisation of a dementia-friendly society in 2014. Furthermore, there is an explicit link here with our programme that links to Alzheimer Nederland.

Since 2012, we have been a social partner of Alzheimer Nederland and support its fight against dementia. In 2014, we did this in various ways, for example by once again organising the PGGM Spinning Marathon. On 24 April, 250 employees collected over € 33,500 by spinning on stationary bicycles. The proceeds went to the 100+ research conducted by the VUMc, which focuses on the causes of dementia.

In addition, we organised a members survey about informal care and dementia, and the PGGM Incentive Fund provided support to two promising projects. One of these projects is a project carried out by the Trimbos knowledge institute in which 'dementia glasses' are used to demonstrate what it means to have dementia. The other is a project carried out by RIVM/CAPHRI which investigates how the positive characteristics and activities of care farms for people with dementia can be transferred to other forms of care. Both projects received € 75,000 in support.

Innovative Financing

Furthermore, in 2014, we conducted research into innovative financing for breakthrough projects in the area of health, for example in the form of health impact bonds. We consider it important to stimulate breakthrough projects because prevention often is underemphasised in the healthcare sector. In this context, we initiated a pilot to support informal caregivers of people with dementia. On the basis of a relatively simple intervention it is possible to enable people to independently live longer at home. This not only provides a quality incentive for the involved parties, it also results in lower care costs.

Staying active after retirement

In 2014, together with Maastricht University, the Stichting Vughterstede, ActiZ and CZ, we investigated the extent to which staying active after retirement contributes to a vital and socially active life, and how to enable society to encourage this. This helps aging in good health in a direct sense, because research shows that people who are active after retirement are not as lonely and are less likely to be in need of help.

Focus in 2015

In 2015, we will investigate three domains of a dementia-friendly society in order to find various initiatives and to assess how these can be scaled up, together with Alzheimer Nederland. Indeed, we have explicitly decided not to develop solutions independently, but instead to make use of valuable, small initiatives that already exist.

In 2015, we will also continue working on the development of health impact bonds. The first project in which we will be looking at the feasibility of health impact bonds is the DementelCoach Project which provides telephone support to family caregivers of people with dementia. Other projects may follow in 2015.

Job market dynamics

We are observing major changes on the job market, particularly in the health and social sector. The dynamics are increasing on many fronts, among other things due to the flexible pension age, the need for combining paid and unpaid labour, and the increased flexibility of employment contracts. The lack of job security has an impact on prosperity, now and after retirement, but also on well-being (self-esteem, social network and health). We want to contribute to the sustainable employment of people on the job market. This includes support in case of redundancy, as well as the continued development and strengthening of people.

WeHelpen

In 2014, as co-founder and member, we were involved in the continued development of WeHelpen, a platform that gives neighbourliness a modern boost. In 2014, the basic membership of WeHelpen grew from 25 to 61 members. The members of WeHelpen include municipalities, healthcare and welfare organisations, home care agencies, nursing homes and care homes, and other socially involved organisations. Together these members are working to create the largest possible national assistance network.

The number of WeHelpen users rose to over 18,000 in 2014. Users are persons who actually ask for assistance and who offer assistance. With its 18,000 users, WeHelpen has grown into the largest online platform for the exchange of social capital in 2014.

InvestMens

In 2014, as co-founder, we were also involved in the start-up of InvestMens together with Start Foundation and the Rabobank. InvestMens is an instrument designed to promote inter-sectoral mobility. The healthcare sector is experiencing a major contraction on the one hand and growth on the other. InvestMens anticipates this. It is a demand-driven job market instrument in which people's own responsibility is a key fundamental principle.

Focus in 2015

WeHelpen will be in its third year in 2015, a year in which all efforts will once again be focused on growth, both in terms of user activation (number on the platform and the actual assistance provided), as well as the membership base. The objective is to have more than 100 members in 2015.

In 2015, we will also continue to monitor general job market issues. For example, we are involved in the Nederland2025 initiative in which several large Dutch companies are combining their strength in order to strengthen the future earning capacity of our economy. One of the elements of this initiative is 'Everyone on Board', whose aim is to achieve an inclusive society in which specific goals are set for the operation of the future job market. That too is in the interest of employees and employers in the health and social sector.

In addition to WeHelpen and Nederland2025, we have an opening for a third project in 2015, because our involvement in InvestMens has come to an end. We will be identifying potential initiatives for this purpose at the beginning of 2015.

Circular economy

We want to contribute to the transition to a circular economy. The linear economy is not sustainable. We discard a great deal (waste and therefore raw materials, experience, social capital and knowledge) and are squandering value as a result. This is not tenable from an economic and ecological perspective. As investor we can 'direct' companies and with our network, our scale and our influence we can help the movement towards a circular future (creating a sustainable society) further along.

The Netherlands as a leader in creating a circular economy

Since 2014, we have been involved in a multi-stakeholder initiative designed to make the Netherlands more attractive and sustainable by becoming a circular hotspot. This initiative is a follow-up to meetings with the Social and Economic Council (SER) in which government, social partners and companies in joint consultation conducted a review to determine the extent to which our country can assume a leading position in terms of the circular economy.

Promoting the circular economy

In addition, in 2014, we cooperated with the Circle Economy and Sustainalytics to develop a measuring instrument that establishes the degree of circularity of companies and identifies the potential for improvement. The instrument has two levels: a quickscan and a detailed assessment. The instrument looks at the economic (scarcity) and ethical risks. The next steps will involve testing the model and making it more robust, and enhancing its applicability, as well as the ability to make use of the model for public markets. Negotiations are currently underway with a large Dutch bank to become a partner in the model's development. The measuring instrument can be used by companies that want to review their business operations, as well as by investors. To be able to actually use the instrument in the future, it must also be possible for companies to consider alternatives and for investors to use the data for their investment policy.

In May 2014, we organised a pension dialogue with the circular economy as its theme. During the pension dialogue some thirty pension fund managers spoke about their role in the transition towards a circular economy. The meeting started with two inspiring introductions by Herman Wijffels and Feike Sijbesma. Next, the group split up into subgroups to discuss the role of pension fund managers and what they need to fulfil this role.
On Sustainability Day (10 October) we organised a breakfast session as a follow-up to the pension dialogue.

Implications of the circular economy

In 2014, we also established the CE100 Finance subgroup of the Ellen MacArthur Foundation (the global platform for the circular economy). In addition to being its founder, we also chair this subgroup. The rationale behind this Finance subgroup is that companies that are going to engage in circular enterprise require a different financing structure and have different investment needs. Although in theory a great deal of savings can be achieved, when a company adopts circular operating practices, it is crucial for financiers to understand these changes. Add to this that promoting circular enterprise necessitates specific instruments for financial players.

During the semi-annual meeting of the CE100 in October 2014, we indicated that we wanted to work with other experts on issues related to financing the (transition to the) circular economy. There are two motivating reasons for this:

- To understand what the circular economy means in terms of the financial issues faced by companies, and their business models.
- To assess how the transition to a circular economy can be accelerated.

Focus in 2015

In 2015, we will primarily focus on understanding the impact of the transition to a circular economy for the private sector. Indeed, the financing structure for companies changes substantially when it operates on the basis of circular principles. This makes this extremely relevant to investors. Because we want to play a leading role in the various economic changes on behalf of our clients, it is important for us to understand this transition thoroughly.

Cooperative and sustainable business operations

A Healthy Cooperative

We strive for (financially) healthy and sustainable business operations that give substance to our cooperative ideology. We are open and honest about our operations and, consequently, retain a first-rate reputation. To continue to realise added value for our clients we strive for optimal, efficient and effective processes, increasingly further-reaching process improvements and effective information management services.

Financially healthy business operations

We aim for financially healthy business operations, but not with profit and growth as the highest goal. This means that we want to realise sufficient financial results to safeguard the continuity of the services we provide to our clients. In addition, we apply the results in the interest of PGGM's future and its members.

The negative € 24.6 million result for the 2014 financial year is due to the sale of our life insurance activities. The sale of our life insurance activities is the last step in the implementation of our decision to dispose of our in-house managed retail activities. The in-house managed non-life and banking activities had already been transferred to third parties in prior years. The gross result before tax is negative € 33.0 million. The ordinary result before tax, excluding one-time charges, is positive € 21.0 million.

The increase in revenues in 2014 is primarily due to the fact that the fee of Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf for all of 2014 is due to PGGM. The 2013 revenues include two months worth of fees related to the acquisition of A&O Services at the end of 2013.

The costs of our business operations rose by € 59.9 million to € 318.7 million. The increased operating expenses are primarily due to the one-time charges resulting from the sale of our life insurance activities. With the sale of these activities, the related Value of Business Acquired (VOBA) was completely written off at the end of 2014. In addition, in relation to the acquisition of A&O Services, the operating expenses of this entity for all of 2014 were accounted for within PGGM compared to only two months in 2013. Furthermore, in 2014, one-time costs were incurred for the transition of A&O clients to PGGM.

Solvency

PGGM N.V.'s solvency as at 31 December 2014, is high and amounts to 30.8 per cent (2013: 31.5 per cent). Solvency is calculated as the ratio of equity to the balance sheet total.

Liquidity

The cash flow in 2014 declined by € 18.4 million. The decrease is primarily due to the payment of goodwill at the beginning of 2014. The balance of cash and cash equivalents as at 31 December 2014 amounts to € 77.5 million (31 December 2013: € 95.9 million).

The Financial Statements chapter contains additional information about our financial situation.

Financial Outlook for 2015

Lowering costs is key to our clients. This is why we need to reduce our costs over the coming years, so that we can meet our clients' wishes. The Decisive Innovation programme is designed to help us do this. We expect that by lowering our costs we will continue to achieve a healthy financial result in the future. The chapter on Pension Administration Costs contains additional information about managing our costs.

A good reputation

In 2014, we actively promoted our vision, strategy and professionalism in the outside world, for example by pursuing a proactive media policy and by engaging stakeholders in discussion. The completely renovated website at the end of 2013 (www.pggm.nl) has contributed to this as well. A number of our experts regularly publish articles on this website about four key themes:

- The arrival of the new pension system;
- A healthy financial system;
- Responsible investment;
- A valuable future.

This way we emphasise our solid reputation as an expert and professional pension fund service provider that due to its size and experience is viewed as a reliable party.

From Improved Business Operations (IBO) to Decisive Innovation (DI)

We continually work on optimising the effectiveness and efficiency of our processes. We want to create added value for our clients this way. In 2014, we attempted to achieve this through means of the Improved Business Operations (IBO) Project. The objective of this project was to reduce costs by 15 per cent in various areas of the organisation through means of continuous improvements and by making use of Lean Six Sigma process improvements and Short-cycle Management, for example.

The IBO Project produced varying results. Positive results were achieved by the pension management chain of the Stichting Pensioenfonds Zorg en Welzijn and by the Client Contact Centre. Savings of exactly 15 per cent were realised by redesigning the pension management chain of the Stichting Pensioenfonds Zorg en Welzijn (while client satisfaction stayed at equal or better levels).
The Client Contact Centre achieved 16 per cent cost savings due to a reduction in the average telephone waiting time and call elapsed time, accompanied by a rise in client satisfaction to a score of 8.3.

Unfortunately not all Improved Business Operations projects achieved the targeted 15 per cent cost savings. Because, as an organisation, we still see the importance of working more effectively and efficiently, and we want to be able to quickly anticipate market developments and our clients' wishes, we decided to initiate the Decisive Innovation (DI) programme in the summer of 2014.

The objective of the Decisive Innovation programme is to create a versatile organisation at a structurally lower cost over a period of three years. Furthermore, the structural cost reduction target has been set at € 50 million (20 per cent) in comparison to the 2013 cost level.
A dynamic pension system requires versatility and a capacity for change. This is why we want to critically review, simplify, rationalise and renew our service provision and supporting processes over the next three years. Renewal towards reduced complexity, reduced costs, optimal design of (client) chains and with an eye on process and product innovation. To achieve this we will also be investing, for example in ICT.

Strategic Alliance

We cannot realise a valuable future all be ourselves. We look for suitable, cooperative partners with whom we can enter into a strategic alliance for this purpose as a means of realising added value for our clients and members. A strategic alliance is a tight, long-term and useful agreement for all parties between two or more partners in which key resources, knowledge and capacity is shared with each other for the purpose of improving the competitive position of all partners.

We have entered into a strategic alliance like this with the Rabobank. The basis of this alliance is a shared Pension Premium Institute (PPI); the Rabo PGGM PPI. We also cooperate on a number of other activities, such as the Geld voor Later Wijzer (Money for Later Monitor), De Kamer van Coöperatie (The Cooperative Chamber) and WeHelpen. In addition, we are jointly involved in the development of the circular economy in the financial sector in the Netherlands, and we are jointly developing initiatives in the area of impact investing, the impact scan and the impact alliance.

In 2014, as part of this strategic alliance, we concluded a major risk sharing transaction on behalf of the Stichting Pensioenfonds Zorg en Welzijn with the Rabobank, and we acquired an interest in and committed capital to Nordian Capital Partners. The chapter on Investing in the Netherlands contains more information on this.

Focus in 2015

In 2015, the first renewals of our operations will be introduced in the context of the Decisive Innovation programme. For example, our IT release strategy will be adjusted to enable us to more quickly implement system changes. In addition, flexibility will increase due to our Agile Working approach. Furthermore, we will be working with small, versatile client teams combined with a renewed multi-client portfolio management approach in which the front-end and the back-end of the client process will be brought together making it possible to transparently prioritise the work for clients.

The number of managers in our organisation will also be reduced in 2015. This makes it possible to create larger clusters in which working in chains will be emphasised. We will also initiate pilots designed to work with temporary practicable units in which people are assigned to alternating assignments on the basis of their talents. This enhances the flexibility with which we can deploy our people.

Good employment practices

We consider a good remuneration system, a sustainable work climate and good terms and conditions of employment very important. These practices ensure that our employees contribute to our success with motivation and enjoyment. This is why we pursue a clear policy: fair remuneration for measurable performance. Our policy focuses on deliberate and responsible remuneration and complies with laws and regulations. Our terms and conditions of employment offer a great deal of freedom of choice. This results in a good work/personal life balance.

Employees PGGM in 2014

Distribution of employees by department	Number	FTEs
Institutional Business	120	119
Pension Management	497	451
Asset Management	342	353
Relations & Communication	53	48
Information, Finance, Control	234	227
Corporate Staff Services	81	79
Subtotal	1,327	1,277
A&O	150	135
Total	1,477	1,412
Fulltime/part-time distribution		
Fulltime	1,026	
Part-time	451	
Total	1,477	
Male/female distribution		
Male	853	
Female	624	
Total	1,477	
Age distribution		
Younger than 25	16	
25–34	276	
35–44	496	
45–54	480	
55 and older	209	
Total	1,477	
Staff turnover		
Position at year-end 2013	1,516	
Joined PGGM	75	
Left PGGM	-114	
Position at year-end 2014	1,477	
PGGM absence due to illness	3,0%	
Education/training costs (€ millions)	€ 3,0	

Mature working relationships

We aim for a mature working relationship between manager and employees, and among employees themselves. This mature working relationship comprises elements such as instilling purpose, autonomy and professionalism.

Instilling purpose means that people want to do work that matters. Our aim is for people to enjoy their work and contribute to achieving the organisation's objectives. Knowing what their contribution is and realising the vision and strategy consequently is of essential importance for all employees.

The working relationships among employees themselves, and between manager and employees are based on trust, individual responsibility and autonomy. Our professionals have a great deal of independence in carrying out their work.

We consider the sustainable employability of employees important. This is why, among other things, a great deal of attention is focussed on maintaining and enhancing the level of professionalism. All learning and development-related activities are centralised in the PGGM Academy. This enables employees to complete more courses and training programmes at lower cost and higher returns.
In 2014, the 'learning programme' for junior employees in the Asset Management unit was developed.
The knowledge and skills required for advancement were also identified as part of this development.

Remuneration Policy

The remuneration policy was revamped in 2014. The new policy is entitled Deliberate Remuneration. This policy is consistent with our strategy, our cooperative objectives and our core values. We aim for a transparent and sustainable remuneration policy: fair remuneration for measurable performance.

At the beginning of 2014, we rationalised our remuneration policy. The maximum individual variable remuneration was reduced and variable remuneration was abolished for a large number of positions. The employees affected by this measure were compensated for this with an allowance of 50 per cent of the maximum achievable variable remuneration. This allowance has been frozen.
The individual variable remuneration now only applies when it fits the position and provided it is effective.
This applies to positions that form part of the investment chain within the business units Asset Management and Institutional Business.

At the end of 2014, we made additional adjustments to our remuneration policy, in part to be compliant with the Financial Undertakings (Remuneration Policy) Act.
For example, this legislative proposal puts a cap of a maximum of 20 per cent on variable remuneration, with the exception of managers of capital institutions.
We decided to implement this cap for the entire organisation, including employees of the Asset Management business unit. The compensation rule of 50 per cent of that part of the variable remuneration that has been eliminated applies to this group as well.
Other adjustments include that 50 per cent of the variable remuneration must be based on qualitative targets and the incorporation of malus and claw-back provisions.

A limited number of employees in the Asset Management business unit who are crucial to the continuity and management of the investment portfolio can still qualify for Deferred Variable Income (DVI). The percentage DVI varies from 15 per cent to a maximum of 80 per cent of the annual salary per year. A DVI is always deferred.
This means that the remuneration is deferred for three years and is paid out in the fourth year provided that the payment conditions are met.

All changes to the remuneration policy go into effect on 1 January 2015.

Leadership: binding and decisive

We developed our own leadership profile related to our vision and strategy. To ensure management complies with this profile, we developed two programmes. The Binding Leadership Programme and the Decisive Management Programme.

A select number of managers started out on the second Binding Leadership Programme in the third quarter of 2014. This programme extends over a total period of eighteen months. In addition, in 2014, a number of professionals and managers participated in the Decisive Management Programme. This programme took nine months. In 2015, a new group of managers will start out on this programme.

Diversity: the mix makes the difference

Our diversity policy is entitled 'The Mix Makes the Difference'. We are convinced that diversity contributes to the realisation of the vision and strategy. In actual practice this means that the company uses teams with a diverse composition and in addition applies differentiated management practices.

Because we aim to have more women in management positions, we initiated a Mix & Match mentoring programme in 2014, among other things. In this programme ten ambitious women (mentees) were teamed up with ten experienced managers (mentors). By teaming up mentees and mentors, the programme contributes to the progression of women into management positions. In addition, women participated in the master class Stratego for Women developed by the firm In Touch.

In 2014, 27 per cent of (top) management positions in our organisation was staffed with women. Unfortunately this is still below the 30% target set by the Executive Committee. At the initial implementation of the diversity policy at the end of 2011, this percentage was only 21 per cent, however. This means that, fortunately there has been an increase in the number of women managers. This increase is due to the focused attention on hiring women managers. For example, half of the nominated candidates for a job opening must be women.
If necessary, we collaborate with specialised recruiting and selection firms for this purpose. We do not accept the argument that 'there are none'.

Participation in decision-making

Our directors and the Works Council have embraced Participation in decision-making 2.0. This approach, which aims for the optimal involvement of all of our employees in decision-making, was adopted at the beginning of 2011. In 2013, the Works Council further refined this strategy and entitled it Participation in decision-making 2.0 next step. Key spearheads in this respect include the further participation of employees in decision-making and the basic premise that participation in decision-making is a joint responsibility of the Works Council, management and employees.

In June 2014, elections were held for a new Works Council. These elections were successfully completed. There were 28 candidates for 10 positions and the participation rate was a respectable 71 per cent. The new Works Council will pursue the path taken to date on the basis of Participation in decision-making 2.0 next step.

In 2014, at the initiative of the Works Council, meetings were organised on (variable) remuneration and the service provided to participants and institutional clients.
The meetings took place as a run up to the requests for consent and advice, and were intended for our employees. The meetings were heavily attended and highly appreciated.

At the end of 2014, the Works Council issued its recommendations on movements initiated on the basis of the Decisive Innovation programme. This 'lead advice' will serve as an assessment framework for all future requests for advice in the context of the Decisive Innovation programme. The Executive Committee has indicated that it appreciates the views and commitment of the Works Council to this programme and that it considers it important that both parties share the same vision at the start of the programme.

Social Plan

As part of the Decisive Innovation programme, we will be adjusting our processes, systems and structure over the next three years. We are renewing our business operations in order to be more versatile and efficient in our work. Through this renewal the equivalent of 200 FTEs of work is expected to be eliminated. Forced layoffs are not excluded as a possibility during this process. We are working on a solid social plan in proper consultation with the trade unions and with input from the Works Council. We expect to complete it in 2015.

In November 2014, we initiated negotiations with the trade unions on a new social plan. The purpose of this plan is to help offset the consequences of the Decisive Innovation programme. The social plan is focused as much as possible on guiding redundant employees from work to work and on providing the right incentives for this. Employees who loose their job as a result of the Decisive Innovation programme control the next step in their career and can choose from among the options available under the social plan.

Focus in 2015

In 2015, we want to continue to focus on the sustainable employability of our employees. We define sustainable employability as the ability to retain one's position or to acquire a new position. The average age at which employees stop working currently is 64 years.
Because people now work longer, this age is expected to rise over the coming years. Aside from this, we live in a continuously changing world in which developments are succeeding each other increasingly faster. Organisations and employees have to be able to deal with this.
For example, by ensuring that people whose job or tasks disappear are able to easily find work elsewhere.

Development agreements benefit employee employability. We have the PGGM Academy for this purpose. In 2015, the PGGM Academy will continue to evolve. This will include the development of learning programmes for the intermediate and senior employees in the Asset Management unit. The intent is to develop learning programmes for other units as well. In addition, in 2015, we want to promote ‘life-long learning’. To accomplish this it is also important for managers and employees to engage in a proper dialogue together: the mature dialogue. This dialogue will be playing a key role in 2015.

The key spearhead for the Works Council in 2015 will be to further enhance employee participation. The Works Council will pursue this on its own by as much as possible involving employees in requests for advice and consent. Furthermore, managers will be encouraged to involve their employees in decision-making. The Works Council will also devote its efforts to the requests for advice that will be submitted in the context of the Decisive Innovation programme.

Sustainable enterprise

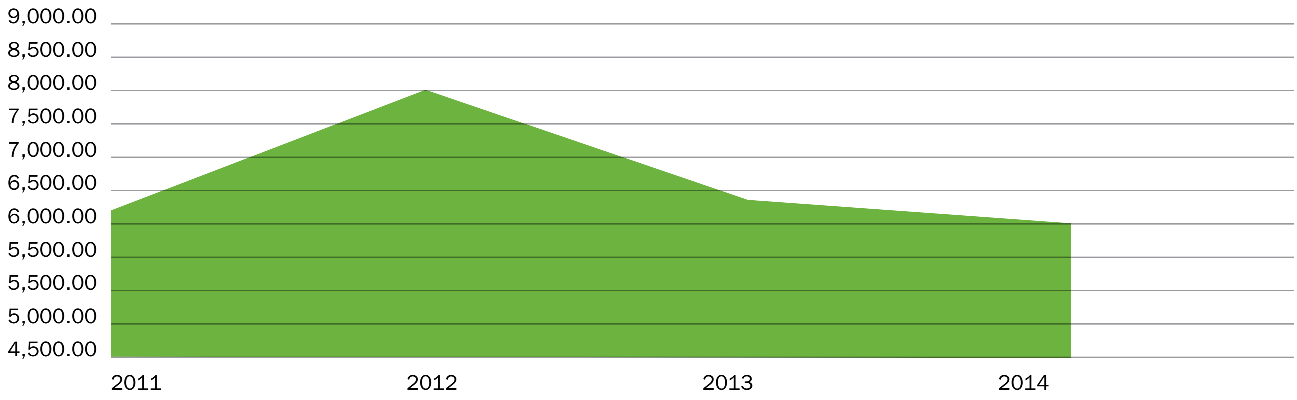
Naturally, we will critically assess the impact of our own actions on the environment and society, and make improvements in this respect. For example, in 2014, we installed solar panels on our roof; a bee-friendly flowerbed has been planted on the company’s premises; TL lighting in the parking garage has been replaced by LED lighting and the CO_2 standards for our lease cars have been further tightened.

In this chapter we devote more elaborate attention to the three sustainable enterprise themes that stakeholders identified during the stakeholders’ dialogue as being important to them. This includes the CO_2 footprint, Corporate Social Responsibility and sustainable procurement. We elaborate on this below.

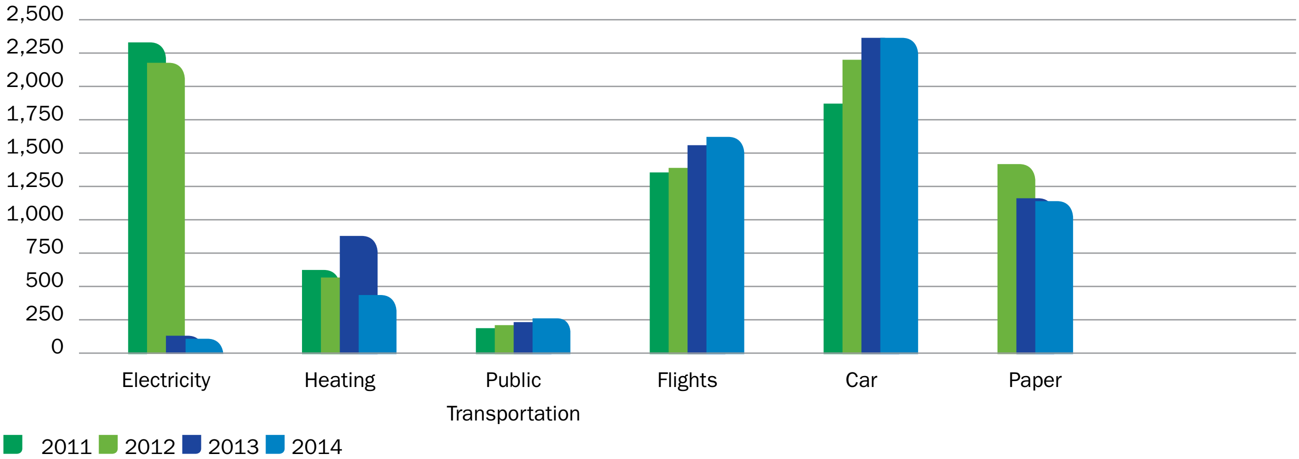
CO_2 footprint

We critically assess the impact of our actions on the environment and society. We like to do this; indeed, we also hold others to account for this. We monitor our own CO_2 footprint and our objective is to increasingly reduce our CO_2 footprint.

PGGM Annual CO_2 Emissions (tonnes)



2011–2014 PGGM CO_2 Emission Trend



Declining CO_2 emissions

We measure the impact of our business operations on the environment, expressed in the form of CO_2, with our CO_2 footprint. Our objective is to lower our CO_2 emissions. We succeeded in doing so in 2014. Our total CO_2 emission in 2014 was 6,017 tonnes. This represents a decrease of 193 tonnes (3 per cent) in relation to 2013. This decrease was primarily due to the considerable reduction in gas consumption (45 per cent). The reasons for this were the hot summer and the mild winter. In spite of the fact that the total footprint decreased somewhat, our emissions resulting from our business flights rose by over 13 per cent.

Sustainable mobility policy

As the graphs show, mobility forms the largest part of our CO_2 footprint. Car trips and flights together account for 69 per cent of our CO_2 emissions. In 2013, this was only 63 per cent.

Our aim is to make our mobility policy increasingly sustainable. For example, we have decided that from now on staff must use the train for travel in Europe within the Paris–Frankfurt-Hamburg circle. In 2014, the emission standards for our lease cars were once again lowered and we increased the number of charging stations for electric cars by 20 to 24. And when our employees have an appointment outside the office they can make use of our electric substitute car.

Furthermore, we support the KLM BioFuel Programme. This programme focuses on the development and use of sustainable biofuel in aviation. Although our total emissions as a result of business trips by air rose in 2014, we achieved a reduction of 45.86 metric tonnes of CO_2 on flights taken by employees due to our participation in the BioFuel Programme. Of all our KLM flights in 2014, 16.45 per cent used BioFuel. In addition, various national and international media focused a great deal of attention on the BioFuel Programme.

Compensation of CO_2 emissions

We compensate any CO_2 emissions we cause. This includes the CO_2 emissions caused by our gas consumption, our lease cars, out business trips by car, our use of public transportation, commuting traffic and business and other flights.

We compensate these emissions via the Gold Standard Paradigm Project. Special wood ovens have been developed for this project in Kenya that provide an alternative to traditional cooking on open fires. CO_2 emissions have been reduced due to the efficient combustion of these wood ovens and there is barely any smoke produced. This produces a number of benefits. Less wood is required, which means that time and money can be spent on other matters and this counteracts deforestation. Local health improves due to reduced smoke production.

Focus in 2015

In 2015, we will once again endeavour to reduce our CO_2 footprint. We will be developing other proposals to make our lease policy even more sustainable, for this purpose.

Corporate Social Responsibility (CSR)

We feel ourselves committed to society, locally, as well as nationally. On the basis of our higher goal and the nature of our business, we are at the centre of society. We demonstrate this commitment through means of our corporate social responsibility. For example, locally we want to actively commit ourselves to Zeist, our place of business.

Win-win situation

Heightened social awareness creates a win-win situation. Gains for certain groups within society, but gains for us as a company and for our employees themselves as well. These gains comprise elements such as an improved team spirit, greater inspiration, a joint feeling of pride and better development of the talents and competencies of our employees.

To achieve this, we were involved in several social initiatives in 2014. The following are a few examples.

MIP: Make It Possible!

In 2013, we initiated the Make It Possible Programme. The objective of this programme is to increase access to the job market for people with a physical impairment. We do this by offering these people a temporary employment contract and by giving them an opportunity to acquire work experience this way. These 'MIP'rs' are intensively supervised by our employees.

We continued to develop this programme in 2014. This did not go unnoticed, because the MIP programme won two awards in 2014.

- The Emma At Work Okura Award: We received this award by way of thanks for our efforts to enable younger people with a chronic illness or physical impairment to effectively integrate into a business process.
- AWVN Trophy for Inclusive Employment: We received this trophy by way of thanks for our demonstrable and sustainable efforts in helping one or more people with a physical impairment find work.

In accordance with our objective we managed to place a total of 16 candidates via the MIP Programme in 2014.

Samen voor Zeist (Together for Zeist) and the Zeister Beursvloer (Zeist Trading Floor)

We have been a partner of Samen for Zeist since its foundation in 2004. Samen for Zeist devotes its efforts as a knowledge centre for Corporate Social Responsibility to the municipality of Zeist. The emphasis in this respect is on facilitating companies that want to make an active contribution to the local community.

The Zeister Beursvloer, a Samen voor Zeist initiative, was held for the eighth time on 4 November 2014. The objective of the Zeister Beursvloer is to strengthen the community in Zeist by matching up the attending local companies, social organisations, foundations, associations and/or educational institutions. Paper transactions are used on the trading floor to trade in knowledge, materials, facilities and creativity. PGGM once again hosted this event this year. In addition, we concluded organisation matches representing a € 50,725 social value.

Focus in 2015

Naturally, we will continue to support local and national initiatives in 2015. In addition, in the context of the Make It Possible Programme, we will focus on staffing regular positions and placing MIP'rs in these positions.

Sustainable procurement

We express our sustainable procurement policy in various ways, for example by developing sustainability criteria for the services and products we procure, and by conducting round table and engagement meetings with suppliers. We do this because we are aware of our position in the chain and the responsibility we jointly carry in that chain.

Socially Responsible Procurement (MVI) Code

In 2014, we anchored sustainable procurement even more firmly within our organisation. A milestone in this regard was the development of procurement sustainability criteria to which we subsequently committed ourselves. We used the MVI (Socially Responsible Procurement) Code as the basis for the sustainability criteria. As part of this Code, we are also actively pursuing a dialogue with suppliers concerning their views and application of sustainability.

Effective from 2014, our new suppliers are obliged to sign the MVI Code. Of the existing suppliers, the percentage that had signed the Code in 2014, rose from 10 to 82.4 per cent. We will still engage the other 17.6 per cent in a discussion about the importance of sustainable procurement.

Roundtable discussions

In May 2014, we organised a roundtable discussion with ten permanent suppliers. This was motivated by the results of a supplier survey. In this survey, suppliers were asked about how they perceive sustainability within the PGGM organisation, how they perceive the Procurement Department in terms of sustainability, and what they do in terms of sustainability within their own company. The objective of the roundtable discussion was to share knowledge and acquire information in relation to sustainable procurement and sustainable client and supplier relations. The roundtable discussion will be continued in 2015.

Focus in 2015

Our objective for 2015, is to increase the percentage of suppliers that has signed our MVI Code to 99 per cent. In addition, we will continue the roundtable discussion held with permanent suppliers in 2014.

About PGGM

Risk Management

Within Risk Management, we distinguish between the risks run by our institutional clients directly in terms of their own investments and the risks faced by our own organisation. This chapter is about the risk management of our own organisation and the risks and developments that we identified for ourselves in 2014. Primarily, these are strategic, operational, and governance risks.

In our financial statements, we report on our specific risks. These are the risks related to solvency, the market, the exchange rate, the interest rate, credit, liquidity and insurance.

Method and model

Our risk management is based on the COSO Enterprise Risk Management (COSO ERM) method, an accepted international standard. Applying COSO ERM ensures that the risks within our organisation are clearly controlled in the most efficient and effective manner possible.

The quality of the internal control environment is guaranteed by the use of the 'three lines of defence' model. In this model, line management (1st line), risk and compliance (2nd line) and Internal Audit (3rd line) each have their own responsibility. They determine the risk profile and the information about the degree of control plus the internal management statement.

Each business unit in our organisation has a risk committee. In addition, under the chairmanship of the Chief Financial Risk Officer (CFRO), the Corporate Risk & Compliance (CRC) Committee discusses (subjects related to) risk management, compliance and information security once every six weeks. In addition to policy, this also concerns the risk appetite and the actual risks being run.

This information forms the basis of the regular risk reporting to the Executive Committee (EC) and the Executive Board (EB). The total risk profile in these reports is discussed here and the findings are reported to the Audit, Risk & Compliance Committee and the Supervisory Board (SB).

Compliance and Risk Management

Compliance is concerned with the integrity of our organisation and our employees as agreed upon together in the PGGM Code of Conduct. Every employee is expected to comply with the Code of Conduct. The Code contains rules that prevent conflicts of interest, such as rules for engaging in ancillary functions, receiving business gifts and conducting personal securities transactions. In addition, compliance focuses on demonstrable adherence to laws and regulations. Control measures for risk management and compliance focus on the realisation of ethical and controlled business operations.

Specifically for us this means that:

- There is a reasonable degree of certainty that the organisation, existence and operation of the risk management system is effective;
- The system complies with laws and regulations, and the Code of Conduct;
- All incidents are reported timely, accurately and completely and are dealt with in accordance with agreements.

Activities in 2014

In 2014, the focus was on the Continued Improvement of risk management activities and on raising risk awareness among line management and employees. This way we ensure that we continue to comply with the (increasingly stricter) requirements imposed by our own organisation, clients, regulators, the sector and laws and regulations.

At the beginning of 2014, on the basis of the Integrated Performance Management principles, a further decision was taken to integrate reporting by the Corporate Risk & Compliance department and the Finance & Control department so as to create improved management and reporting information.

The compliance teams in the various business units of our organisation were merged into a single team within the Corporate Risk & Compliance department in 2014.

The PGGM Risk Framework and the PGGM Code of Conduct were updated on the basis of current events in 2014. Internal as well as external developments were taken into account in this regard.

A number of large projects are underway within our organisation. In 2014, the 2nd line devoted a great deal of attention on controlling the risks inherent in these projects. Large projects potentially lead to increased risks and therefore contain a mandatory risk section.
This section identifies the most important risks and the measures designed to control them. This section is regularly updated with information specifying the extent to which the control measures have been implemented and the progress of the measures still to be implemented.

To further increase risk awareness among line managers and their employees, e-learning modules were made available in 2014 and dilemma sessions are regularly organised.

Risks and developments in 2014

We are aware that taking risks is necessary in order to realise our ambitious goals. For this reason, risks are identified at a strategic and operational level.
The Executive Committee (EC) has set a tolerance level in this respect that aims to achieve a high degree of risk management. The risk tolerance is higher at the strategic level than the operational level. The risk control costs and the risk itself are furthermore set off against each other at the operational level.

The EC is regularly informed about the current risks at the strategic and operational levels throughout the year.
This enables the organisation to manage in a controlled business operations environment on the basis of a risk and return perspective. The table below reflects our key risks and developments within these risk areas in 2014.

Strategic Level	
Risk Description	**Developments in 2014**
Strategic risk: The risk that the strategic objectives will not be achieved due to risks inherent in the realisation of the standards or due to changes in external influences.	Clients are demanding better services at reduced cost. For this reason we are searching for increased efficiency and versatility within the limits of our desired risk tolerance. To increase our versatility we are increasingly thinking about outsourcing tasks and/or processes. Working and thinking on the basis of client—PGGM—outsourcing partner chains creates new risks. This makes the effective organisation of the outsourcing option and monitoring the outsourcing arrangement increasingly important. PGGM regularly made headlines in 2014. There was a great deal of response concerning the implementation of the decision to exclude investments in five Israeli banks. This motivated us to invoke the Crisis Management Plan with which this risk was dealt with in the desired fashion.
Governance risk: The risk that the strategic objectives will not be achieved due to ambiguous or conflicting tasks within or between the bodies and functions of the organisation, or due to flaws in the motivating culture.	No particulars.
Operational Level	
Outsourcing: This risk related to continuity, integrity and/or quality due to the outsourcing of activities to third parties.	In 2014, there was an issue with one of our service providers in the context of the outsourcing risk. Following consultation with this service provider guarantees were specified so that there was no impact on the agreed upon services.
Implementation: The risk due to the failure to effectively execute projects, ineffective management of the project portfolio, or projects that do not achieve their targeted objectives.	PGGM acquired new clients in 2014. These transitions require a great deal of attention and the elapsed time is longer than originally anticipated. This exerted high pressure on PGGM's overall change management capacity. For that reason we have now introduced the principle that for large projects, we will not only assess the project's risks, but also the potential impact on our existing business operations and other projects.

IT risk: The risk that business processes and the provision of information are not managed effectively due to defects in the IT environment (e.g., continuity, security and integrity).	In 2014, it became apparent that our IT architecture required further development in order to make it more flexible and versatile. Several projects were initiated for this purpose. In addition, there were several incidents related to operational processes. Although the effects of these incidents fell within the risk tolerance set by the EC, they provided the motivation to further develop the degree of automation and refinement of our procedures. PGGM asked various external parties to challenge its operations. From this it was evident that PGGM has to make an effort to bring its information security back up to the reduced risk tolerance level set by the EC. Improvement plans have been prepared for this purpose. The implementation of these plans will continue on into 2015.
Human Resources: The risk resulting from insufficient qualitative and/or quantitative staffing levels.	In 2014, work pressures mounted in a number of departments as a result of which the probability of errors increased. With an eye on these risks, PGGM entered into a dialogue with clients in order to achieve mutual agreement concerning postponement of the desired changes so as to achieve a healthy work load distribution. PGGM is well aware of the fact that our employees are essential in controlling risks. In 2014, in addition to the regular training, additional attention was devoted to behavioural aspects for employees. Elements that were discussed in this respect were: holding each other to account better and directly; faster escalation of any issues; and alertness for possible errors.
Legal & Compliance: The risk associated with (changes in and compliance with) laws and regulations, the possibility of a threat to its legal position, including the possibility that contractual provisions are not enforceable or are incorrectly documented.	The rapidly changing laws and regulations have a major effect on the pension schemes of our clients and confronts PGGM with the challenge of integrating these effects flawlessly into our systems on a timely basis. This sometimes confronts us with challenges and this has led to several minor incidents in 2014. Our risk tolerance for this category is nil. However, in actual practice this has proven itself difficult to achieve, in spite of the additional investments in systems and people. For our insurance activities we have activated the participants in investment policies and informed the regulator about the status. In addition, Compliance is devoting a great deal of attention to creating awareness of PGGM's Code of Conduct and Core Values. We do this via training courses, e-learning, and in particular as part of daily activities on the shop floor. PGGM carries a great deal of information about individuals in its administrative systems. PGGM endorses the importance of having a high level of privacy. We have implemented processes for this purpose. In 2014, PGGM did not receive any observations from regulators concerning violations of the Privacy Act.

In Control Statement

As PGGM's Executive Board we are responsible for the design and operation of PGGM N.V.'s internal risk management and control systems.
The purpose of these systems is to ensure the risks associated with failing to realise the strategic, governance, operational and financial objectives are optimally controlled. However, they can never offer absolute certainty that these objectives will be achieved. The reality is that, when taking decisions, human assessment errors can occur and cost-benefit considerations constantly have to be made regarding the acceptance of risk and the imposition of control measures.

To execute our responsibilities, we have—during the reporting year—independently and systematically analysed and assessed the risks related to the achievement of our objectives and the applicable control environment within our organisation. In so doing, we made use of various instruments including the COSO ERM Framework. The significant strategic, governance, operational and financial risks for each business unit were identified. The management of each business unit independently analysed and assessed these risks as well as the applicable control environment; and submitted a report to us in this respect.
We evaluated these reports, together with the findings of internal and external audits.
We regularly discuss all the work related to risk control with the Audit, Risk & Compliance Committee and the Supervisory Board.
For a more detailed explanation of our work in this context, we would refer you to the previous chapter entitled Risk Management.

Conclusion

On the basis of the above-referenced work, we are of the opinion that we can in all reasonableness state that, in the reporting year, all the internal risk management and control systems functioned properly and provided a reasonable degree of certainty that the financial reporting contains no material misstatements.

Zeist, 21 April 2015

Executive Board

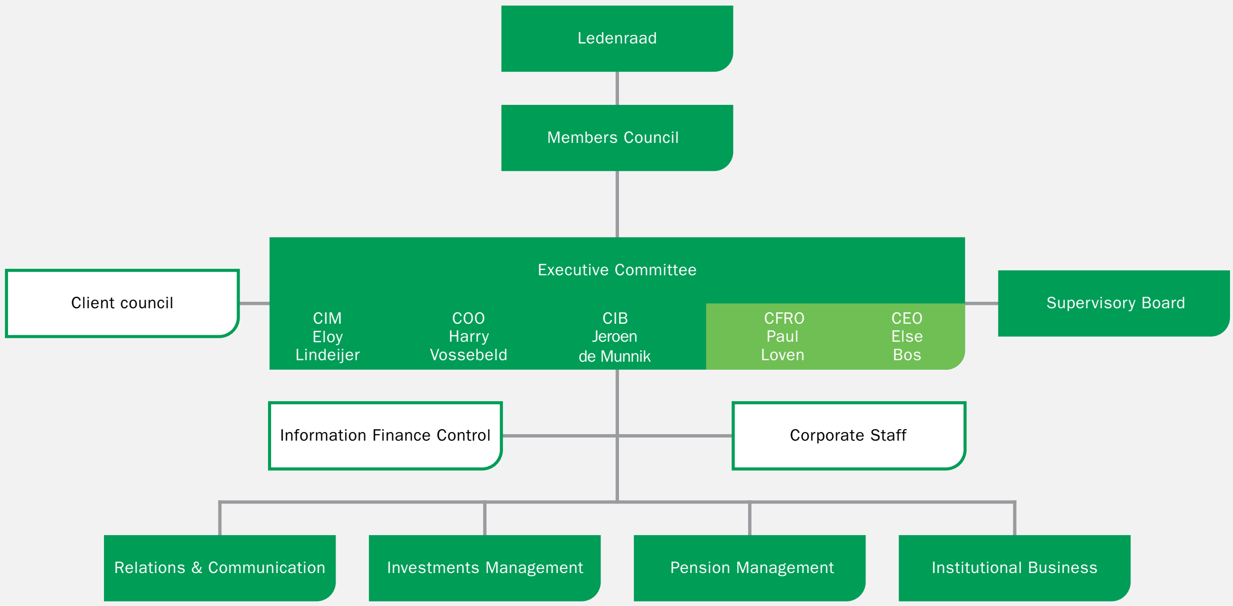
E.F. Bos, voorzitter
P.A.M. Loven

Governance

We are a pension fund service provider with a not-for-profit cooperative structure. We are not a listed company. Consequently, we are not obliged to comply with the Dutch Corporate Governance Code (2011), which is applicable to all stock exchange listed companies. Despite this, whenever possible, we want to give substance to the best practice provisions of this code. We do this because we endorse the principles underlying the Corporate Governance Code and we want to be as transparent as possible for all our stakeholders and the parties with whom we do business.

Our organisation structure is as follows:

Organisation structure PGGM



About PGGM N.V.

The cooperative pension fund provider PGGM N.V. is a public limited company with eleven direct and indirect subsidiaries. The Supervisory Board (SB) oversees the operation of the Executive Board (EB) and the general affairs of the company. The Supervisory Board has two committees: the Audit, Risk and Compliance Committee and the Remuneration, Selection and Appointments Committee.

Executive committee

The Executive Committee (EC) is responsible for the day-to-day management of PGGM N.V. The EC comprises the officers responsible for the company's six units and its subsidiaries. The EC is made up of two members of the Executive Board and four members appointed by the Chairman of the Executive Board. The EC is chaired by the Chief Executive Officer (CEO), who makes up the Executive Board together with the Chief Financial Risk Officer (CFRO). In addition, the officers with responsibility for pension management, asset management, clients and members (Chief Operations Officer, Chief Investment Management, Chief Institutional Business and Chief Marketing Officer) also have seats on the Executive Committee. By virtue of the articles of association, the Executive Board is ultimately responsibility for PGGM N.V. The Executive Board can be called to account by both the shareholder and the Supervisory Board.

Client Council

On 1 January 2013, PGGM N.V. established a Client Council. Representatives of our institutional clients (pension fund board members) are members of the Client Council. The council advises the Executive Committee (EC) on matters such as service provision, product development, strategy and the appropriation of results. In addition, the clients have mutual contact and consider whether there are any portfolios they could act on collectively.

The following clients were represented on the Client Council in 2014:

- Stichting Pensioenfonds voor Architectenbureaus (Pension Fund Foundation for Architecture Firms)
- Stichting Pensioenfonds Particuliere beveiliging
- Stichting Pensioenfonds voor Huisartsen (Pension Fund Foundation for General Practitioners)
- Stichting Bedrijfstakpensioenfonds voor het Schilders-, Afwerkings- en Glaszetbedrijf (Sector Pension Fund Foundation for Painting, Decorating and Glazier Businesses)
- Stichting Rabo PGGM Premiepensioeninstelling (Rabo PGGM Premium Pension Institution Foundation)
- Stichting Pensioenfonds Smurfit Kappa Nederland (Pension Fund Foundation Smurfit Kappa Netherlands).

The Stichting Pensioenfonds Zorg en Welzijn will also have a seat on the Client Council effective from 2015.

Through the Client Council, we are implementing our cooperative values in the service provision to our institutional clients; this enables us to act collectively on serious, contemporary pension issues, as well as in improving our service provision. In addition, the EC will be able to share information with clients, such as the course the organisation is pursuing and how, together with its clients, PGGM intends to confront future uncertainties. While the Members' Council is a source of inspiration for innovation in the area of products and services within the context of a valuable future for our members, the Client Council fulfils the same role regarding the developments and modernisation of the second pension pillar.

The Client Council met twice in 2014. Various topics were discussed during these meetings, including pension developments (APF and pensions for self-employed workers without employees), consolidation in the pension landscape, the social agenda and the Decisive Innovation Programme.

Supervisory Board

The Supervisory Board can look back on a dynamic year in which the key focus was on the continued development of the vision, mission and strategy, relationships with and services provision to clients, and the company's financial development. In this Annual Report, the Supervisory Board explains how it carried out its supervisory role and how it supported the Executive Board by providing advice. In addition, it discusses the most important substantive issues with which the Supervisory Board was involved this year.

All members of the Supervisory Board are independent in the sense of the Corporate Governance Code. When appointing its members, the Supervisory Board endeavours to achieve a complementary composition, as specified in the Board's profile. There were no changes to the Board's composition in 2014. At year-end 2014, the Supervisory Board comprised two female and four male members.

Activities in 2014

The Supervisory Board met five times in 2014. No member of the Supervisory Board was frequently absent from Board meetings. Whenever members were absent, they provided their input prior to the meeting. In addition, one extraordinary meeting was held to discuss the Responsible Investments policy of PGGM's clients and in particular, the decision of the Stichting Pensioenfonds Zorg en Welzijn and PGGM to no longer invest in five Israeli banks.

The Supervisory Board's meetings are held in the presence of the members of the Executive Board. Prior to these meetings, the Supervisory Board holds a closed meeting. The relationship with the Executive Board is considered good and transparent.

The Supervisory Board is continuously involved in monitoring the implementation of and providing advice about PGGM's strategy. The annual strategy meeting took place in September. This meeting is attended by the members of the Executive Committee (EC). Thoughts were exchanged with the EC concerning the development of PGGM's financial position, clients and the market. Furthermore, there was a discussion about the strategic choices and about the progress of innovation and renewal, and about the Stichting Pensioenfonds Zorg en Welzijn and PGGM's collective ambitions. A key theme in 2014, was the Decisive Innovation Programme. In this context, the Supervisory Board specifically took time to discuss the urgency for change and the ambition to become a more versatile organisation at 20 per cent lower cost by the end of 2017. The Supervisory Board endorses the solid ambition underlying the Decisive Innovation Programme.

Fixed agenda items at each regular meeting are external influences, the state of affairs concerning clients, client acquisition initiatives and PGGM's strategy. Aside from the annual discussions and approval of the Annual Report, the financial results and the key risks associated with business operations are reviewed every quarter on the basis of the performance and audit reports. In addition, the Supervisory Board regularly discusses developments in the asset management market in order to gain timely insight into developments or investments that can influence PGGM's risk profile and reputation, as well as that of its clients.

In 2014, the Supervisory Board extensively discussed developments related to the acquisition of A&O Services. When in mid-2014, the data migration proved to be more complex than originally thought, this prompted the Supervisory Board to closely monitor the migration and the business case. Furthermore, at the request of the Supervisory Board, PGGM's multi-client strategy was reviewed.

In anticipation of the expiry of the external auditor's term of appointment effective 1 January 2016, the Supervisory Board discussed the appointment/reappointment process. Following an eight-year term, the need for a change in external auditor was considered. The creation of frameworks and the long-term plan with the 2015 budget estimate were discussed in the context of the Decisive Innovation Programme.

During the year, the Supervisory Board was closely involved in the formation of a supervisory board for PGGM Vermogensbeheer B.V. At the request of the board, the Supervisory Board took time to reflect on how the supervisory tasks of this board differ from the Supervisory Board's supervision of PGGM N.V. Legal advice in the area of corporate governance was acquired from an external expert for this purpose.

Outside the meetings, there was frequent contact between the Chairman, other members of the Supervisory Board and the Executive Board. On several occasions, members of the Supervisory Board also had contact with stakeholders, both within and outside PGGM.

The Supervisory Board attended three in-depth meetings to further discuss various developments within PGGM. The section on Permanent Education contains additional information on this topic.

Audit, Risk and Compliance Committee

The Chairman of the Audit, Risk and Compliance Committee, Wim de Weijer, indicated he wanted to transfer the chairmanship of the committee after the adoption of the 2013 financial statements.
The Supervisory Board appointed Miriam van Dongen as the new Chairman of the Committee effective 9 September 2014. The Committee, as well as the Chief Financial Officer (CFRO) expressed their thanks and appreciation to Wim de Weijer for the five years during which he chaired the Audit, Risk and Compliance Committee. The cooperation was always experienced as very pleasant and constructive. Wim de Weijer continues his activities as an 'ordinary member'. This approach had already been discussed at Miriam van Dongen's appointment and she will first go through a familiarisation period.

The Audit, Risk and Compliance Committee met four times in 2014. Three extraordinary meetings were also held. Two of these meetings dealt with the acquisition of A&O Services and the acquisition of the Stichting Philips Pensioenfonds. The third meeting was held to discuss the sale of the life insurance portfolio. Following the decision-making process concerning the acquisition of A&O Services, a format was developed in 2013 at the request of the Committee for client acquisition initiatives.
This format contributed to creating effective insight for the Committee and the Supervisory Board in 2014.
The format provided a basis for a thorough and efficient decision-making process for the acquisition initiatives carried out in 2014.

The meetings were attended by the Executive Board's CFRO, the Director Internal Audit and the external auditor. During discussions of the financial statements, the Audit, Risk and Compliance Committee met separately with the external auditor. The conclusion of this meeting was that there were no particulars that could not be shared with members of the Executive Board.

Fixed agenda items discussed during the Committee's meetings included performance (including risk and compliance) and audit reports, the management letter, the financial statements, the annual report, Internal Audit's Annual Audit Plan, the internal auditor's assessment, and the internal instructions to the external auditor, as well his audit report. The creation of frameworks and the long-term plan with the 2015 budget estimate were fixed agenda items for the November meeting.

Pursuant to the discussion of the financial statements, the Audit, Risk and Compliance Committee delved more deeply into developments in the area of external annual reporting and integrated reporting. The Committee is enthusiastic about this transparent method of reporting and supports PGGM with the direction it has taken.

In 2014, the Audit, Risk and Compliance Committee evaluated the changed CFRO position. In 2013, a change to the risk function within PGGM was implemented, namely the transfer of the hierarchical reporting line of the Asset Management business unit's Chief Risk Officer to PGGM N.V.'s Chief Risk Officer. The objective of this change was to comply with the increasing requirements related to independence and effectiveness, as well as the specific demand of the Stichting Pensioenfonds Zorg en Welzijn and DNB. The Committee concluded that the organisation change has had the desired and targeted result.

In 2014, specific attention was devoted to IT-related developments and the theme culture and behaviour within the organisation. The motivation for this is the observation in the management letter that many operational incidents can be traced back to a failure to correctly or completely adhere to policy and guidelines in operational processes. The Audit, Risk and Compliance Committee has requested that attention be focused on the possible causes. Together with the Executive Board solutions were explored that are expected to bear fruit in 2015.

The Audit, Risk and Compliance Committee closely monitored the developments and the business case related to the data migration of A&O Services.
The Committee devoted considerable time to the evaluation conducted following the delay of the migration and its consequences for the multi-client environment.

Another area to which the Audit, Risk and Compliance Committee specifically devoted time was the need for change and the ambition to become a more versatile organisation at a 20 per cent lower cost. The Committee recognises the need for an initiative of this nature as part of the Decisive Innovation Programme. In this context, the Committee was also informed of the 'Redesign of the PFZW Pension Management Chain' project. This project is focused on the realisation of a 15 per cent saving at equal or better client satisfaction.

The Audit, Risk and Compliance Committee also further discussed the sale of the life insurance portfolio and at the request of the Supervisory Board provided advice about this to the shareholder of PGGM Levensverzekeringen N.V.

The Supervisory Board receives the reports of the Audit, Risk and Compliance Committee and the Committee's Chairman provides verbal feedback about discussions during the Supervisory Board meetings. The CFRO and the Chairman of the Committee also had regular contact outside the meetings about current topics and agenda items for the meetings in 2014.

Remuneration, Selection and Appointments Committee
The Remuneration, Selection and Appointments Committee's role is increasing in significance due to remuneration policy-related developments.
The Supervisory Board will become responsible for the group-wide implementation of the remuneration policy and the verification of the general remuneration policy principles. A central and independent internal evaluation must be conducted at least once a year to verify the implementation of this policy in terms of compliance and procedures. The Committee is responsible for preparing and advising the Supervisory Board in these areas.
For this purpose, at least one member of the Committee must have in-depth knowledge and experience with remuneration policy of a similar nature as that applied within the company. These and other provisions are incorporated into the regulations of the Supervisory Board, the Remuneration, Selection and Appointments Committee and in the Committee's annual calendar.

At the end of January and the beginning of February, the Remuneration, Selection and Appointments Committee together with the Works Council and the shareholder held meetings with members of the Executive Board and the other non-statutory members of the Executive Committee concerning their individual performance. The Committee subsequently formulated recommendations for the Supervisory Board about the performance and remuneration of the Executive Board and the other non-statutory members of the Executive Committee.

At the request of the Supervisory Board, a market comparison was carried out for the remuneration of the members of the Executive Committee on the basis of job level. In addition, insight was requested into the internal relationships of the various remuneration levels in comparison to the relationships observed in the market. The Supervisory Board decided not to make any changes to the remuneration.

The meetings this year also extensively dealt with adjustments to the PGGM-wide remuneration policy, including the largely eliminated variable compensation for PGGM employees effective 1 January 2014. The Remuneration, Selection and Appointments Committee is a major advocate of this initiative. The discussions took the Works Council's request for consent into account in this respect. By extension, the proposal to eliminate the separate private equity remuneration policy was also discussed. The Committee also supports this proposal.

The Remuneration, Selection and Appointments Committee held four regular meetings in 2014. In addition, various discussions took place. In addition to the above-referenced topics the Committee spoke about the Decisive Innovation Programme-related developments in light of the new organisation structure. The Committee also devoted attention to the succession plans for the Supervisory Board in relation to the expiring terms of office and the possibility of reappointment. This process has since been initiated.

Permanent Education

The Supervisory Board believes that permanent education is of significant value to the Board's own performance and has developed its own long-term training and education plan on the basis of the Suitability Policy Regulation issued by the DNB and AFM. This regulation defines the competencies required by and the suitability of Supervisory Board members on the basis of the following subject areas:

- Governance, organisation and communication;
- Products, services and markets in which the organisation is active;
- Controlled and ethical business operations;
- Balanced and consistent decision-making; in which, among other things, the interests of clients and other stakeholders are a key focus.

Annual training activities for these different areas are identified on the basis of the long-term training plan.

In 2014, five in-depth meetings took place; three for the Supervisory Board and two for the Audit, Risk and Compliance Committee. The in-depth meetings of the Audit, Risk and Compliance Committee were open to all Supervisory Board members.

During its in-depth meetings, the Supervisory Board discussed developments related to pension legislation and the state of affairs concerning the Rabo PGGM PPI. In addition, the Supervisory Board discussed the generative dialogue and the innovation teams established by PGGM. The generative dialogue concerns the degree to which members can be linked and is fundamental to the creation of a successful Cooperative.

Furthermore, in-depth discussions took place concerning PGGM's decision concerning the Israeli banks, the themes sustainability and the social agenda, the vision, the higher goal and PGGM's strategy. In addition, developments in the area of HR were outlined and the recalibration of PGGM's remuneration policy was discussed, in part in light of the changed laws and regulations.

Topics for the in-depth meetings of the Audit, Risk and Compliance Committee were the formation of the Netherlands Investment Institution (Nederlandse Investeringsinstelling – NII) and the National Mortgage Institution (Nationale Hypotheek Instelling – NHI), IT within PGGM and the IT Roadmap Programme, and developments related to private equity and AlpInvest.

Aside from the above-referenced in-depth meetings of the Supervisory Board and the Audit, Risk and Compliance Committee, the Supervisory Board members participate in the governance modules organised by PGGM four times each year. Each module focuses on a specific PGGM business unit. In addition, the Supervisory Board members participated in working visits to the Pension Management, Relations & Communication and Asset Management business units. In these small-scale meetings, the Supervisory Board members were updated on current developments and were introduced to PGGM employees. These working visits were very well received and will be continued in 2015. Finally, one Supervisory Board member has a seat on the Board of Governors of PGGM's Leadership Programme.

In the fourth quarter of 2014, the Supervisory Board evaluated its own performance and that of its committees. It was decided to conduct the self-evaluation over 2014 in cooperation with the Governance University Advisory. The general conclusion of the self-evaluation is that there is no indication that there are any major issues within the Supervisory Board. However, several areas for attention were identified as follows:

- Reinforcement of the Supervisory Board in various knowledge areas, such as asset management, operational processes, strategic IT and the market environment.
- The timely involvement of the Supervisory Board by the Executive Board in strategic subjects and greater in-depth discussion within the Supervisory Board and with the Executive Board. Effective from 2015, additional time will be reserved on meeting agendas for this purpose.
- Insight into the quality of the operation/organisation/ICT. To increase the Supervisory Board members' expertise, these subjects will be further explained during the in-depth meetings in 2015.
- Greater insight into the Executive Board's succession potential and the adequacy of the Executive Board's composition.
- Interaction within the Supervisory Board. It was decided to extend the Supervisory Board's closed meetings in 2015 to provide greater opportunity for exchanging thoughts with each other.

The conclusion was that the Audit, Risk and Compliance Committee, as well as the Remuneration, Selection and Appointments Committee are operating well and the preparations made by these committees increase the efficiency of the Supervisory Board meetings. The annual evaluation of the Supervisory Board shows that the meeting documents, reports and other information provided to the Board are of good quality. The observation is that the Board and the committees are developing a more critical attitude and that supervision is more focused. The current strategic dossiers indeed require this.

Relations with the shareholder

The Supervisory Board's contact with the shareholder is primarily through shareholder meetings. In 2014, two extra shareholder meetings were held in addition to the regular meeting. The Remuneration, Selection and Appointments Committee also speaks to (a delegation representing) the shareholder at least twice a year regarding developments within PGGM and the Executive Board's remuneration policy.

Relations with the Works Council

At least once a year, every member of the Supervisory Board attends a consultative meeting of the Works Council. In addition, a Supervisory Board member is present during the general state of affairs meeting, which is held twice a year. The Supervisory Board member appointed on the nomination of the Works Council attended the meeting of the Works Council's General Affairs Committee on three occasions in 2014.
The Supervisory Board and the Works Council discussed a number of topics in 2014, including the Decisive Innovation Programme, A&O Services, adjustments to the remuneration policy and the redesign of the pension management chain for the Stichting Pensioenfonds Zorg en Welzijn. Supervisory Board members consistently experienced and valued these meetings as constructive and informative.

Relations with the External Auditor

The Supervisory Board and the Audit, Risk and Compliance Committee find the cooperation with KPMG to be positive. Proper use was made of a process and internal audit-based approach for the activities carried out in support of the audit of the financial statements. The professional competence of KPMG's pension team and the associated communication in relation to the recognition of the pension-related items and the associated processes was experienced as very positive and as an added value for PGGM. The quality of the reports provided was good.

Relations with Internal Audit

The Audit, Risk and Compliance Committee assesses the performance of the Director Internal Audit once a year. The view of the Internal Audit department is positive. Its relationship with the external auditor is good.
The Director Internal Audit is present at the meetings of the Audit, Risk and Compliance Committee. The Annual Audit Plan, the audit reports and the management letter provide the Supervisory Board with good insight into business operations and processes.

The Supervisory Board would like to thank the Executive Board, the members of the Executive Committee, the Works Council and PGGM's employees for all their efforts and dedication during the 2014 reporting year.

Zeist, 21 April 2015

Supervisory Board

Mr H. (Herman) de Boon, Chairman

Mr M.W. (Maarten) Dijkshoorn AAG

Ms M.R. (Miriam) van Dongen

Ms W.E.L. (Wanda) van Kerkvoorden

Mr L.J. (Lodewijk) de Waal

Mr W.H. (Wim) de Weijer MHA, Vice-chairman

Units and activities

We work for the realisation of a valuable future on the basis of three pillars: institutional, members and social agenda. We serve our clients, members and, on occasion, the broader society through four business and two support units.

The four business units are:

- Asset Management (AM)
- Pension Management (PM)
- Institutional Business (IB)
- Relations & Communication (R&C)

The two support units are:

- Information, Finance & Control (IFC)
- Corporate Staff (COS)

The following paragraphs provide additional information about the activities of these business units.

Business units

Asset Management (AM)
The Asset Management unit manages the pension assets of our institutional clients. The basic premise is that we invest responsibly. Asset Management provides best-in-class asset management and offers integral asset management—from the implementation of the investment plan and the corresponding mandates, to reporting and risk management.

Pension Management (PM)
The Pension Management unit is responsible for administering the pension schemes of our institutional clients. In addition, Pension Management undertakes the administration of the Premium Pension Institution (PPI) that we jointly established with the Rabobank. This unit is responsible for administering and calculating the pensions, paying the pensions and invoicing the contributions, among other things.

Institutional Business (IB)
The Institutional Business unit offers integral services to institutional clients. This could be in the area of pension management and/or asset management and/or other services (such as asset liability management (ALM), providing pension policy advice and board support).

Relations & Communication (R&C)
The Relations & Communication unit contributes to enhancing the added value to members of the Cooperative with insight, overview and advice in the area of income-related products that respond to member needs. These activities are carried out under the PGGM&CO label. In addition, the unit maintains contacts with employers and social partners.

Support units

Information, Finance & Control (IFC)
The Information, Finance & Control unit promotes the effective execution of our strategy and provides integral insight into the organisation's performance. IFC also helps our business units serve their clients successfully by creating frameworks, as well as facilitating and monitoring legislation and regulations, information provision, compliance, finance and risks.

The Information, Finance & Control (IFC) business unit comprises the following departments:

- Finance & Control
- IT & Facility Services
- Corporate Risk & Compliance
- Corporate Legal & Tax Affairs

Corporate Staff (COS)
The Corporate Staff unit's responsibilities include a linking, coordinating and managing role in the preparation of resolutions concerning the organisation's strategy, sustainability agenda and internal and external communications. In addition, this business unit supports our internal management bodies and, more broadly, through Human Resources, it supports the employees in the organisation.

The Corporate Staff business unit comprises the following departments:

- Corporate Communications
- Corporate Secretariat
- Human Resources
- Corporate Strategy & Innovation
- Cooperation & Sustainability
- Internal Audit

Competitive position

We operate as a pension fund service provider in a sector that is highly dynamic. The pension system itself is being modernised and the pension market is consolidating. We have a strong position in the market, as the country's second pension fund service provider and as the market leader in the health and social sector. In 2014, we continued to strengthen our position, in part through acquisitions.

Active in the second and third pillars

In the Netherlands, pension consist of three pillars. The first pillar consists of the state pension (AOW). The second pillar consists of the collective pension accrued by employees via their employers. And the third pillar consists of the supplementary pension arranged by employees themselves via financial products, such as life insurances or bank savings accounts. We are active in both the second and third pillars.

For our clients in the institutional market we provide products in the second pillar. For the members of our Cooperative, we add value by offering them supplementary products in the third pillar in cooperation with partners, specifically focused on them.

The major share of our business activities occurs in the second pillar. In this chapter we therefore focus on our position in this part of the institutional market.

Developments in our market

In 2014, our market continued to consolidate. The total number of pension funds continued to decline and more pension funds decided to work together. The number of pension funds has since dropped to below 400. A few years ago this number was still over 1,000. As a consequence of this decline, there are fewer potential clients. This is offset by the fact that the average size of the pension funds in the market is increasing.

The number of pension fund service providers has not yet decreased. This means that we, together with other pension fund service providers, are forced to share an increasingly smaller market.

We are seeing that the number of employees employed by pension fund service providers is decreasing. Like us, other pension fund service providers are involved in improving efficiency, which means that jobs are disappearing.

Service-related developments

We provide services to pension funds related to pension management, asset management and pension board advice.

Particularly in the area of asset management we are observing that increasingly more foreign parties are becoming active on the Dutch market. Together with APG, we are the two largest players in the area of asset management on the Dutch market, but the American company Blackrock is currently in third position and is increasingly acquiring market share. The Dutch pension fund service providers MN and Syntrus Achmea are next in line, followed by Robeco, ING Investment Management International and Aegon Asset Management.

Distinctive capacity

Aside from the fact that due to our clients we are a major player in the area of pension administration, and that thanks to our previous history as a pension fund we are able to put ourselves in our clients' shoes, we stand out in a number of other areas as well. First, as a cooperative pension fund service provider, with both clients and members. Second, as a party that is jointly helping to shape the continued development of the pension system and that is extremely expert in the field of pension management. And finally, we specifically stand out in the field of asset management.

Continued development of the pension system

Our experts actively cooperate with the government committees considering pension issues and provisions for old age. In 2014, we shared our expertise and vision in this respect during discussions about the modernisation of the pension system in the context of the National Pension Day.

Pension Management

We manage the pensions of more than 2.5 million participants of various pension funds, and we specialise in various areas, including pension communication. By identifying the mentality of the participants of our clients, so-called mentality-based segmentation, they can be provided with tailor-made services and be informed about various pension-related developments according their own specific preferences. As a result the reach of the messages communicated by our clients is exceptionally high. Our clients once again won various awards for this in 2014.

Asset Management

We are leaders on the market in various areas of asset management. Not only in relation to the competition in our own country, but in an international context as well. We are a highly professional party in the area of Asset Liability Management (ALM) and Risk Management and we occupy a very strong position in terms of our fiduciary role.

In recent years we received a great deal of recognition for our innovative risk management system that we developed for asset management. The trigger for the completely new set up of risk management was the events surrounding the fall of the Lehman Brothers bank in September 2008. Asset managers throughout the world appeared to lack rapid enough insight into the exposures to risk which ensued from the downfall of Lehman. Although neither we nor our clients suffered any direct damage due to the bank's bankruptcy, we learned lessons from these events. These have been incorporated into a system that will more rapidly and thoroughly identify the risks to which our clients are potentially exposed should there be a calamity in the financial markets.

We have an exceptionally expert asset management business with an extensively developed investments platform. Based on our advanced private markets business and our exceptionally efficient public markets business, our clients have access to very attractive investments and can profit from our broad knowledge and in-house opportunities. For example, we have globally recognised top level teams in the areas of investing in infrastructure and real estate, we are one of the most influential private equity investors in Europe and we have various other expertise in-house.

We are global leaders in terms of responsible investment and we share our knowledge in this area throughout the world. To be able to focus on this even better, we are developing methods for measuring not only financial returns, but social returns as well.

Financial Statements PGGM N.V.

2014

PGGM

Voor een waardevolle toekomst

Consolidated balance sheet as at 31 December 2014

(before profit appropriation)

(amounts in thousands of euros)

	Ref.	31 December 2014	31 December 2013
Assets			
Fixed assets			
Intangible fixed assets	3	36,901	56,005
Tangible fixed assets	4	105,432	116,868
Financial fixed assets	5	33,991	21,385
Total fixed assets		**176,324**	**194,258**
Investments			
Investments on behalf of the insurance business	6	296,971	312,484
Investments on behalf of policyholders	7	65,283	77,771
Total investments		**362,254**	**390,255**
Current assets			
Receivables	8	54,970	60,835
Cash	9	77,541	95,878
Total current assets		**132,511**	**156,713**
Total assets		**671,089**	**741,226**

	Ref.	31 December 2014	31 December 2013
Liabilities			
Equity	10		
Paid and called-up capital		200	200
Statutory reserve		376	3,033
Share premium reserve		158,712	158,712
Other reserves		71,821	63,403
Unappropriated profit		-24,596	7,924
Total equity		**206,513**	**233,272**
Provisions			
Insurance business risk	11	247,417	284,683
Policyholders' risk	12	65,283	77,771
Taxes	13	2,258	8,111
Other provisions	14	62,340	19,433
Total provisions		**377,298**	**389,998**
Long-term subordinated debt		–	–
Current liabilities	15	87,278	117,956
Total current liabilities		**87,278**	**117,956**
Total liabilities		**671,089**	**741,226**

Consolidated income statement for 2014

(amounts in thousands of euros)

	Ref.	2014	2013
Revenue	17		
Management fees		261,071	244,553
Gross premium retail insurances		10,117	11,906
Other revenue		495	445
Total operating income		**271,683**	**256,904**
Operating expenses			
Insurance business expenses	18	2,115	23,531
Costs of outsourced work and other external expenses	19	38,626	29,301
Personnel expenses	20	156,155	142,808
Depreciation/amortisation of tangible and intangible fixed assets	21	25,314	19,450
Impairment of tangible and intangible fixed assets	21	9,561	–
Other operating expenses	22	86,893	43,669
Total operating expenses		**318,664**	**258,759**
		-46,981	**-1,855**
Investment results	23	13,869	13,871
Financial income	24	-3	186
Financial expenses	25	66	-1,420
Profit before taxes		**-33,049**	**10,782**
Income tax	26	-8,453	3,321
Profit of participating interests		–	463
Profit after taxes		**-24,596**	**7,924**

Consolidated cash flow statement for 2014

(amounts in thousands of euros)

	Ref.	2014	2013
Cash flow from operating activities			
Operating profit		-46,981	-1,855
Adjusted for:			
Depreciation and impairments	***3, 4, 10***	35,594	24,840
Unrealised gains and losses on investments	***6, 7***	-7,187	-4,012
Changes in financial fixed assets	***5***	-12,613	-1,652
Changes in provisions	***11, 12, 13, 14***	-12,700	-5,041
Changes in working capital	***8, 15, 23, 26***	-24,621	44,275
Cash flow from business operations		**-68,508**	**56,555**
Investment results	***8, 23***	13,677	13,745
Interest received	***24***	-3	186
Interest paid	***25***	66	-1,420
Income tax paid	***26***	8,453	-3,321
		22,193	**9,190**
Total cash flow from operating activities		**-46,315**	**65,745**
Cash flow from investment activities			
Additions and acquisitions			
Intangible fixed assets	***3***	-6,890	-41,918
Tangible fixed assets	***4***	-351	-3,605
Acquisition of group companies	***5***	-100	-1,142
Investments and advances for investments on behalf of the insurance business	***6***	-126,274	-97,641
Disposals, repayments and sales			
Tangible fixed assets	***4***	24	678
Investments and advances for investments on behalf of the insurance business	***6***	149,725	51,549
Net changes in money market investments	***6***	-751	–
Net changes in investments for the account of policyholders	***7***	12,488	2,750
Total cash flow from investment activities		**27,871**	**-89,329**
Cash flow from financing activities			
Repayments of long-term debt		–	-57,000
Recognition of long-term liabilities	***5***	107	–
Total cash flow from financing activities		**107**	**-57,000**
Net cash flow		**-18,337**	**-80,584**
Changes in cash			
Cash at the start of the period		95,878	176,462
Cash at the end of the period		77,541	95,878
Changes in cash		**-18,337**	**-80,584**

Notes to the consolidated financial statements

2014

PGGM

Voor een waardevolle toekomst

1 1. General notes

Information about PGGM N.V.

PGGM N.V. was established on 20 July 2007, and has its registered office and principal place of business at Noordweg Noord 150 in Zeist. One hundred percent (100%) of the shares in PGGM are held by PGGM Coöperatie U.A.

In accordance with Article 2 of its articles of association, PGGM N.V.'s objectives are as follows:

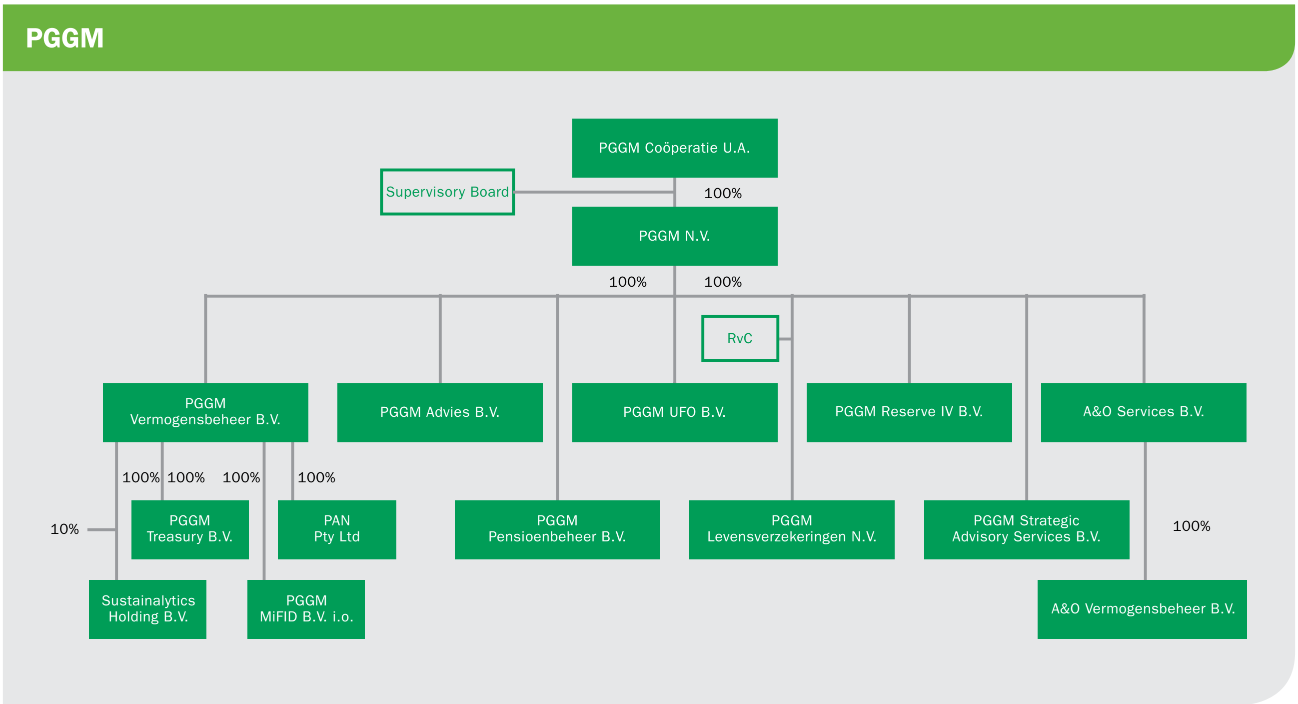
a. to perform or to cause to perform (i) administrative management of prescribed pension entitlements and pensions that have commenced payingout and (ii) the implementation of prescribed pension entitlements and pensions that have commenced paying out, both in the broadest sense;
b. to perform or cause to perform asset management in the broadest sense;
c. to provide or cause to provide insurance services, amongst which, but not limited to, reinsurance services, in the broadest sense;
d. to perform work that focuses on the development, sale or implementation of additional income provisions, in so far as they have not already been included in a collective pension scheme, including the related consultancy and services, all in the broadest sense, for the sector in which work is performed in relation to health, mental and social interests, including services in the form of physical, mental or social care or assistance;
e. to offer or cause to offer services, amongst which, but not limited to, services in respect of collection of premium, accounting records, management support and substantive advice, to social funds that are affiliated wíth customers of the company;
f. to participate in, to take an interest in any other way in and to conduct the management of other business enterprises, of whatever nature, to finance other persons and to give security, give garantees and bind itself in any other manner for debts of other persons, and finally all activities which are incidental to or which may be conducive to any of the foregoíng in the broadest sense.

Group Structure

PGGM N.V. is a holding company which, through participating interests, has been performing activities in areas such as the provision of advice to pension boards, pension management and asset management since 1 January 2008.

PGGM N.V. has a two-tier board and is the holding company of eleven direct and indirect subsidiaries which together with its shareholder, PGGM Coöperatie U.A., form the PGGM group. A number of subsidiaries have received licences from respectively the Authority for the Financial Markets (AFM) and the Dutch Central Bank (DNB). When the legal structure was established, it was decided that the various licences should be linked to individual companies, so that there was maximum clarity regarding the conditions associated with a particular licence and the supervision of these conditions.

The following diagram shows the legal structure of PGGM Coöperatie U.A., PGGM N.V. and its subsidiaries ('PGGM Group') as at 31 December 2014.



PGGM Vermogensbeheer B.V.

PGGM Vermogensbeheer B.V. (hereinafter: PGGM Vermogensbeheer) is the only shareholder of PGGM Treasury B.V. (hereinafter: Treasury) and PGGM Australia Nominees Pty Ltd. (hereinafter: PAN).

Up to 4 April 2014, PGGM Vermogensbeheer had a license pursuant to Section 2:96 of the AFM's Financial Supervision Act (Wft), to provide investment services in The Netherlands as defined in Section 1:1 of the Wft, sub a, b, c, and d of the definition of providing an investment service. The above-referenced provision means that PGGM Vermogensbeheer has a license for carrying out the following activities:

a) In exercising a profession or carrying out a business receiving and transmitting client orders related to financial instruments;
b) In exercising a profession or carrying out a business executing orders for these clients related to financial instruments;
c) Managing individual capital;
d) In exercising a profession or carrying out a business provide advice related to financial instruments.

Effective 4 April 2014, PGGM Vermogensbeheer no longer has the above-referenced license at its disposal due to the conferral of an AIFM license by the AFM (Wft Section 2:67). A legal entity is not permitted to be in the possession of both licenses. Since 5 April 2014, PGGM Treasury B.V. has had the license at its disposal pursuant to Section 2:96, part b of the Wft.

Pursuant to Section 2:67 of the Wft, the AFM has granted PGGM Vermogensbeheer a license allowing it to act as the manager of an investment institution as defined in Section 1:1 of the Wft, effective from 4 April 2014. The license is limited to offering the rights of participations to professional investors.

In addition, pursuant to Section 2:67a, second paragraph, Wft, PGGM Vermogensbeheer is permitted to carry out the following activities or to provide the following services:

- Manage individual capital;
- In exercising a profession or carrying out a business provide advice related to financial instruments;
- In exercising a profession or carrying out a business receiving and transmitting client orders related to financial instruments.

PGGM Treasury B.V. and PGGM MiFID B.V.

PGGM Treasury B.V. (hereinafter: Treasury) is a 100% subsidiary of PGGM Vermogensbeheer. For that reason, the assets and liabilities, as well as the result are fully incorporated into PGGM N.V.'s consolidated annual report. As an investment organisation, PGGM Vermogensbeheer has a MiFID licence. Due to changing legislation resulting from the AIFM Directive, a single entity is legally prevented from holding both an AIFM and a MiFID licence. PGGM Vermogensbeheer consequently split off the MiFID license into a new subsidiary; PGGM MiFID B.V. On 4 April 2014, PGGM MiFID B.V. was incorporated and on 5 April 2014 MiFID merged with Treasury. Due to the legal merger of PGGM MiFID B.V. and Treasury, the MiFID license ipso jure transferred to Treasury.

PGGM Financiële Services B.V. (formerly PGGM Advies B.V.)

PGGM Advies B.V.'s name given in the articles of association was changed to PGGM Financiële Services B.V. on 16 June 2014.

Financiële Services B.V. has a Financial Supervision Act (Wft) licence from the Authority for the Financial Markets (AFM) to:

a) Act as intermediary (Section 2:80) in current accounts, electronic money, savings accounts, mortgage credit, consumer credit, capital, income insurance, general insurance, and personal and company health insurance.

Financiële Services B.V. does not make use of the licence to provide investment advice. The life-course plan investment product is offered to the health and social sector without prior advice (on the basis of execution only).

PGGM Services B.V. (formerly PGGM Reserve IV B.V.)

PGGM Reserve IV B.V.'s name given in the articles of association was changed to PGGM Services B.V. on 16 June 2014.

PGGM Services B.V., on behalf of PGGM Financiële Services B.V., provides services related to handling all incoming and outgoing client contacts with participants and employers: electronically, in writing and physically.

PGGM Pensioenbeheer B.V.

The pension management activities are incorporated into PGGM Pensioenbeheer B.V. This work consists of policy advice and board support, client management and pension administration. On the basis of section 2:80 of the Financial Supervision Act (Wft) of the Authority for the Financial Markets (AFM), PGGM Pensioenbeheer B.V. has a licence to act as an intermediary in:

- Pension insurances;
- Pension contribution receivables; and
- Capital.

PGGM UFO B.V.

PGGM UFO B.V. acts as a contract party for pension funds and other institutional clients that wish to make use of the service of PGGM N.V. and its subsidiaries.

PGGM Levensverzekeringen N.V. (PGGM Leven)

The insurance activities are incorporated in PGGM Levensverzekeringen N.V. The company has a DNB licence. Due to statutory requirements, the activities are carried out by a separate legal entity.
In 2014, PGGM Leven developed a formal plan designed to dispose of its life insurance activities. At the end of 2014, PGGM Levensverzekeringen N.V. signed an agreement that contains the conditions for the sale of its life insurance portfolio. The final sales agreement was signed on 14 March 2015. The request for approval has been submitted to the supervisory authority DNB.
The sale is expected to be finalised in 2015. As a result of this sale, PGGM Levensverzekeringen N.V. made a provision for a loss-making contract. This provision also takes the guarantees provided to the buyer into account. The carrying value of the life insurance portfolio to be transferred to the buyer amounts to € 312.7 million as at the balance sheet date. The revenue, costs and the result from ordinary business activities, as well as the applicable taxes, attributable to the life insurance activities are included in the notes on page 102.

The carrying value of the life insurance portfolio to be transferred to the buyer amounts to € 312.7 million as at the balance sheet date. The revenue, costs and the result from ordinary business activities, as well as the applicable taxes, attributable to the life insurance activities are included in the notes on page 102.

PGGM Strategic Advisory Services B.V.

On the basis of section 2:96 of the AFM's Wft, PGGM Strategic Advisory Services B.V. (hereinafter: PSAS) has a licence to provide investment services and consequently is subject to AFM market conduct supervision and DNB prudential supervision.

On 1 January 2014, the PGGM Group transferred parts of its activities to PSAS. Effective from 2014, PSAS provides strategic investment advice to clients of the PGGM Group.

A&O Services B.V.

A&O Services B.V. is the administrator of the CLA pension regulations for the painters and finishing sector, as well as the pension fund service provider for several smaller and medium-sized pension funds. The migration of A&O Services B.V.'s activities to PGGM Pensioenbeheer B.V. started in 2014. The migration is expected to be completed by mid-2015.

A&O Vermogensbeheer B.V.
A&O Vermogensbeheer B.V. has an AFM license as an investment institution. All A&O Vermogensbeheer's activities were transferred to PGGM Vermogensbeheer B.V. on 1 April 2014. No activities were undertaken by A&O Vermogensbeheer B.V. after 1 April 2014.

Other participating interests

Sustainalytics Holding B.V.
PGGM Vermogensbeheer holds a 9.94% interest (2013: 10.00%) in Sustainalytics Holding B.V.
This participating interest is not consolidated, given that no significant influence can be exercised.

Nederlandse Investeringsinstelling N.V.
PGGM Vermogensbeheer has a 10% interest in Nederlandse Investeringsinstelling N.V. (hereinafter: NII). The NII was founded by thirteen pension funds, pension fund service providers and insurance companies.
The NII will make Dutch investment projects in infrastructure, education, healthcare, residential building, SME and sustainable energy more attractive to institutional investors. This will enable them to increase their investment in the Dutch economy. This participating interest is not consolidated, given that no significant influence can be exercised.

Accounting Standards

The financial statements have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code.

The principles used to value assets and liabilities and determine the results are based on historical cost or current cost. If no specific principle is reported for the valuation, valuation is on the basis of historical cost.

References are included in the balance sheet, income statement and cash flow statement. These references refer to the notes.

Application of Section 402 Book 2 Dutch Civil Code

The consolidated annual financial statements include the financial data of PGGM N.V. For that reason, in accordance with Section 402 Book 2 of the Dutch Civil Code, the company income statement only includes the share in the result of participating interests after tax and the other results after tax.

Continuity

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

2 Accounting principles for the valuation of assets and liabilities and the determination of the results

General

All the assets and liabilities are stated at nominal value, unless otherwise specified.

An asset is recognised on the balance sheet when it is probable that the future economic benefits will accrue to PGGM N.V. and its value can be reliably established.

A liability is recorded on the balance sheet when it is probable that its settlement will be associated with an outflow of resources that entail economic benefits and the amount thereof can be reliably established.

Income is recorded in the income statement when an increase in economic potential associated with an increase in the value of an asset or a decrease in the value of a liability occurred, provided the size thereof can be reliably established. An expense is recorded when a decrease in economic potential associated with a decrease in the value of an asset or an increase in the value of a liability occurred, provided the size thereof can be reliably established.

When a transaction causes almost all or all future economic benefits and almost all or all risks related to an asset or liability to be transferred to a third party, then the asset or the liability is no longer recognised on the balance sheet. In addition, assets or liabilities are no longer recognised on the balance sheet from the time that the conditions of probable future economic benefits and/or the reliability of establishing the value are no longer met.

These benefits and costs are attributed to the period to which they relate.

The financial statements are presented in Euros, the functional currency of PGGM N.V. All financial information in Euros is rounded to the nearest thousand. Assets and liabilities denominated in foreign currencies are converted into euros at the exchange rate prevailing on the balance sheet date. Income and expenses relating to transactions in foreign currencies during the reporting period are converted at the exchange rate prevailing on the transaction date.

Comparison to previous year

The accounting principles used for valuations and to determine the results are unchanged with respect to the previous financial year.

Use of estimates

The preparation of the annual financial statements requires the Executive Board to make judgements, estimates and assumptions which affect the application of the accounting principles and the reported value of assets and liabilities and of income and expenses. The actual results may differ from these estimates.

The estimates and underlying assumptions are continuously assessed. Revisions of estimates are applied in the period during which the estimate is revised and in the future periods for which the revision has consequences.

Basis of consolidation

The consolidated financial statements comprise the financial data of PGGM N.V. and its group companies and other legal entities in which it can exercise dominant control or over which it has central management. Group companies are participating interests in which PGGM N.V. has a controlling interest, or in which policy making influence can be exercised in some other way. The assessment of whether policy-making influence can be exercised, involves financial instruments which potentially contain voting rights and can be exercised directly. Participating interests acquired for the sole purpose of disposal within the foreseeable future are not consolidated.

Newly acquired participating interests are consolidated from the date on which policy-making influence can be exercised. Divested participating interests are consolidated until the date this influence ceases.

In the consolidated annual financial statements mutual liabilities, receivables and transactions are eliminated, just as are any profits made within the group. The group companies are integrally consolidated, whereby the minority interests are recorded separately.

The following companies are included in the consolidation:

Companies

Name	*Place of Business*	*Share in Subscribed Capital*
PGGM Financiële Services B.V.	Zeist	100%
PGGM Strategic Advisory Services B.V.	Zeist	100%
PGGM Levensverzekeringen N.V.	Zeist	100%
PGGM Services B.V.	Zeist	100%
PGGM Pensioenbeheer B.V.	Zeist	100%
PGGM UFO B.V.	Zeist	100%
PGGM Vermogensbeheer B.V.	Zeist	100%
PGGM Treasury B.V.	Zeist	100%
PGGM Australia Nominees Pty Limited	Sydney, Australia	100%
A&O Services B.V.	Rijswijk	100%
A&O Vermogensbeheer B.V.	Rijswijk	100%

Acquisition and disposal of group companies

From the date of acquisition, the results and the identifiable assets and liabilities of the acquired companies are included in the consolidated annual financial statements. The date of acquisition is the moment that dominant control can be exercised over the relevant company.

The acquisition price is the sum of money, or the equivalent of this, agreed to acquire the company, increased by any directly attributable costs. If the acquisition price is higher than the net amount of the fair value of the identifiable assets and liabilities, the excess is capitalised as goodwill under intangible fixed assets. If the acquisition price is lower than the net amount of the fair value of the identifiable assets and liabilities, the difference (negative goodwill) is accounted for as an accrued liability item.

The companies involved in the consolidation continue to be included in the consolidation until they are sold; deconsolidation occurs the moment dominant control is transferred.

Foreign currency

The consolidated annual financial statements have been drawn up in Euros. Assets and liabilities denominated in foreign currencies are converted into euros at the exchange rate prevailing on the balance sheet date. Income and expenses relating to transactions in foreign currencies during the reporting period are converted at the exchange rate prevailing on the transaction date.

Financial instruments

Financial instruments are initially recognised at fair value, whereby share premiums and discounts and directly attributable transaction costs are accounted for on initial recognition. However, if, in the subsequent valuation, financial instruments are recognised at fair value with value changes being accounted for in the income statement, directly attributable transaction costs will be accounted for in the income statement.
Financial instruments embedded in contracts which are not separated from the basic contract are accounted for in accordance with the basic contract.
After their initial recognition, financial instruments are valued as described hereafter.

Intangible fixed assets

The intangible fixed assets are stated at their acquisition price net of amortisation. Account is taken of impairments; an impairment arises when the book value of an asset (or the cash flow-generating entity to which the asset belongs) is greater than the realisable value.

Please refer to the section 'Impairment of Fixed Assets' with regard to the determination of whether an intangible fixed asset is subject to an impairment.

Goodwill

The goodwill is the positive difference between the acquisition price and the fair value (initial valuation) of the acquired assets and liabilities at the moment of acquisition. Goodwill is subject to straight-line amortisation on the basis of the useful economic life.

Value of business acquired (VOBA)

The VOBA represents the difference between the fair value on acquisition and the carrying amount of a portfolio of life insurance contracts acquired in the context of the acquisition of a business or portfolio.
The VOBA is written down over 15 years on the basis of the duration of the life insurance contracts valid on the acquisition date, parallel to the estimated contribution to the results.
The VOBA was regularly written down during the financial year. Due to the sale of the life insurance portfolio, the residual VOBA carrying value for PGGM N.V. was fully written off at the end of 2014.

Computer software

Computer software is stated at the acquisition price or the production cost net of cumulative amortisation.
These assets are subject to straight-line amortisation over their estimated economic life, taking account of the potential contract duration.

Tangible fixed assets

Land and buildings

Land and buildings are stated at current cost. At the time the asset is acquired or produced, it is stated at the acquisition price or at the cost of production.
Subsequently, it is recognised at the replacement cost or the lower value in use net of cumulative depreciation. If a decision is taken to sell tangible fixed assets, the value is recognised at the net realisable value.

Buildings are written down over their estimated economic life with a residual value of 20% of the replacement cost. The buildings are subdivided into the categories shells, completions and installations; and are depreciated to the aforementioned residual value in respectively 40, 25 and 15 years. Land is not subject to depreciation. The current cost is reviewed once every three years by means of a valuation carried out by a recognised external valuation expert.

The appreciation of tangible fixed assets is directly accounted for in a revaluation reserve item under equity. However, the appreciation should be accounted for in the income statement to the extent it is a reversal of a downward value adjustment of the same asset previously accounted for as an expense in the income statement.
Revaluations are formed and held for each asset.

Downward value adjustments are recognised directly in the income statement to the extent they cannot be charged to a previously formed revaluation reserve.
A downward value adjustment occurs when the current cost of a tangible fixed asset is lower than the original acquisition or production cost (net of depreciation).
No provision has been made for the future costs of major maintenance to the company buildings. The costs of maintenance are directly accounted for as an expense in the income statement annually.

Plant and equipment
Plant and equipment are stated at the acquisition price net of cumulative depreciation. Plant and equipment are subject to straight-line depreciation over their estimated economic life of five to ten years. The residual value is carried at zero.

Other operating assets
The other operating assets comprise furniture and equipment, computer hardware, artworks and other operating assets. The other operating assets are stated at their acquisition price net of cumulative depreciation. Plant and equipment are subject to straight-line depreciation over their estimated economic life of five to ten years. The residual value is carried at zero.
Artworks are not subject to depreciation.

Financial fixed assets

Participating interests in which significant influence is exercised
Participating interests in which significant influence can be exercised on the business and financial policy are stated in accordance with the equity accounting method on the basis of the net asset value.

PGGM N.V.'s accounting principles are used to determine the net asset value. Results on transactions, whereby there is a transfer of assets and liabilities between PGGM N.V. and its participating interests and between participating interests themselves are eliminated to the extent these can be deemed unrealised.

Participating interests with a negative net asset value are stated as nil. A provision is created when PGGM N.V. wholly or partially guarantees the relevant participating interest's debts, or has the constructive obligation (for its share) of enabling the participating interest to pay its debts. This provision is primarily formed against the receivables from this participating interest and for the remainder, under the provisions according to the size of the share in the losses sustained by the participating interest, or for the expected payments by PGGM N.V. in respect of this participating interest.

The first valuation of acquired participating interests is based on the fair value of the identifiable assets and liabilities at the moment of acquisition. For the next valuation, the principles applicable to these financial statements are used, with the initial valuation used as a basis.

Participating interests in which there is no question of significant influence
Participating interests in which no significant influence is exercised are stated at the lower of cost or realisable value. If there is a firm intent of disposal, the participating interest is stated at the lower expected sales value, if applicable.

Impairment of fixed assets

For tangible and intangible fixed assets, an assessment is conducted on every balance sheet date to determine whether there are any indications that these assets may be subject to impairment. If this appears to be the case, the realisable value of the asset is estimated.

The realisable value is the higher of the value in use or the net selling price. If it is not possible to estimate the realisable value of the individual asset, the realisable value of the cash-generating unit to which the asset belongs (the asset's cash-generating unit) is determined.

An assessment is conducted on every balance sheet date to determine whether there is any indication that an impairment loss recognised in previous years has decreased.
If this appears to be the case, the realisable value of the relevant asset is estimated.

The reversal of a previously recognised impairment loss only takes place when there is a change in the estimates used for determining the realisable value since the recognition of the last impairment loss. In that case the book value of the asset is increased to the estimated realisable value, but not higher than the book value (after depreciation) that would have been established if no impairment losses would have been recognised for the asset in previous years.

Investments for the account of the insurance business

Loans, bonds and debentures
Loans, and bonds and debentures are stated at their amortisation value. Differences between the purchase price and redemption value, both positive and negative, are amortised pro rata the remaining term and accounted for in the income statement. Realised exchange rate gains and losses are entirely accounted for in the result.

Money market investments

The balance of bank accounts from investment activities is presented in the balance sheet as part of the investments. These bank balances are stated at face value, that is their nominal value.

Deposits are included at face value.

Shares

Shares are stated at value. Realised and unrealised gains and losses are accounted for in the result directly.

Derivatives

PGGM Levensverzekeringen N.V. invests in commodity futures These futures are settled on a daily basis and as a result their value as at the balance sheet date is zero.

Investments on behalf of policyholders

Investments on behalf of policyholders are stated at their fair value. Realised and unrealised gains and losses are directly accounted for in the result.

Receivables, prepayments and accrued income

Receivables, prepayments and accrued income are accounted for at face value. Where necessary, the receivables are reduced by a value adjustment for the risk of bad debts.

Any interest income and expenses to be received or paid which relate to the cash of PGGM N.V. and its subsidiaries are accounted for by PGGM N.V.

Provisions

General

EA provision is included in the balance sheet when:

- There could be a legal or constructive obligation as a result of a past event; and
- A reliable estimate can be made in respect of this obligation; and
- It is probable that the settlement of that obligation will require an outflow of funds.

If it is likely that (part of) the expenditure necessary to settle a provision will be reimbursed by a third party, either wholly or partially, when the provision is settled, the reimbursement is presented as a separate asset.

The provisions are stated at the face value of the expenses that are expected to be necessary to settle the liability and losses.

Provisions for the insurance business risk

Life insurance

The provision for life insurance consists of the actuarial valuation of the future payment obligations increased by a mark-up for payment expenses (1% of the payment). The provision is stated in accordance with the net method on the basis of recent mortality tables (GBM/V 2005–2010 with ages reduced by: -5/-5 (for new products since 2003, stricter age adjustments apply for the risk of longevity (-7/-9)). The provision is net of the amount of interest rate discounts still to be written off. The interest rate discount granted is capitalised per annual instalment and written off on a straight-line basis over 11 years.

For the nominal pension due immediately, a discount is given on the purchase considerations to be paid equal to the difference between the expected interest income and the interest expense, increased by compensation for risk. The notional interest rate used is 4% for policies concluded before 1 August 1999 and 3% for policies concluded after 1 August 1999.

Technical provision for profit-sharing

On the basis of the policy terms, the provision for profit-sharing includes the amounts available for profit-sharing which have not, as yet, been added to individual policies.

Other technical provisions

Provision for result-sharing investment policies

This provision is to compensate potential future differences between the expected actual return and the contractual return. The valuation relates to the present value of the return differences for investment policies concluded before 1 January 2008. The provision has been determined in such a way that there is a 99.5% degree of assurance that the (potential) return differences for the remaining term of the investment policy can be absorbed. The (potential) return differences are converted to a present value at a discount rate of 3%.

Provision for changes to the mortality assumptions

This provision is formed for the purpose of:

- The conversion to future, new mortality tables (GBM/V);
- A potential transfer to a stricter reduction in age to cover the risk of longevity.

Provision for gender neutrality
This provision relates to specific products (and to a select group). Annually, the adequacy of the provision is assessed.

Provision for profit-sharing supplementary pensions
Annually 4% interest is added. This provision is written off on a straight-line basis over 20 years, the start date being 1 October 1994.

Provision for administration costs of supplementary pensions
This provision amounts to 2% of the non-contributory insured pensions during the term of the insurances which PFZW has transferred to PGGM Levensverzekeringen N.V. Annually 4% interest is added. This provision is written off on a straight-line basis over 20 years, the start date being 1 October 1994.

Provisions for occupational disability pensions
A provision has been made for the possible return of premiums associated with occupational disability pensions.

Provisions for the coverage of costs
The cost provision has been established to compensate for failure to cover any future costs.
The provision is calculated as the present value, given a 3% notional interest rate, of the expected shortfall due to failure to cover any future costs in the coming 30 years (until 2043).

Provision for policyholders' risks
This provision is stated at the fair value of the investments allocated to the policyholders.

Restructuring provisions
A restructuring provision is made if on the balance sheet date, a detailed reorganisation is to be formalised which will by the date of finalisation of the financial statements at the latest cause legitimate expectations of the plan being implemented to have been aroused in those for whom the reorganisation has consequences. There are deemed to be legitimate expectations if the implementation of the reorganisation has been started, or if the main points have been made known to those for whom the reorganisation has consequences.

Provision for anniversaries
The provision for anniversaries relates to a provision for future anniversary payments. The provision relates to the present value of any future anniversary payments. The calculation is based on the commitments given, the chance of remaining in service and age.

Provision for onerous contracts
The provision for onerous contracts relates to the negative difference between the expected benefits from the performances to be received by PGGM after the balance sheet date and the unavoidable costs of fulfilling all the obligations. At a minimum, the unavoidable costs are the costs which have to be incurred to get out of the agreement, being the lower of, on the one hand, the costs of fulfilling the obligations and, on the other, the compensation or penalties which must be paid if the obligations are not fulfilled.

Other provisions
The other provisions are stated at face value.

Institutional management fees

These are payments from third parties which are received by virtue of service provision in the form of pension board advice, pension management and asset management.

Gross premium retail insurances

The premium charged is classified directly as revenue. In addition, for premiums which do not relate to the period, a provision is formed for unearned premiums.

Insurance business expenses

These consist of the payments, provision movements, profit-sharing and discounts, outgoing reinsurance premiums and investment results for the account of policyholders. Payments, provision movements, profit-sharing and discounts are credited or, as the case may be, debited to the result in the period to which they relate. The valuation of the amount owed to reinsurers is made in accordance with the terms and conditions of the reinsurance contracts. Liabilities by virtue of reinsurance are primarily the outstanding premiums for reinsurance contracts. These premiums are included as expenses in the period to which they relate.

Costs of outsourced work and other external expenses

The costs of outsourced work and other external expenses consist of all the other external costs which are directly related to the primary administrative work for third parties.

Investment results

Investment results consist of the direct investment income (interest) and the indirect investment income (the realised and unrealised revaluations) of investments on behalf of the insurance business and policy holders. Both the interest and the realised and unrealised revaluations are attributed to the period to which they relate.

Financial income and expenses

Interest income and expenses

PGGM N.V. and its subsidiaries account for interest income and expenses related to cash as a consequence of PGGM N.V.'s interest set-off scheme.
In the financial statements, the interest income and expenses are assessed per individual credit institution and, ultimately, the net position is presented as interest income or expense.

Share in the result of participating interests

The share in the result of participating interests consists of the group's share in these participating interests, determined on the basis of the group's accounting principles. Results on transactions whereby there is a transfer of assets and liabilities between the group and the non-consolidated participating interests and between non-consolidated participating interests themselves, are not recorded to the extent these can be deemed unrealised.
The results of participating interests which are acquired or disposed of during the financial year are recorded in the group's results from the moment of acquisition respectively until the moment of disposal.

Pension scheme

The basic principle applied is that the pension costs recognised in the reporting period are equal to the pension premiums owed to the pension fund over the same period. A liability is recorded if, on the balance sheet date, the premiums owed are not fully paid up.
If, on the balance sheet date, the paid premiums exceed the premiums owed, an item for prepayment and accrued income will be included provided the fund is expected to issue a repayment, or offset the excess premiums paid against future premiums owed.

Leasing

PGGM N.V. and its subsidiaries may enter into financial and operational lease contracts. Lease agreements whereby the advantages and disadvantages of ownership of the lease object are wholly, or almost wholly, borne by the lessee are classified as financial leases. All other lease agreements are classified as operational leases. When classifying a lease, the determining factor is the economic reality, not necessarily the legal form.

Taxes

Corporation tax

Taxes comprise taxes to be paid, offsettable taxable profits and deferred taxes over the reporting period. Taxes are recognised in the income statement, except to the extent that they concern items that are included directly in equity, in which case the tax is recognised under equity.

The tax to be paid or offset for the financial year is the expected tax charge on taxable profit for the financial year, calculated using the tax rates in force on the reporting date, or that are materially decided on the reporting date, and include any corrections to tax payable for prior years.

If the carrying values of the assets and liabilities for financial reporting purposes deviate from their carrying values for tax purposes, there are temporary differences.

A provision for deferred tax liabilities is made for taxable temporary differences.

A deferred tax asset is recorded for offsettable temporary differences, available losses carried forward and netting possibilities not yet utilised, but only to the extent that it is probable that future taxable profits will be available for netting or compensation. Deferred tax assets are reviewed on every reporting date and are reduced insofar as it is no longer likely that the corresponding tax benefit will be realised.

A deferred tax liability is recognised for taxable temporary differences concerning group companies, foreign non-independent entities, participating interests and joint ventures, unless the company is able to determine at what moment the temporary difference will expire and it is unlikely that the temporary difference will expire in the foreseeable future.

A deferred tax asset is recognised for offsettable temporary differences concerning group companies and participating interests, but only to the extent that it is probable that the temporary difference will expire in the foreseeable future and that taxable profit will be available to compensate for the temporary difference.
Deferred tax assets and liabilities are valued at face value.

Within the PGGM group, corporation tax over the taxable result is calculated for each entity. Ultimately, PGGM Coöperatie U.A. settles with the tax authorities.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash flows in foreign currencies are restated in Euros on the basis of the average exchange rates for the relevant periods. Income and expenses arising from interest, dividends received and tax on profits are included in the cash flow from operating activities. Dividends paid are recognised under the cash flow from financing activities.

3 Intangible fixed assets

	Goodwill	*VOBA*	*Software*	*Total*
Balance as at 1 January 2013				
Cost price	67,872	18,453	38,396	124,721
Accummulated amortisation and impairment	-48,479	-8,053	-36,464	-92,996
Carrying amount as at 1 January 2013	**19,393**	**10,400**	**1,932**	**31,725**
Changes in 2013				
Investments	34,000	–	7,918	41,918
Amortisation	-9,696	-1,510	-6,432	-17,638
Balance	**24,304**	**-1,510**	**1,486**	**24,280**
Balance as at 31 December 2013				
Cost price	101,872	18,453	46,314	166,639
Accummulated amortisation and impairment	-58,175	-9,563	-42,896	-110,634
Carrying amount as at 31 December 2013	**43,697**	**8,890**	**3,418**	**56,005**
Changes in 2014				
Investments	5,428	–	1,462	6,890
Impairment loss	–	-7,470	–	-7,470
Amortisation	-15,363	-1,420	-1,741	-18,524
Balance	**-9,935**	**-8,890**	**-279**	**-19,104**
Balance as at 31 December 2014				
Cost price	107,300	18,453	47,776	173,529
Accummulated amortisation and impairment	-73,538	-18,453	-44,637	-136,628
Carrying amount as at 31 December 2014	**33,762**	**–**	**3,139**	**36,901**
Amortisation period	**6–7 years**	**15 years**	**5 years**	

Goodwill

The goodwill has arisen after the acquisition of the service provider by PGGM in 2008 and relates to the positive difference between the acquisition price and the assets and liabilities acquired. At the end of 2014, it appeared likely that the acquisition price would be subject to change. At the start of 2015, an additional amount was paid in relation to this acquisition. Consequently, this amount was accounted for as a change in the acquisition price and capitalised. Goodwill is subject to straight-line amortisation on the basis of the useful economic life.

VOBA

Due to the sale of the life insurance portfolio, the VOBA was fully written off at the end of 2014.

Software

Investments primarily concern licenses for the pension and investment administration's back-office system.

A statutory reserve has been formed under equity for the capitalised costs of the internally developed software for, primarily, the back office systems for pension and investments administration. This reserve was nil as at 31 December 2014 (2013: € 0.5 million). The amortisation of internally developed software amounted to € 0.5 million in 2014 (2013: € 0.5 million).

4 Tangible fixed assets

	Land and Buildings	*Plant and Equipment*	*Other operatings assets*	*Total*
Balance as at 1 January 2013				
Cost price	128,879	3,211	16,189	148,279
Accumulated depreciation and impairment	-19,637	-1,280	-5,628	-26,545
Carrying amount as at 1 January 2013	**109,242**	**1,931**	**10,561**	**121,734**
Changes in 2013				
Investments	–	–	3,605	3,605
Disposals	-671	–	-7	-678
Depreciation	-3,607	-328	-3,858	-7,793
Balance	**-4,278**	**-328**	**-260**	**-4,866**
Balance as at 31 December 2013				
Cost price	128,208	3,211	19,787	151,206
Accumulated depreciation and impairment	-23,244	-1,608	-9,486	-34,338
Carrying amount as at 31 December 2013	**104,964**	**1,603**	**10,301**	**116,868**
Changes in 2014				
Investments	–	–	351	351
Disposals	–	–	-88	-88
Depreciation	-3,606	-290	-2,894	-6,790
Depreciation of disposals	-	-	64	64
Impairment due to revaluations	-4,756	–	-217	-4,973
Adjustment of gross carrying value due to revaluations	-31,606	–	–	-31,606
Accumulated depreciation and impairment due to revaluations	31,606	–	–	31,606
Balance	**-8,362**	**-290**	**-2,784**	**-11,436**
Balance as at 31 December 2014				
Cost price	96,602	3,211	20,050	119,863
Accumulated depreciation and impairment	–	-1,898	-12,533	-14,431

Depreciation period

Land and sites:	not subject to depreciation
Buildings – shells:	40 years
Buildings – completed:	25 years
Buildings – building-related systems:	15 years
Plant and equipment:	5–10 years
Other operating assets:	5–10 years

PGGM N.V. is the economic owner of the land and buildings. PGGM Coöperatie U.A. is the legal owner of both the land and buildings.

Land and buildings are stated at current cost, that is their replacement value. The land and buildings were reappraised by a certified appraiser at the end of 2014. The land and buildings were revalued and the current value on the balance sheet was adjusted to reflect the appraisal value as at 31 December 2014. The cumulative depreciation was eliminated against the gross carrying value of the buildings, whereby the net carrying value was set equal to the newly appraised current value. The accounting principles for the valuation of the land and buildings remained unchanged after the revaluation.

5 Financial fixed assets

	Participating interests	*Deferred taxes*	*Personnel Mortgages*	*Total*
Balance as at 1 January 2013	**1,564**	**16,564**	**–**	**18,128**
Changes in 2013				
Investments	746	–	396	1.142
Value changes	-1,461	3,576	-	2.115
Balance as at 31 December 2013	**849**	**20,140**	**396**	**21,385**
Changes in 2014				
Investments	100	–	–	100
Disposals	–	–	-107	-107
Value changes	–	12,613	–	12,613
Balance as at 31 December 2014	**949**	**32,753**	**289**	**33,991**

As at 31 December 2014, the participating interests consisted of the 9.94% capital interest (2013: 10%) in Sustainalytics Holding B.V. and the 10% capital interest in the Nederlandse Investeringsinstelling N.V. These are participating interests in which there is no significant influence.

The deferred tax asset is entirely related to temporary fiscal and commercial valuation differences. Of this, an amount of € 12.8 million has a remaining term of more than 1 year.

Personnel mortgages are mortgage loans issued to members of the personnel of A&O Services B.V. The remaining period of the personnel mortgages varies from 3 to 13 years.

6 Investments on behalf of the insurance business

	Loans	Bonds and debentures	Equity	Money Market Investments	Total
Balance as at 1 January 2013	**3,197**	**230,316**	**28,867**	**–**	**262,380**
Changes in 2013					
Purchases and advances	–	29,184	38,457	30,000	97,641
Sales and repayments	-2,698	-13,625	-5,226	-30,000	-51,549
Value changes	–	–	4,138	–	4,138
Amortisation share premium and discount	4	-130	–	–	-126
Balance	**-2,694**	**15,429**	**37,369**	**–**	**50,104**
Balance as at 31 December 2013	**503**	**245,745**	**66,236**	**–**	**312,484**
Changes in 2014					
Purchases and advances	–	31,235	9,604	–	40,839
Sales and repayments	-90	-22,000	-42,200	–	-64,290
Value changes	–	–	2,832	–	2,832
Amortisation share premium and discount	4	4,351	–	–	4,355
Movement in bank balances	–	–	–	751	751
Balance	**-86**	**13,586**	**-29,764**	**751**	**-15,513**
Balance as at 31 December 2014	**417**	**259,331**	**36,472**	**751**	**296,971**
Fair value					
31 December 2013	**602**	**270,227**	**66,236**	**–**	**337,065**
31 December 2014	**459**	**291,028**	**36,472**	**751**	**328,710**

The fair value is calculated by increasing the market value of the funds by the interest to be claimed on the balance sheet date.

On the basis of the repayment dates, the remaining contractual period of the loans, bonds and debentures is:

	< 1 year	*1–5 years*	*> 5 years*	*Total*
Loans	–	417	–	417
Bonds and debentures	21,656	168,064	69,611	259,331
Balance	**21,656**	**168,481**	**69,611**	**259,748**

Bonds and debentures

	31 December 2014	*31 December 2013*
Fixed interest rate bonds and debentures	240,029	227,528
Bonds and debentures at zero per cent interest (zeros)	19,302	18,217
Total	**259,331**	**245,745**

The creditworthiness of the bonds and debentures can be depicted as follows:

	31 December 2014	*31 December 2013*
AAA rating	162,595	121,933
AA rating	96,736	69,567
No rating	–	54,245
Total	**259,331**	**245,745**

The regional distribution of the bonds and debentures can be depicted as follows:

	31 December 2014	*31 December 2013*
Netherlands	119,299	91,689
Germany	52,978	66,296
Austria	28,605	28,700
Finland	21,936	22,089
France	23,452	23,743
Belgium	13,061	13,228
Total	**259,331**	**245,745**

Money market investments

An amount of € 0.7 million of the cash is not freely available (2013: nil). This concerns balances on margin accounts held in connection with commodity futures.

Derivatives

PGGM Levensverzekeringen N.V. makes use of commodity futures in order to acquire exposure to commodity-related indices. Because the outstanding futures positions are settled on a daily basis, their value on the balance sheet date is nil. 31 December 2014, the exposure of these futures amounted to € 4.5 million. The terms of the futures are more than 1 year.

7 Investments on behalf of policyholders

	2014	2013
Balance as at 1 January	**77,771**	**80,521**
Changes		
Sales and repayments	-18,194	-9,477
Value changes	5,706	6,727
Balance as at 31 December	**65,283**	**77,771**

The distribution of the investments on behalf of policy holders can be depicted as follows:

	31 December 2014	31 December 2013
Equity	53%	42%
Fixed-income securities	31%	37%
Real estate	13%	12%
Cash	3%	2%
Commodities	0%	7%
Total	**100%**	**100%**

8 Receivables

	31 December 2014	31 December 2013
Accounts receivable	36,561	38,588
Still to be invoiced	7,681	8,954
Accrued interest	4,540	4,348
Receivables from shareholder	966	4,300
Receivables from direct insurance to policyholders	779	31
Other receivables	110	83
Prepayments and accrued income	4,333	4,531
Total	**54,970**	**60,835**

The remaining duration of the receivables is less than 1 year.

Accounts receivable
The accounts receivable primarily consist of the amounts invoiced in advance to institutional clients related to the first quarter of 2015, for pension management, board support and asset management.

Still to be invoiced
Amounts still to be invoiced as of 31 December 2014 relate to amounts still to be charged to investment funds and institutional clients.

Accrued interest
Accrued interest consists primarily of the interest to be received on loans, bonds and debentures.

Receivables from shareholder
The receivable from PGGM Coöperatie U.A. consists of the offset corporation tax which PGGM Coöperatie U.A. settles with the tax authorities.

Prepayments and accrued income
The prepayments and accrued income primarily consist of prepaid expenses to suppliers.

9 Cash

Cash relates to credit balances which are held in Dutch credit institutions.
As of 31 December 2014, all the credit balances were immediately due and could be disposed of freely.

PGGM Vermogensbeheer is the asset manager for external clients and for PGGM's investment funds. To carry out the joint management and to create netting advantages or, as the case may be, interest set-off, PGGM Treasury B.V. receives orders from PGGM Vermogensbeheer to hold bank accounts and money market instruments and undertake derivative transactions for the account and risk of PGGM Vermogensbeheer's clients, who have provided the requisite mandates.
As a consequence of this, the economic ownership of the bank accounts and money market instruments referred to belongs to those instructing PGGM Vermogensbeheer and the legal ownership belongs to PGGM Treasury B.V. Consequently, the balance of these bank accounts is not accounted for in the financial statements of PGGM Treasury B.V. Holding a joint bank account and other money market instruments for the benefit of those instructing it does not imply any credit or bankruptcy risks for PGGM Treasury B.V.

10 Equity

The equity is further explained in the notes to the balance sheet of the company financial statements.

11 Provisions for the insurance business risk

	1 January 2014	Contributions	Withdrawals	31 December 2014
Unearned life premiums	27	–	6	21
Life insurance	255,335	–	30,299	225,036
Other technical provisions	29,321	660	7,621	22,360
Technical provisions life	**284,683**	**660**	**37,926**	**247,417**

Other technical provisions

Changes to the other technical provisions are as follows:

	1 januari 2014	Dotaties	Onttrekkingen	31 december 2014
Provision for result-sharing investment policies	16,149	–	6,772	9,377
Provision for changes to the mortality assumptions	2,000	500	–	2,500
Provision for gender neutrality	689	–	656	33
Provision for profit-sharing supplementary pensions	107	–	107	–
Provision for administration costs of supplementary pensions	36	–	36	–
Provision for the coverage of costs	10,340	160	50	10,450
Total other technical provisions	**29,321**	**660**	**7,621**	**22,360**

Provisions for the coverage of costs

As a result of the choice of the run-off scenario by PGGM Levensverzekeringen N.V., there is a provision to compensate for failure to cover any future costs. The provision is calculated as the present value, given a 3% notional interest rate, of the expected shortfall due to failure to cover any future costs in the coming 30 years (until 2043).

Provision for result-sharing investment policies

	2014	2013
Balance as at 1 January	**16,149**	**16,359**
Recalculation of market value/fund developments	-1,818	-1,009
Update parameters/methodology	-4,954	799
Balance as at 31 December	**-1,818**	**-1,009**

In the other technical provisions, the provision for result-sharing is accounted for in the investment policies. The provision is to compensate potential future differences between the expected actual return and the contractual return. The valuation relates to the present value of the return differences for investment policies concluded before 1 January 2008.

These provisions are predominantly long-term.

12 Provisions for policyholders' risks

	2014	2013
Balance as at 1 January	**77,771**	**80,521**
Contributions	5,406	–
Withdrawals	-17,894	-9,477
Value changes	–	6,727
Balance as at 31 December	**65,283**	**77,771**

These provisions are predominantly long-term.

Liability adequacy test provision for life insurance

	31 December 2014	31 December 2013
Expected value outcome	314,338	343,833
Risk margin	17,620	13,125
Testing provision	**331,958**	**356,958**
Provisions for insurance business risk and policyholders' risk	312,700	362,454
	-19,258	**5,496**
Surplus value investments	27,199	20,202
Surplus	**7,941**	**25,698**

The liability adequacy test demonstrates that PGGM Levensverzekeringen N.V. does not need to form any other provisions to be able to fulfil its insurance liabilities.

The determination of the testing provision is linked to the Dutch Financial Supervision Act. The current valuation of the liabilities means the provision is stated as a best estimate using the Dutch central bank's prescribed interest rate structure, including the risk margin to be retained.

13 Tax provisions

	Total
Balance as at 1 January 2013	**4,672**
Movements in 2013	
Contributions	4,029
Release	-590
Balance as at 31 December 2013	**8,111**
Movements in 2014	
Contributions	2,134
Withdrawals	-720
Release	-7,267
Balance as at 31 December 2014	**2,258**

The deferred tax liability relates to the temporary fiscal and commercial value differences of the VOBA, the land and buildings, investments for the account of the insurance business and claims on third parties. These provisions are predominantly long-term.

These provisions are predominantly long-term.

14 Other provisions

	Reorganisations	Anniversaries	Other	Total
Balance as at 1 January 2013	**492**	**985**	**11.890**	**13,367**
Movements in 2013				
Contributions	6,208	587	10,096	16,891
Withdrawals	-536	-98	-8,838	-9,472
Release	-15	-39	-1,299	-1,353
Balance as at 31 December 2013	**6,149**	**1,435**	**11,849**	**19,433**
Movements in 2014				
Contributions	3,412	527	50,445	54,384
Withdrawals	-1,359	-148	-8,612	-10,119
Release	-13	-43	-1,302	-1,358
Balance as at 31 December 2014	**8,189**	**1,771**	**52,380**	**62,340**

These provisions are predominantly long-term.

Restructuring provisions

The provision for reorganisations includes items which relate to individual trajectories. The increase in the provision primarily relates to the reorganisation at A&O.

Other provisions

The other provisions primarily concern the loss-making contract provision in relation to the sale of the life insurance portfolio. The buyer was provided with a number of guarantees as part of the sale of the life insurance portfolio.
This provision also takes the guarantees provided to the buyer into account. Furthermore, the other provisions include the project costs associated with the migration of A&O to PGGM N.V. and the incentives.

15 Current liabilities

	31 December 2014	*31 December 2013*
Fees from institutional clients received in advance	29,404	28,781
Accounts payable	22,095	7,875
Taxes and social security contributions	6,841	6,901
Outstanding pension payments	2,661	1,950
Advance/arrears insurance company premiums	1,724	2,738
Liabilities from direct insurance to policyholders	437	499
Negative goodwill	–	368
Other payables	6	43
Accruals and deferred income	24,110	68,801
Total	**87,278**	**117,956**

The current liabilities all have a remaining term of less than one year.

Fees from institutional clients received in advance
The fees received in advance largely relate to invoices for work undertaken for institutional clients in the first quarter of 2015; this work involved governance advice, pension management and asset management.

Taxes and social security contributions
This relates to the taxes and social security contributions still to be paid.

Negative goodwill
Negative goodwill arose when the shares in A&O were acquired. This negative goodwill relates to the expected future losses and expenses which were taken account of in the acquisition plan. The negative goodwill was fully credited to the income statement in 2014.

Accruals and deferred income
The item accruals and deferred income primarily consists of amounts payable, reserves for holiday days, bonuses for personnel and interest payments. The decrease compared to 2013 is primarily due to the payment of goodwill in 2014.

16 Off-balance sheet assets and liabilities

Credit facility PFZW

PGGM N.V. has a credit facility with PFZW. For the credit facility, PGGM N.V. pays interest equal to the EURIBOR rate with a 50 basis point mark-up. The maximum of the total credit facility is € 150 million. The credit facility was entered into on 1 January 2008 for an indefinite period. No repayment arrangement has been made. During 2014, PGGM made no use of this credit facility.

Liability of a tax entity

Together with its subsidiaries and single shareholder, PGGM Coöperatie U.A., PGGM N.V. forms a tax entity for corporation tax and, for that reason, is jointly and severally liable for all the ensuing liabilities.
In addition, together with its subsidiaries, PGGM N.V. forms part of a tax entity for value added tax, as a result of which it is jointly and severally liable for any VAT liabilities of the entities belonging to the tax entity.

Operational lease liability

The operational lease liability relates to lease cars provided to the personnel. The liability runs until 2016.
This total liability amounted to € 5.4 million as at 31 December 2014 (2013: € 6.1 million). An amount of € 2.2 million is payable within one year.

Maintenance liability – buildings

This total liability amounted to € 2.1 million as at 31 December 2014 (2013: € 2.5 million). The liability runs until 2016. An amount of € 2.1 million is payable within one year.

Maintenance liability – hardware and software

This total liability amounted to € 7.1 million as at 31 December 2014 (2013: € 10.7 million). The liability runs until 2016. An amount of € 5.5 million is payable within one year.

Commitments

PGGM Vermogensbeheer B.V. has made a confirmed commitment to AlpInvest Partners N.V. for the period 2011–2015, in part for the purpose of making private equity investments possible for institutional clients in PGGM's fund structure. This commitment is supported by one institutional client guaranteeing the entire commitment to PGGM Vermogensbeheer B.V.

Guarantee provided

PGGM N.V. has co-signed the sales agreement for the life insurance portfolio. The sales agreement provides for specific guarantees to the buyer whose value was estimated and provided for 31 December. The provided guarantees have a maximum term of 8 years.

17 Revenue

Institutional management fees

	2014	2013
Management fees for service provision	124,542	128,154
Management fees investment funds	136,529	115,728
Other management fees	–	671
Total	**261,071**	**244,553**

Management fees for service provisions
Institutional clients are charged a management fee for pension board advice, as well as pension and asset management fees. In general, the fees for pension board advice and pension management are based on a fixed amount for each standard, insured person. The fees for asset management involve a fee for services related to strategic investment advice, fiduciary management, asset management and risk management. The fees for these services consist of a fixed annual fee and/or a fixed fee expressed as basis points on the assets under management.

The increase in management fees is attributable to new clients.

Gross premium retail insurances

	2014	2013
Life insurance:		
– insurance business risk	9,929	10,823
– policyholders' risk	494	1,007
– share of reinsurers	-312	-318
– movement in technical provision for unearned premiums	6	8
	10,117	**11,520**
Non-life insurance:		
– insurance business risk	–	379
– share of reinsurers	–	7
	–	**386**
Total	**10,117**	**11,906**

The gross premiums relate to insurance agreements agreed in The Netherlands exclusively.

The fall in premium income from the life insurance portfolio is due to the fact that there have no longer been any passive or active sales since 2013.

Other retail revenue

	2014	2013
Revenue from retail investment funds	69	357
Other revenue	426	88
Total	**495**	**445**

Retail investment funds management fees
The investment funds management fees relate to the management fee PGGM Vermogensbeheer charges to the retail funds, primarily PGGM Beleggingsfonds and PGGM Institutional Mix Fund. PGGM Beleggingsfonds offers investment variants of the life-course plan to employees in the health and care sector and their partners.

The PGGM Institutional Mix Fund is an institutional fund established for the benefit of PGGM Levensverzekeringen N.V. and its policyholders. This fund was terminated in mid 2014.

18 Insurance business expenses

	2014	2013
Insurance payments:		
– insurance business risk	40,832	31,956
– policyholders' risk	17,896	8,668
	58,728	**40,624**
Changes in provisions for life insurance	-37,272	-8,069
Changes in provisions for non-life insurance	–	-6,484
Changes in provisions for the insurance business	**-37,272**	**-14,553**
Changes in unearned premiums	7	8
Other technical income and expenses	4	6,929
Policy holders' risk:		
– Investment results	-6,864	-6,727
– Changes in provisions	-12,488	-2,750
Total	**2,115**	**23,531**

19 Costs of outsourced work and other external expenses

	2014	*2013*
External personnel	29,697	20,810
Consultancy fees	6,921	8,622
Outsourcing of administration	888	-131
Other service bureaus	1,120	–
Total	**29,697**	**20,810**

Up to and including the 2013 financial year, the costs of outsourced pension payment administration and other service bureaus were accounted for under other operating costs. Effective from the 2014 financial year these costs are accounted for under the category to which they pertain. In the 2014 financial year, the costs of outsourced pension payment administration amounted to € 0.9 million (2013: € 1.0 million). In the 2014 financial year, the costs of other service bureaus amounted to € 1.1 million (2013: € 1.2 million).

20 Personnel expenses

	2014	*2013*
Salaries	111,562	106,535
Pension costs	16,269	15,557
Social security costs	13,174	10,829
Other employee expenses	15,150	9,887
Total	**156,155**	**142,808**

On the basis of fulltime equivalents, the average number of employees at year-end was as follows:

	2014	*2013*
Asset Management	353	364
Pension Management	451	322
ICT, Facilities, Finance & Control	227	233
Relations & Communication	48	168
Institutional Business	119	114
Corporate staff	79	88
A&O	135	178
Total	**1,412**	**1,467**

The average number of employees fell due to the reorganisation of A&O Services B.V. At the end of 2014, A&O Services B.V. employees were still employed by A&O Services B.V.

PGGM N.V.'s employee pension scheme

PGGM N.V.'s employee pension scheme is incorporated in the PFZW industry-wide pension fund. The retirement pension is a defined benefit plan on the basis of the (conditionally) indexed average salary. Indexation of the retirement benefits depends on the financial position of the pension fund.

The premium due to the pension fund is recognised in the income statement as an expense, and, if this premium has not yet been paid to the pension fund, it is accounted for as a liability in the balance sheet.

PGGM N.V. is not obliged to pay additional contributions in the event of a shortfall in the fund, other than to meet any higher future premium contributions.

Pension scheme for A&O Services B.V. employees

Until 31 December 2013, the pension scheme of A&O Services B.V.'s employees was administered by Stichting Pensioenfonds A&O Services B.V. As of 1 January 2014, the pensions accrued by A&O Services B.V. employees were transferred to the PFZW industry-wide pension fund. In 2014, via a collective value transfer, the accrued pension claims and retirement benefits as at 31 December 2013 were transferred to the PFZW industry-wide pension fund with retroactive effect to 31 December 2013.

Remuneration of Members of the Executive and Supervisory Boards

The total remuneration of the current members of the Executive Board is as follows:

	2014			*2013*		
	Fixed remuneration	*Pension and social security costs*	*Total*	*Fixed remuneration*	*Pension and social security costs*	*Total*
E.F. Bos	413	81	494	406	65	472
P.A.M. Loven	365	68	433	362	67	429
Total	**778**	**149**	**927**	**768**	**133**	**901**

The total remuneration of current and former Executive Board members does not include a crisis levy. The 2014 crisis levy is nil (2013: € 87,589).

The difference in the 2013 and 2014 remuneration for Ms Bos is due to two factors. First, due to a 0.8 per cent salary increase, and second due to the fact that Ms Bos did not occupy the Chief Executive Officer position throughout 2013. Ms Bos was appointed CEO effective 6 March 2013 and up until that time received a temporary responsibility allowance. No pension contribution was due on this temporary responsibility allowance. Ms Bos received the full CEO remuneration effective from 6 March 2013.

Each member of the Supervisory Board receives an annual fee of € 27,694 (2013: € 27,694). The chairman receives a fee of € 32,034 (2013: € 32,034). These fees include travel expenses and work undertaken for the Audit Committee and the Remuneration, Selection and Appointments Committee, and are exclusive of VAT. As of 1 January 2013, fees paid to Supervisory Board members are subject to VAT, consequently, VAT is due on these fees. In 2014, the total remuneration of the Supervisory Board was € 170,504, exclusive of VAT (2013: € 170,504). There was no indexation of or increase to the remuneration of the Supervisory Board in 2014.

No loans, advances or guarantees were provided to the members of either the Executive or Supervisory Board.

21 Depreciation/amortisation and impairment of tangible/intangible fixed assets

	2014	*2013*
Amortisation of intangible fixed assets	18,524	14,516
Impairment of intangible fixed assets	7,470	–
Depreciation of tangible fixed assets	6,790	4,934
Impairment of tangible fixed assets	2,091	–
Total	**34,875**	**19,450**

22 Other operating expenses

	2014	*2013*
Accommodation costs	5,030	9,890
IT costs	17,269	9,234
Marketing expenses	8,204	10,141
Other expenses	56,390	14,404
Total	**86,893**	**43,669**

Accommodation costs

The 2013 accommodation costs include a one-time charge related to the costs associated with the buyout of the rental contract of the premises in Rijswijk and Rijnsweerd. In addition, maintenance work was carried out on the premises in Zeist in 2013.

Other expenses

The increase in the other expenses in 2014, is primarily due to the sale of the life insurance portfolio.

23 Investment results

	2014	*2013*
Direct revenue	27	92
Total borrowings	**27**	**92**
Direct revenue	8,120	9,276
Bonds and debentures total	**8,120**	**9,276**
Direct revenue	-55	-8
Total money market investments	**-55**	**-8**
Direct revenue	2,945	374
Indirect revenue	2,832	4,137
Shares total	**5,777**	**4,511**
Direct revenue	11,037	9,734
Indirect revenue	2,832	4,137
Total	**13,869**	**13,871**

24 Financial income

	2014	*2013*
Other financial income	-3	186
Total	**-3**	**186**

25 Financial expenses

	2014	*2013*
Other financial expenses	66	-1,420
Total	**66**	**-1,420**

Other financial expenses

The other financial expenses relate primarily to the interest on the long-term subordinated loan with PFZW. Due to the repayment of this loan, the interest expense fell in 2013.

26 Taxes

	2014	*2013*
Acute tax expense	7,951	3,261
Change in deferred tax assets	12,966	-3,576
Change in deferred tax liabilities	-3,438	3,636
Total	**-8,453**	**3,321**
Nominal tax liability	25.00%	25.00%
Non-taxable revenue and expenses	0.58%	5.80%
Effective tax liability	**25.58%**	**30.80%**

27 Transactions with related parties

Transactions with related parties are said to exist when there is a relationship between the company, its participating interests and their board members and management.

There were no transactions with related parties which were not conducted at arm's length.

Stichting Rabo PGGM Premiepensioeninstelling

In 2012, PGGM N.V. and Coöperatieve Centrale Raifeissen-Boerenleenbank B.A. (hereinafter: Rabobank) jointly incorporated the Stichting Rabo PGGM Premiepensioeninstelling (hereinafter: Rabo PGGM PPI).
Rabo PGGM PPI is independent and de facto separate from the incorporators. Both PGGM N.V. and Rabobank provided start up capital to Rabo PGGM PPI. PGGM N.V. is entitled to appoint half of the executive board members of Rabo PGGM PPI on the basis of a binding list of nominations. Two of the four board members of Rabo PGGM PPI were appointed by PGGM and are, moreover, from PGGM N.V. On these grounds, Rabo PGGM PPI is a party related to PGGM N.V.
In addition to the capital contribution, PGGM N.V. guaranteed to finance the costs of Rabo PGGM PPI.
Apart from the above, PGGM N.V. has no other (financial) obligations vis-à-vis Rabo PGGM PPI.
The purpose of PGGM N.V.'s capital contribution to Rabo PGGM PPI was to provide start-up capital; it was not intended to finance Rabo PGGM PPI for its own account and risk. Nor is the capital contribution intended for the benefit PGGM N.V.'s own operations. Given the purpose of the capital contribution, Rabo PGGM PPI does not qualify as a participating interest on the basis of RJ 214.202 of the Dutch Accounting Standards Board. Moreover, Rabo PGGM PPI is not consolidated in PGGM N.V.'s financial statements.

On grounds of the service provision agreement between PGGM Pensioenbeheer B.V. and Rabo PGGM PPI, PGGM Pensioenbeheer accounted for revenue of € 0.9 million in 2014 (2013: € 0.4 million).

Stichting PGGM Maatschappelijke Agenda

The Stichting PGGM Maatschappelijke Agenda (PGGM Social Agenda Foundation) was created at the end of 2014.
The Supervisory Board appoints the Foundation's supervisory board members. When the supervisory board is missing altogether, one or more members are appointed by PGGM N.V. The members of the executive board are appointed by the supervisory board.

PGGM N.V. has provided the Foundation with € 0.4 million in start-up capital. Aside from the capital contribution, PGGM N.V. does not have any other obligations nor has it provided any guarantees. The objective of PGGM N.V.'s capital contribution is to provide the Foundation with start-up capital and not to finance the Foundation at its own account and risk. Nor is the capital contribution intended for the benefit PGGM N.V.'s own operations. Given the purpose of the capital contribution, Stichting PGGM Maatschappelijke Agenda does not qualify as a participating interest on the basis of RJ 214.202 of the Dutch Accounting Standards Board. Accordingly, Stichting PGGM Maatschappelijke Agenda is not consolidated in PGGM N.V.'s financial statements.

Technical account

PGGM

Voor een waardevolle toekomst

PGGM Levensverzekeringen N.V.

(amounts in thousands of euros)

	2014	*2013*
Gross premiums	10,423	11,838
Outgoing reinsurance premiums	-312	-318
Investment income:		
■ Life insurance business risk	12,875	12,525
■ Policyholders’ risk	6.865	6.727
Benefit payments, own account	-58,928	-40,738
Share reinsurer	200	188
Changes to technical provisions:		
■ For account of the life insurance business	49,845	10,918
■ For profit-sharing	–	–
Profit-sharing and discounts	-91	-109
Operating expenses	-2,814	-2,213
Other technical expenses for own account	-1,254	–
Other technical income for own account	118	56
Total	**16,927**	**-1,126**
Investment income allocated to the non-technical account	-2.093	-1,913
Technical account result PGGM Levensverzekeringen N.V.	**14,834**	**-3,039**

PGGM N.V.

(amounts in thousands of euros)

	2014	*2013*
Gross premiums	–	379
Outgoing reinsurance premiums	–	7
Gross claims	–	-74
Movement in the provision gross claims payable	–	6,484
Operating expenses	–	-371
Other technical income for own account	–	72
Other technical expenses for own account	–	-6,999
Technical account result PGGM N.V.	**–**	**-502**

Risk Management

Within the PGGM group, a risk management policy has been established in response to the new legislation and regulations and the more stringent requirements imposed by the supervisory authorities in this respect. In this context, DNB and AFM require the institutions subject to supervision to have adequate procedures enabling them to recognise, assess, control and, when necessary, manage the risks.

For these activities, PGGM N.V. adheres to the PGGM risk framework (parameters, guidelines, methods and techniques) drawn up by PGGM N.V.'s central department Corporate Risk & Compliance; this framework is applicable to the whole PGGM group. The PGGM risk framework is a model which, in a structured way, enables transparency, monitoring and reporting of the operational risks. Examples of these risks are implementation risks, information risks, IT, information security and the risk of fraud. On this basis, the Operational Risk Management department compiles a report to be discussed in and adopted by PGGM's Risk Committee. This report is discussed in the PGGM Corporate Risk & Compliance Committee each quarter.

The method is a dynamic process: the approach is to ensure all relevant risks are (still) clearly visible and adequate control measures have been taken. PGGM N.V. runs an operational risk when carrying out its activities. There is always a risk that PGGM N.V. will suffer losses due to a lack of insight, control and/or quality of the activities outsourced to PGGM N.V. by clients. To this end, an adequately functioning AO/IC (Administrative Organisation/Internal Control) has been implemented. Moreover, a corporate liability insurance has been concluded.

PGGM N.V.'s top risks in 2014 were as follows: collaborative ventures, governance, projects, image/reputation, information security & fraud, as well as tax, legal & compliance. These are risks that have no direct financial impact on PGGM and are explained in greater detail in the 'Risk Management' section and in our 'In Control Statement' in the Annual Report.
In addition, PGGM N.V. recognised the following specific risks:

Solvency risk

PGGM N.V. is subject to the provisions of the Financial Supervision Act (Wft). PGGM N.V. is deemed a financial conglomerate; PGGM N.V. is a mixed financial holding company. Under this act, requirements are placed on capital adequacy. PGGM has opted to use the method of consolidated financial statements, whereby the capital adequacy is calculated on the basis of the difference between the equity of the financial conglomerate and the sum of the solvency requirements of the group divisions. On this basis, PGGM N.V. complies with the statutory requirements.

The supervisory authorities have imposed a solvency requirement on PGGM Levensverzekeringen N.V., PGGM Vermogensbeheer, PGGM Treasury B.V. and PGGM Strategic Advisory Services B.V.

The existing and required solvency positions of PGGM Levensverzekeringen N.V. are shown below.
(€ millions)

Solvency	***31 December 2014***	***31 December 2013***
Existing	45.5	67.7
Statutory requirement	15.9	17.7
Surplus	**29.6**	**50.0**

The existing and required solvency positions of PGGM Vermogensbeheer are shown below.

Solvency	*31 December 2014*	*31 December 2013*
Qualifying capital	20.4	45.4
Statutory requirement	28.5	22.5
Shortfall/surplus	**-8.1**	**22.9**

PGGM Vermogensbeheer established the capital requirements concerning the prudential capital at year-end 2014 at € 28.5 million (2013: € 22.5 million). As at 31 December 2014, the regulatory capital, excluding the result for the 2014 financial year, is € 20.4 million and therefore does not comply with the prudential capital requirements. The result for the current financial year in the amount of € 17.8 million will be attributed to the regulatory capital after the audit of the financial statements by the external auditor on 27 March 2015. As at Q1-2015, the regulatory capital, including the result for the 2014 financial year, will therefore comply with the prudential capital requirements.
PGGM Vermogensbeheer has reported this shortfall to the supervisory authority, the DNB. In addition, PGGM Vermogensbeheer has implemented internal measures designed to prevent the risk of a shortfall.

The existing and required solvency positions of PGGM Treasury B.V. are shown below (effective from 5 April 2014).

Solvency	*31 December 2014*
Qualifying capital	0.5
Statutory requirement	0.4
Surplus	**0.1**

The existing and required solvency positions of PGGM Strategic Advisory Services B.V. are shown below.

Solvency	*31 December 2014*	*31 December 2013*
Qualifying capital	5.9	5.9
Statutory requirement	1.8	2.0
Surplus	**4.1**	**3.9**

Market risk

The market risk is the price risk of a fall in the value of the investments due to a change in market factors. Market factors are, for example, market price, exchange rates and interest rates. PGGM N.V. has no direct investments in marketable securities which are susceptible to price risks. PGGM N.V. is indirectly exposed to price risks via participations in investment mandates.

The effect on the existing solvency margin of the share risk and the real estate risk, as calculated in accordance with the Solvency II Capital Requirements (SCR), is shown in the following table:

	Value before the shock	Total effect on the existing solvency margin
Share risk	14,294	-6,733
Real estate risk	4,876	-1,219
Total	**19,170**	**-7,952**

Currency risk

The currency risk is the risk that the value of an investment will fall as a result of changes in exchange rates. In accordance with PGGM N.V.'s investment policy, the currency risks in respect of the investment mandates are partially hedged.

	Value before the shock	Total effect on the existing solvency margin
Currency risk	12,199	-3,050

Interest rate risk

The interest rate risk is the risk that the balance of the value of bonds, debentures, loans and insurance liabilities changes as a result of changes in market rates. As yet, the interest rate risk only has limited visibility in the balance sheet, as bonds, debentures and loans are stated at their amortised value and the provisions are determined on the basis of a fixed notional interest rate.
Only substantial changes in the market rate will cause the adequacy test to be negative making it necessary for an extra provision to be formed. The effect on the existing solvency margin of the interest rate risk, as calculated in accordance with the SCR, is shown in the following table:

	Value before the shock	Total effect on the existing solvency margin
Interest rate risk (decline in interest rates)	280,480	-8,379

Credit risk

The credit risk is defined as the risk that counterparties are unable to fulfil their contractual obligations. This relates to accounts receivable, loans, bonds and debentures, and deposits.
In respect of the bad debts risk, this primarily relates to the management fees due which are laid down in the Service Level Agreements between the parties. Given that PGGM N.V. provides services to pension funds, the risk as a consequence of bankruptcy is low. In addition, the credit risk is controlled with the help of a strict accounts receivable policy. PGGM N.V. limits the credit risk of the loans, bonds, debentures and deposits by imposing requirements on the credit worthiness of its counterparties; at least an AA-rating.
The interest rate risk for PGGM Levensverzekeringen N.V. in accordance with the SCR methodology is as follows:

	Value before the shock	Total effect on the existing solvency margin
Interest rate risk (decline in interest rates)	13,024	-152

Liquidity risk

The liquidity risk (including the cash flow risks) is the risk that the volume and the timing of cash flows within approximately one year are not adequately matched, whereby the sale of assets cannot (easily) compensate for a shortfall of liquid assets. PGGM N.V. has a credit facility with PFZW which is more than sufficient to manage this risk.
This facility amounts to € 150 million.

Within this amount of € 150 million, PGGM Levensverzekeringen N.V. included half of the not paid up part of the subscribed share capital (liability) in the determination of PGGM Levensverzekeringen N.V.'s solvency capital. To this end, PGGM N.V. is—for an indefinite period—obliged to separate the entire liability of € 13.6 million in the existing credit facility between PGGM N.V. and PFZW and deposit the liability at the request of PGGM Levensverzekeringen N.V.

Insurance business risk

An actuarial risk arises in connection to the adequacy of the insurance premiums and provisions for insurance liabilities. The maximum insurance business risk is limited by exclusions, rate mark-ups and medical declarations. The portfolio comprises both long-term and short-term products. In the principles governing the provision, account is taken of the risk of longevity. The short-term risk is partially reinsured.

Company Financial Statements

2014

PGGM

Voor een waardevolle toekomst

Company balance sheet as at 31 December 2014

(before profit appropriation)

(amounts in thousands of euros)

	Ref.	31 December 2014	31 December 2013
Assets			
Fixed assets			
Intangible fixed assets	28	34,336	54,336
Tangible fixed assets		105,363	116,296
Financial fixed assets	29	112,251	138,457
Total fixed assets		**251,950**	**309,089**
Current assets			
Receivables	30	46,209	24,952
Total current assets		**46,209**	**24,952**
Total assets		**298,159**	**334,041**
Liabilities			
Equity	31		
Paid and called-up capital		200	200
Statutory reserve		376	3,033
Share premium reserve		158,712	158,712
Other reserves		71,821	63,403
Unappropriated profit		-24,596	7,924
Total equity		**206,513**	**233,272**
Provisions	32		
Taxes		124	4,762
Other provisions		5,183	3,858
Total provisions		**5,307**	**8,620**
Other long-term liabilities		–	7,268
Current liabilities	33	86,339	84,881
Total liabilities		**298,159**	**334,041**

Company income statement for 2014

(amounts in thousands of euros)

	Ref.	*2014*	*2013*
Result of participating interests	**29**	-6,615	14,905
Other results after tax	**36**	-17,981	-6,981
Profit after taxes		**-24,596**	**7,924**

Notes to the company financial statements

2014

PGGM

Voor een waardevolle toekomst

The company financial statements form part of PGGM N.V.'s 2014 consolidated financial statements. In respect of the company's separate income statement use is made of the exemption by virtue of Book 2, section 402, of the Dutch Civil Code. Please refer to the notes to the consolidated balance sheet and consolidated income statement for items in the company balance sheet and the company income statement not specifically addressed below.

28 Intangible fixed assets

The intangible fixed assets are further explained in the notes to the balance sheet in the consolidated financial statements. In this context, the categories goodwill (entirely) and software (partially) relate to PGGM N.V.

29 Financial fixed assets

	31 December 2014	*31 December 2013*
Participating interests	97,458	125,073
Active deferred taxes	14,793	13,384
	112,251	**138,457**

Participating interests

The changes in the item participating interests are as follows:

	2014	*2013*
Balance as at 1 January	**125,073**	**130,840**
Investments	–	5,479
Disposals	–	-3,151
Paid-in share premium	11,000	7,000
Dividend payments	-32,000	-30,000
Result of participating interests	-6,615	14,905
Balance as at 31 December	**97,458**	**125,073**

Result of participating interests

The balance relates to the following participating interests:

Result of participating interests		
Name	*Place of Business*	*Share in Subscribed Capital*
PGGM Financiële Services B.V.	Zeist	100%
PGGM Strategic Advisory Services B.V.	Zeist	100%
PGGM Levensverzekeringen N.V.	Zeist	100%
PGGM Pensioenbeheer B.V.	Zeist	100%
PGGM UFO B.V.	Zeist	100%
PGGM Vermogensbeheer B.V.	Zeist	100%
PGGM Services B.V.	Zeist	100%
A&O Services B.V.	Rijswijk	100%

Active deferred taxes

Active deferred taxes relate to temporary fiscal and commercial valuation differences in respect of goodwill.

30 Receivables

	31 December 2014	*31 December 2013*
Receivables from group companies	35,104	14,315
Accounts receivable	516	114
Receivables from shareholder	551	537
Other receivables, prepayments and accrued income	10,038	9,986
Total	**46,209**	**24,952**

The remaining duration of the receivables is less than 1 year.

Receivables from group companies

Receivables from group companies relate to:

PGGM Vermogensbeheer B.V.	14,098	5,637
PGGM Pensioenbeheer B.V.	12,261	6,884
PGGM UFO B.V.	3,099	–
PGGM Services B.V.	1,764	–
PGGM Levensverzekeringen N.V.	1,701	89
PGGM Strategic Advisory Services B.V.	1,579	119
PGGM Financiële Services B.V.	596	1,586
A&O Vermogensbeheer B.V.	6	–
Total	**35,104**	**14,315**

No interest is charged on the receivables from the shareholder and the group companies.

Other receivables, prepayments and accrued income

The other receivables, prepayments and accrued income as at 31 December 2014 consist primarily of a claim on one client and prepaid expenses. The claim on the client relates to a long-term receivable which will be settled in 2015 and 2016.

31 Equity

	Paid and called-up capital	Statutory reserve	Share premium reserves	Share premium reserves	Undistributed profit	Total
Balance as at 1 January 2013	**200**	**3.587**	**158,712**	**57,401**	**6.039**	**225,939**
Changes in statutory reserves	–	-554	–	-37	–	-591
Appropriation of profit for 2012	–	–	–	6,039	-6,039	–
Profit for 2013	–	–	–	–	7,924	7,924
Balance as at 1 January 2014	**200**	**3,033**	**158,712**	**63,403**	**7,924**	**233,272**
Changes in statutory reserves	–	-2,657	–	494	–	-2,163
Appropriation of profit for 2013	–	–	–	7,924	-7,924	–
Profit for 2014	–	–	–	–	-24,596	-24,596
Balance as at 31 December 2014	**200**	**376**	**158,712**	**71,821**	**-24,596**	**206,513**

The authorised capital is € 1 million (2013: € 1 million), consisting of 1,000 shares, each with a nominal value of € 1,000. As at 31 December 2014, 200 shares were subscribed and paid up. The statutory reserve relates to € 0.4 million from the revaluation reserve for land (2013: € 2.5 million) and € 0 million (2013: € 0.5 million) relates to the capitalised costs of internally developed software.

The movement in statutory reserves primarily relates to the movement in the revaluation reserve for land. Land was reappraised at the end of 2014. The current value of the land was adjusted to reflect the appraisal value as at 31 December 2014. The downward value adjustment of the land was subtracted from the previously created revaluation reserve.

32 Provisions

The deferred tax liability relates to temporary fiscal and commercial valuation differences in respect of the land and buildings.

The provisions associated with employees, i.e. the provisions for reorganisations, anniversaries and incentives, are explained in the notes to the balance sheet in the consolidated financial statements.

The other provisions are predominantly long-term.

33 Other long-term liabilities

The other long-term liabilities relate to a loan provided by PGGM Levensverzekeringen N.V. This loan was concluded for an indefinite period. The rate of interest on the loan is fixed at 4.2% per annum. This loan was paid off in full in the middle of 2014.

34 Current liabilities

	31 December 2014	*31 December 2013*
Amounts owed to credit institutions	49,944	23,535
Taxes and social security contributions	5,235	6,698
Amounts owed to group companies	10,844	7,201
Accounts payable	4,637	1,332
Outstanding pension payments	2,661	1,950
Accruals and deferred income	13,018	44,165
Total	**86,339**	**84,881**

The current liabilities all have a remaining term of less than one year.

Amounts owed to credit institutions

Amounts owed to credit institutions are debts held with Dutch credit institutions.

Taxes and social security contributions

The taxes and social security contributions relate to outstanding wage taxes and social security costs.

Amounts owed to group companies

The amounts owed to group companies relate to:

	31 December 2014	*31 December 2013*
A&O Services B.V.	10,844	7,200
PGGM UFO B.V.	–	1
Total	**10,844**	**7,201**

No interest is charged on the amounts owed to group companies.

Accruals and deferred income

The decrease in accruals and deferred income as at year-end 2013 is primarily due to the goodwill paid at the beginning of 2014.

PGGM is a member of the international consortium Track and Trace Your Pension in Europe (TTYPE). The objective is to create a basic design for an overarching European pension tracking system that provides people in Europe with easy insight into their cross-border pension accruals. In 2013, the European Commission awarded a maximum € 0.7 million grant for this project. This project runs until mid-2015. A nil balance was recorded under accruals and deferred income at year-end 2014 (2013: € 0.1 million).

35 Off-balance sheet assets and liabilities

Subsidiaries' liability

For its subsidiary PGGM Levensverzekeringen N.V., PGGM N.V. has signed a notice of liability in accordance with Book 2, section 403 subsection 1f, of the Dutch Civil Code whereby it assumes joint and several liability for the legal procedures ensuing from any liabilities of this subsidiary.

Liability obligation

PGGM Levensverzekeringen N.V. has included half of the not paid up part of the subscribed share capital (liability) in the determination of PGGM Levensverzekeringen N.V.'s solvency capital. To this end, PGGM N.V. is—for an indefinite period—obliged to separate the entire liability of € 13.6 million (2013: € 13.6 million) in the existing credit facility between PGGM N.V. and PFZW and deposit the liability at the request of PGGM Levensverzekeringen N.V.

Guarantee provided to Rabo PGGM PPI

PGGM N.V. has issued a guarantee of € 875,000 to finance the costs of Rabo PGGM PPI.

Guarantee provided

PGGM N.V. has co-signed the sales agreement for the life insurance portfolio. The sales agreement provides for specific guarantees to the buyer whose value was estimated and provided for at year-end 2014. The provided guarantees have a maximum term of 8 years.

36 Other result after tax

Other result after tax relate to:

	2014	*2013*
Amortisation of intangible fixed assets	-16,783	-11,802
Impairment of intangible fixed assets	-7,470	-
Other revenue and operating expenses	-69,516	-71,631
Charged-on operating expenses	69,564	75,250
Taxes	6,224	1,202
Total	**-17,981**	**-6,981**

Due to the complete write-off of the VOBA, the amortisation charges for intangible fixed assets are higher than in 2013.

Signatures are provided on the next page.

Zeist 21 april 2015

Executive Board

E.F. Bos, Chairman

P.A.M. Loven

Supervisory Board

Mr H. (Herman) de Boon, Chairman

Mr M.W. (Maarten) Dijkshoorn AAG

Ms M.R. (Miriam) van Dongen

Ms W.E.L. (Wanda) van Kerkvoorden

Mr L.J. (Lodewijk) de Waal

Mr W.H. (Wim) de Weijer MHA, Vice-chairman

Other information

PGGM

Voor een waardevolle toekomst

Independent auditor's report

To: the General Meeting of PGGM N.V.

Report on the 2014 financial statements

Our opinion

We have audited the 2014 financial statements of PGGM N.V. (the 'company') in Zeist. The financial statements include the consolidated and the company financial statements.
In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of the company as at 31 December 2014 and of its result and its cash flows for 2014 in accordance with Part 9 of Book 2 of The Netherlands Civil Code.
- The company financial statements give a true and fair view of the financial position of the company as at 31 December 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements comprise:

1. the consolidated balance sheet as at 31 December 2014;
2. the consolidated profit and loss account for 2014;
3. the consolidated cash flow statement for 2014; and
4. the notes with an overview of the relevant accounting principles and other explanations.

The company financial statements comprise:

1. the company balance sheet as at 31 December 2014;
2. the company profit and loss account for 2014; and
3. the notes with an overview of the relevant accounting principles and other explanations.

The basis for our opinion

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

We are independent of the company in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence regulations in The Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Materiality

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 these 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.

Based on our professional judgement we determined the materiality for the financial statements at EUR 3,000,000. With respect to the nature of the business activities the materiality is based upon the turnover. The materiality is 1.2% of the total of the gross premium income and commission proceeds. 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 reported to the Supervisory Board all unadjusted misstatements in excess of EUR 0.1 million which we identified from the audit, as well as smaller misstatements that in our view must be reported for qualitative reasons.

Scope of the group audit

The company is the head of a group of entities. The financial information of this group is included in the consolidated financial statements of the company.

Our group audit mainly focused on the significant parts for turnover and activities of PGGM Pensioenbeheer B.V., PGGM Vermogensbeheer B.V., PGGM Treasury B.V., PGGM Strategic Advisory Services B.V., A&O Services B.V., A&O Vermogensbeheer B.V. and PGGM Levensverzekeringen N.V. For all components we have performed the audit activities ourselves.

By performing the procedures mentioned above at the group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence concerning the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

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

These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of provisions for the insurance business risk

As disclosed in note 11, PGGM Levensverzekeringen N.V. has been taken into a run-off. The valuation of the provisions for the insurance business risk and the related adequacy check contains, also within the context of this run-off, significant (adjustments in) estimates for the portfolio developments, life expectancies and cost levels.

The estimates are strongly influenced by future developments. For the calculations complex actuarial models are being used and the estimates require a high level of judgement by management. Given the significant influence on its results and the equity (as well as the solvability) of the company the valuation of the provisions risk insurance company was a key matter in our audit.

Our audit included testing the procedures and controls relevant to the significant estimates, including the use of observable market data and the actuarial analysis of the outcome compared to previous estimates.

We have performed audit activities on the policy data as used in the calculations as well as on the actuarial and economic data. We have analyzed and discussed the calculations and actuarial analyses that were executed internally with the internal and certifying external actuary. As in previous years an actuary has been part of our audit team.

We are of the opinion that the provisions for the insurance business risk have been adequately assessed and that the notes are in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Impact of PGGM Levensverzekeringen N.V's sale of the insurance portfolio

On 23 December 2014 PGGM Levensverzekeringen N.V. has signed a termsheet for the sale of the portfolio, see page 68 of the annual report. As this transaction is characteristic for the financial result of the financial statements we have marked this as a key matter in our audit.

For the negative discrepancy between the expected sales price and the market value of the technical provisions by the end of 2014, a provision has been accounted for as disclosed in note 14 of the notes to the consolidated financial statements. We have performed audit procedures on the assumptions that serve as the basis for this other provision.

Herewith we have made use of the actuarial calculations that are the base of the valuation of the technical provisions as described under the previous key audit matters. We are of the opinion that the valuation of the other provision is balanced and that the explanation complies with Part 9 of Book 2 of the Netherlands Civil Code.

By the end of 2013 the company had recognized an intangible fixed asset 'Value of business acquired' (hereafter: VOBA) on its balance sheet in respect of the acquisition of the insurance technical portfolio. As is explained under note 3 of the notes to the consolidated financial statements at the end of 2014 with the sale of the insurance portfolio there no longer is a future profit from the portfolio, which means that the remainder VOBA asset of EUR 7.5 million is fully written down by the end of 2014. Based upon the termsheet, actuarial calculations and the sales contract we have assessed that this write down is appropriate and that the explanation thereof is compliant with the demands of Part 9 of Book 2 of The Netherlands Civil Code.

Reliability and continuity of the automated data processing
The core activities of the company largely rely on the automated data processing and thus are in their nature highly dependent on a reliable and continuous operation of the IT-infrastructure and therefore are a key matter of our audit.

For this reason we have assessed the reliability and continuity of the automated data processing in the scope of our audit of the financial statements. In this, we have included specialized IT- auditors in our audit team.

Our activities existed amongst others in:
- the assessment of the developments in the IT-infrastructure;
- the taking note of the verifications the company itself has performed and determining the impact thereof on our audit strategy:
- the testing of the relevant internal control systems relating to IT systems and processes for our audit, such as with respect to the insurance technical system and the payment process.

Our activities with respect to the design and operation of IT systems did not result in any significant findings within the scope of the audit of the financial statements with respect to the reliability and continuity of automated data processing.

Responsibilities of the board of directors and the supervisory board for the consolidated financial statements
The board of directors is responsible for the preparation and fair representation of the consolidated financial statements and for the preparation of the director's report in accordance with Part 9 of Book 2 of The Netherlands Civil Code. Furthermore, the board of directors is responsible for such an internal control that the board of directors determines is necessary to enable preparing the financial statements that are free from material misstatement, whether due to errors or fraud.

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

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the consolidated 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 errors and fraud.

We have performed this audit professionally and critically and, when relevant, have applied professional opinions in accordance with the Dutch auditing standards, ethic regulations and independency requirements. Our audit consists amongst others in:
- identifying and assessing the risks of material misstatement of the consolidated financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- evaluating the overall presentation, structure and content of the consolidated financial statements, including the disclosures; and
- evaluating whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.
We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Report on other legal and regulatory requirements

Report regarding the annual report and the other data

Pursuant to the legal requirements of Part 9 of Book 2 of The Netherlands Civil Code (concerning our obligation to report about the Statutory Board report and other information):

- We have no deficiencies to report as a result of our examination whether the Statutory Board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of The Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of The Netherlands Civil Code has been included;
- We report that the Statutory Board report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged as auditor of PGGM N.V. before the start of the financial year 2008 and have operated as statutory auditor ever since. We are annually reengaged as the external auditor of PGGM N.V. For the 2014 financial statements, this took place on 3 June 2014.

Utrecht, 21 April 2015

KPMG Accountants N.V.
A.J.H. Reijns RA

Statutory provisions governing the appropriation of the result

Article 35 of the Articles of Association reads as follows:

35.1 In accordance with the provisions of this article, distribution of profits shall be made following the adoption of the annual accounts which show that such distribution is allowed.
35.2 The profits shall be at the free disposal of the General Meeting.
35.3 Without prejudice to article 35.4, the General Meeting shall be authorised to resolve to make a distribution out of reserves.
35.4 The company may only make distributions to the shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the aggregated amount of the issued capital and the reserves which must be maintained pursuant to the law.
35.5 The company may make interim distributions provided that the requirement of article 35.4 has been met as evidenced by an interim financial statement as referred to in section 2:105 subsection 4 of the Dutch Civil Code.
35.6 Shares which the company holds in its own share capital shall not be counted when determining the division of the amount to be distributed on shares.
35.7 A loss may only be applied against reserves maintained pursuant to the law to the extent permitted by law.

Profit appropriation proposal

It is proposed that the profit for 2014 in the amount of negative € 24.6 million be charged to the other reserves. This result has not been accounted for in the other reserves.

Events after the balance sheet date

No relevant events occurred after the balance sheet date.

Appendix: Other Positions Held by Members of the Supervisory Board

Other positions held by Mr H. (Herman) de Boon

Date of birth	23 September 1946
Nationality	Dutch
Current position	Executive Director HDB2002 B.V.; and a portfolio of executive and supervisory positions

Executive and supervisory positions

Chairman of the Supervisory Board of the Gelderse Vallei Hospital Foundation
Chairman of the Supervisory Board of Holding Trobas B.V.
Chairman of the Supervisory Board of Best Fresh Group B.V.
Chairman of the Supervisory Board of CC Containercentralen A/S (Denmark)
Chairman of the Executive Board of the Vereniging Groothandel Bloemkwekerijproducten [Association of Wholesalers of Horticultural Products]
Chairman of the PKN church council in the municipality of Scherpenzeel/Renswoude
Member of the Supervisory Board of Zorggroep Charim (Charim Healthcare Group)
Chairman of the Executive Board of Stichting Metropolitane landbouw (Metropolitan Agriculture Foundation)
Member of the Advisory Council of Stichting Metropolitan Food Security
Chairman of the Agrologistics Network
Member of the Executive Board of the Greenport Holland International Foundation
Member of the Executive Board of Stichting Historie der Techniek (Foundation for the History of Technology)
President Union Fleurs International Flower Trade Association
Member of the Supervisory Board of the Transactieland.nl Foundation

Other positions held by Mr M.W. (Maarten) Dijkshoorn

Date of birth	13 July 1950
Nationality	Dutch
Current position	Director of Bente Vooruit B.V.; and a portfolio of executive and administrative positions

Executive and supervisory positions

Chairman of the Supervisory Board of De Goudse Verzekeringen
Member of the Supervisory Board of MediRisk
Member of the board of liquidators of the Pension Fund Stork Foundation (in liquidation)
Member of the Supervisory Board of Monuta
Chairman of the Advisory Council of the Amsterdam Executive Programme Actuarial Science (AEMAS) of the University of Amsterdam
Chairman of the Executive Board of SNPF (Notarial Pension Fund Foundation) (to 31 December 2014)

Other positions

Chairman of STAK Anno 12

Other positions held by Ms M.R. (Miriam) van Dongen

Date of birth	16 April 1969
Nationality	Dutch

Executive and supervisory positions

Member of the Supervisory Board of EP Nuffic and Chairman of the Audit Committee
Member of the Supervisory Board of CB and Chairman of the Audit Committee
Member of the Supervisory Board of Nierstichting Nederland [Kidney Foundation] and Chairman of the Audit Committee
Member of STAK Anno 12

Other positions held by Ms W.E.L. (Wanda) van Kerkvoorden LLM

Date of birth	22 January 1968
Nationality	Dutch
Current position	Managing Partner of SOLV B.V., Director of Van Kerkvoorden Beheer B.V.; and a portfolio of executive and supervisory positions

Other positions

Lecturer and examiner ICT law Grotius Academy
Guest lecturer at the Universities of Leiden and Tilburg
Member of the General Council of the Nederlandse Orde van Advocaten (Netherlands Bar Association)

Other positions held by Mr L.J. (Lodewijk) de Waal

Date of birth	4 November 1950
Nationality	Dutch

Executive and supervisory positions

Chairman of Nationaal Fonds Kunstbezit (National Art Collections Fund)
Chairman of the Netherlands National Contact Point (NCP) of the OECD
Member of the Advisory Council of Zorgverzekeraars Nederland (Dutch healthcare insurers)
Member of the Executive Board of the Stichting Internationaal Instituut voor Sociale Geschiedenis (International Institution for Social History Foundation)
Member of the Supervisory Board of the Nationaal Museum van Wereldculturen (National Museum of World Cultures)
Chairman of the Executive Board of the South Africa Magazine Foundation
Chairman of the Alliander Foundation
Chairman of the Executive Board of HIER Klimaatcampagne (climate campaign)
Member of the Supervisory Board of Stichting Lezen en Schrijven (Reading and Writing Foundation)
Member of the Executive Board of Veteraneninstituut (Dutch Veterans Institute)
Member of the Executive Board of the Waardering en erkenning Politie (WEP) Foundation (Recognition and appreciation of the police force)
Chairman of the Stichting Administratiekantoor IMK (IMK administration office foundation)
Member of the Supervisory Board of Werkse! Holding B.V. in Delft
Chairman of the Executive Board of Stichting VHV (Foundation of Friends of the History of the Unions)
Chairman of the Executive Board of the Pantar Foundation in Amsterdam

Other positions held by Mr W.H. (Wim) de Weijer MHA

Date of birth	13 November 1953
Nationality	Dutch
Current position	Director Advies B.V. 'W. de Weijer, bestuursadviseur'; and a portfolio of executive and supervisory functions

Executive and supervisory positions

Chairman of the Supervisory Board of Tinteltuin B.V. Childcare (to 31 December 2014)
Chairman of the Supervisory Board (supervisory director of participations) on behalf of NPM Capital at Wielco B.V. (Medux B.V., Topcare B.V., Focus Cura B.V.)
Member of the Supervisory Board of FBTO zorgverzekeringen N.V. and the Friesland Zorgverzekeraar (healthcare insurers) (the same Supervisory Board supervises both organisations)
Member of the Advisory Council of Nederlandse Zorgautoriteit (Dutch Healthcare Authority) (to 1 April 2015)
Member of the Supervisory Board of Holding ADG (Asito Services group)
Member of the Supervisory Board of Domuncula B.V. (Dagelijks Leven and Het Gastenhuis B.V.)
Member of the Supervisory Board of Zorggroep Laren (a healthcare group)
Member of the Stichting Kinderopvang N.H. (Childcare Foundation)
Chairman PFZW – PGGM Relations Work Group 2

Appendix: Supervisory Board Retirement Schedule

Name	Date of Appointment	Date of 1st Reappointment
Mr H. (Herman) de Boon, *Chairman*	28 September 2007	28 September 2011
Mr W.H. (Wim) de Weijer MHA, *Vice-chairman*	20 July 2007	20 July 2011
Ms M.R. (Miriam) van Dongen	13 June 2013	
Mr L.J. (Lodewijk) de Waal	20 July 2007	20 July 2011
Mr M.W. (Maarten) Dijkshoorn AAG	27 November 2009	28 September 2011
Ms W.E.L. (Wanda) van Kerkvoorden	30 August 2010	20 July 2011

The members of the Supervisory Board shall be appointed or reappointed for a maximum period of four years; after which they will be eligible for reappointment, under the understanding that no member may remain on the board for more than twelve years.

If an interim vacancy arises in the Supervisory Board, the person appointed to fill the interim vacancy will sit on the board for the term of office remaining for his or her predecessor.

Appendix: Report on the Remuneration of the PGGM N.V. Executive Board

This report concerns the remuneration of the members of the Executive Board. The report first describes the vision underlying the remuneration policy for the members of the Executive Board. The report then covers the 2014 remuneration package for the members of the Executive Board.

PGGM Remuneration Policy - Vision

The PGGM remuneration policy for the Executive Board is adopted by the General Meeting of Shareholders on a proposal of the Supervisory Board. The objective of the remuneration policy is to enable PGGM to attract, retain and motivate qualified members to the Executive Board. Our goal is to have a transparent and responsible remuneration policy:
'fair remuneration for measurable performance'.
In addition to the realisation of objectives, the way in which performance is achieved (competencies and values) is also taken into account in evaluations and consequently in remuneration. In terms of policy and implementation, PGGM's remuneration policy is consistent with PGGM's culture, its core values (Decisive, Open and Honest, Pioneering, Respect for People and the Environment) and its core qualities (Professional, Continued Improvement, Entice, Bind, Account).

The members of the Executive Board are appointed by the Supervisory Board after consulting the shareholder. Effective from 2013, the Executive Board comprises two members. The members of the Executive Board are appointed for a four-year term, with the option of reappointment.

The remuneration policy for the members of PGGM's Executive Board is in accordance with laws and regulations governing remuneration and in addition in accordance with the best practice provisions of the Dutch Corporate Governance Code.

Executive Board Remuneration Package

The total remuneration package of the members of the Executive Board consists of salary, pension and social security contributions. The members of the Executive Board are not entitled to receive variable remuneration. Members are not provided with remuneration in the form of shares, options, etc. The annual remuneration package is established by the Supervisory Board.

Salary

The salary of the members of the Executive Board is based on the market profile of the remuneration of executive directors at a similar level, with due consideration to PGGM's positioning. The salary is adjusted each year in accordance with the average of the percentages and amounts with which salaries were adjusted in the previous calendar year pursuant to three CLAs (Hospital Sector, Insurance Industry, Banking Business). Effective 1 January 2014, salaries rose by 0.8 per cent in comparison to 2013.

The salary for both members of the Executive Board is based on the same job level (Hay classification), the job level of the Chairman is one level higher.

The fixed salaries and other remuneration components are included in the summary below.
PGGM's pension and social security contributions are in accordance with the PGGM CLA.

Remuneration of Members of the Executive and Supervisory Boards

The total remuneration of the current members of the Executive Board is as follows:

Remuneration of the Executive Board in 2014

	2014			2013		
	Fixed Remuneration	Pension and Social Security Contributions	Total	Fixed Remuneration	Pension and Social Security Contributions	Total
E.F. Bos	413	81	494	406	65	472
P.A.M. Loven	365	68	433	362	67	429
Total	**778**	**149**	**927**	**768**	**133**	**901**

The total remuneration of current and former Executive Board members does not include a crisis levy. The 2014 crisis levy is nil (2013: € 87,589).

The difference in the 2013 and 2014 remuneration for Ms Bos is due to two factors. First, due to a 0.8 per cent salary increase, and second due to the fact that Ms Bos did not occupy the Chief Executive Officer position throughout 2013. Ms Bos was appointed CEO effective 6 March 2013 and up until that time received a temporary responsibility allowance. No pension contribution was due on this temporary responsibility allowance. Ms Bos received the full CEO remuneration effective from 6 March 2013.

Each member of the Supervisory Board receives an annual fee of € 27,694 (2013: € 27,694). The chairman receives a fee of € 32,034 (2013: € 32,034). These fees include travel expenses and work undertaken for the Audit Committee and the Remuneration, Selection and Appointments Committee, and are exclusive of VAT.
As of 1 January 2013, fees paid to Supervisory Board members are to be subject to VAT, consequently, VAT is due on these fees. In 2014, the total remuneration of the Supervisory Board was € 170,504, exclusive of VAT (2013: € 170,504). There was no indexation of or increase to the remuneration of the Supervisory Board in 2014.

No loans, advances or guarantees were provided to the members of either the Executive or Supervisory Board.

PGGM

Voor een waardevolle toekomst

15-7246 oktober 2015