

ANNUAL REPORT

2016



PROPERTIZE

FOREWORD	6
1. STRATEGY	8
1.1 INTRODUCTION	8
1.2 STRATEGY PRIOR TO CLOSING	8
1.3 STRATEGY POST CLOSING	8
2. RISK MANAGEMENT, CAPITAL MANAGEMENT, ALM AND FUNDING	10
2.1 RISK MANAGEMENT	10
2.1.2 STRATEGIC RISKS	11
2.1.3 FINANCIAL RISKS	12
2.1.4 SENSITIVITY OF RESULTS TO FINANCIAL RISKS	13
2.2 OPERATIONAL RISKS	14
2.2.1 COMPLIANCE RISKS	15
2.3 FUNDING	15
3. FINANCIAL DEVELOPMENTS	16
3.1 RESULTS	16
3.2 PORTFOLIO DEVELOPMENT	18
3.3 CAPITAL POSITION	18
4. OUR STAFF	19
4.1 SALE	19
4.2 REORGANISATION	19
4.3 WORKS COUNCIL	19
4.4 LOOKING AHEAD TO 2017	20
5. REPORT OF THE SUPERVISORY BOARD	21
5.1 COMPOSITION AND FUNCTIONING OF THE SUPERVISORY BOARD	21
5.2 COMPOSITION OF THE EXECUTIVE BOARD	21
5.3 MEETINGS OF THE SUPERVISORY BOARD	21
5.3.1 MOST IMPORTANT TOPICS	21
5.3.2 PRESENCE OF THE EXECUTIVE BOARD	22
5.3.3 PRESENCE OF THE EXTERNAL AUDITOR	22
5.4 COMMITTEE MEETINGS	22
5.4.1 AUDIT, COMPLIANCE & RISK COMMITTEE (AC&RC)	22
5.4.2 REMUNERATION AND NOMINATION COMMITTEE (RNC)	22
5.5 ANNUAL FINANCIAL STATEMENTS	23
5.6 REMUNERATION REPORT	23
5.6.1 REMUNERATION POLICY FOR MEMBERS OF THE EXECUTIVE BOARD	23
5.6.2 REMUNERATION OF SUPERVISORY BOARD MEMBERS	24
5.7 CLOSING WORDS	25
6. CORPORATE GOVERNANCE	26
6.1 EXECUTIVE BOARD	26
6.1.1 COMPOSITION AND FUNCTIONING	26
6.1.2 RESPONSIBILITIES, CV'S AND POSITIONS WITH OTHER COMPANIES AND ORGANISATIONS	26
6.2 SUPERVISORY BOARD	27
6.2.1 COMPOSITION, APPOINTMENT AND FUNCTIONING	27
6.2.2 RESPONSIBILITIES, CV'S AND POSITIONS WITH OTHER COMPANIES AND ORGANISATIONS	27
6.3 REMUNERATION POLICY	27

7.	STATEMENTS BY EXECUTIVE BOARD	28
7.1	'IN-CONTROL' STATEMENT	28
7.2	CONTROL OF FINANCIAL REPORTING	28
8.	CONSOLIDATED FINANCIAL STATEMENTS	29
8.1	CONSOLIDATED BALANCE SHEET	29
8.2	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	30
8.3	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	31
8.4	CONSOLIDATED CASH FLOW STATEMENT	32
9.	PROFIT AND LOSS ACCOUNT MANAGEMENT VIEW	33
10.	ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS	36
10.1	ADOPTION OF THE FINANCIAL STATEMENTS	36
10.2	GENERAL INFORMATION	36
10.3	BASIS OF PREPARATION	36
10.3.1	STATEMENT OF IFRS COMPLIANCE	36
10.3.2	CHANGES IN PUBLISHED STANDARDS AND INTERPERTATIONS EFFECTIVE IN 2016	36
10.3.3	INTERPRETATIONS OF EXISTING STANDARDS OR AMENDMENTS TO STANDARDS, NOT YET EFFECTIVE IN 2016	36
10.3.4	CHANGES IN PRINCIPLES, ESTIMATIONS AND PRESENTATION	37
10.3.5	ACCOUNTING PRINCIPLES USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS	37
10.3.6	ACCOUNTING PRINCIPLES APPLIED TO BALANCE SHEET ITEMS	37
10.3.7	FUNCTIONAL CURRENCY AND REPORTING CURRENCY	38
10.3.8	ACCOUNTING BASED ON TRANSACTION DATE AND SETTLEMENT DATE	38
10.3.9	OFFSETTING OF FINANCIAL INSTRUMENTS	38
10.3.10	ELIMINATION OF GROUP TRANSACTIONS	38
10.3.11	DISCONTINUED OPERATIONS OR ASSETS HELD FOR SALE	38
10.3.12	INFORMATION BY SEGMENT	39
10.3.13	MAIN ACCOUNTING PRINCIPLES, ESTIMATES AND ASSUMPTIONS	39
10.3.13.1	The use of estimates and assumptions in the preparation of the financial statements	39
10.3.13.2	Provision for impairment of loans and advances to customers	39
10.3.13.3	Net realisable value of property projects	40
10.4	ACCOUNTING PRINCIPLES USED FOR CONSOLIDATION	40
10.4.1	SUBSIDIARIES	40
10.4.2	ASSOCIATED COMPANIES AND JOINT VENTURES	41
10.4.3	RESTRICTIONS	41
10.4.4	ASSESSMENT AND ASSUMPTIONS INVESTMENTS IN ENTITIES	41
10.5	SPECIFIC BALANCE SHEET ACCOUNTING PRINCIPLES	42
10.5.1	TANGIBLE ASSETS	42
10.5.2	PROPERTY PROJECTS	42
10.5.3	LOANS AND ADVANCES TO CUSTOMERS	42
10.5.4	TAXES	43
10.5.4.1	Deferred tax assets and tax liabilities	43
10.5.4.2	Current tax assets and tax liabilities	44
10.5.5	OTHER RECEIVABLES	44
10.5.6	OTHER ASSETS	44
10.5.7	CASH AND CASH EQUIVALENTS	44
10.5.8	EQUITY	44
10.5.9	DEBT CERTIFICATES	44
10.5.10	PROVISIONS	44
10.5.10.1	Employee benefits	44
10.5.10.2	Other provisions	44
10.5.11	AMOUNTS DUE TO BANKS	45
10.5.12	OTHER LIABILITIES	45
10.6	SPECIFIC STATEMENT OF COMPREHENSIVE INCOME ACCOUNTING PRINCIPLES	45
10.6.1	INTEREST INCOME	45
10.6.2	INTEREST EXPENSES	46
10.6.3	PROPERTY PROJECTS INCOME	46
10.6.4	SHARE IN RESULT OF ASSOCIATES AND JOINT VENTURES	46
10.6.5	RESULT ON FINANCIAL INSTRUMENTS	46
10.6.6	OTHER OPERATING INCOME	46
10.6.7	RESULT ON ASSETS AND LIABILITIES HELD FOR SALE	46

10.6.8	STAFF COSTS	46
10.6.9	DEPRECIATION AND AMORTISATION OF FIXED ASSETS	47
10.6.10	SERVICE CHARGE EXPENSES & FEE AND COMMISSION / MANAGEMENT EXPENSES	47
10.6.11	OTHER OPERATING EXPENSES	47
10.6.12	IMPAIRMENT CHARGES	47
10.7	CONTINGENT LIABILITIES AND COMMITMENTS	47
10.8	CASH FLOW STATEMENT	47
11.	RISK MANAGEMENT AND ORGANISATION	48
11.1	DEVELOPMENTS IN RISK MANAGEMENT	48
11.2	RISK MANAGEMENT ORGANISATION	48
11.3	FRAMEWORK FOR RISK MANAGEMENT	48
11.4	RISK CLASSIFICATION	51
12.	FINANCIAL RISKS	52
12.1	INTRODUCTION	52
12.2	CREDIT RISK	52
12.2.1	CREDIT RISK OVERVIEW	52
12.2.2	CREDIT RISK PROFILE AND CREDIT RISK MANAGEMENT	52
12.2.3	PROPERTIZE'S CREDIT RISK MANAGEMENT	53
12.2.4	CREDIT RISK LOANS AND ADVANCES TO CUSTOMERS	55
12.2.5	EXPOSURE TO HIGH-RISK EUROZONE COUNTRIES	57
12.3	MARKET RISK	57
12.3.1	MANAGING MARKET RISK	57
12.3.2	PRICE RISK PROPERTY PROJECTS	57
12.3.3	INTEREST RATE RISK	58
12.3.4	SENSITIVITY TEST INTEREST RATE RISK	59
12.3.5	CURRENCY RISK	60
12.4	LIQUIDITY RISK	60
13.	NON-FINANCIAL RISK MANAGEMENT	63
13.1	MANAGEMENT OF NON-FINANCIAL RISKS	63
14.	FINANCIAL INSTRUMENTS	64
14.1	FAIR VALUE OF FINANCIAL INSTRUMENTS	64
14.2	NOTES TO THE VALUATION OF FINANCIAL ASSETS AND LIABILITIES	64
14.3	HIERARCHY DETERMINATION FAIR VALUE OF ASSETS AND LIABILITIES	65
15.	CAPITAL MANAGEMENT	67
15.1	GOING CONCERN CAPITAL MANAGEMENT	67

16. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

68

16.1	TANGIBLE FIXED ASSETS	68
16.2	INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	68
16.3	PROPERTY PROJECTS	70
16.4	LOANS AND ADVANCES TO CUSTOMERS	71
16.5	LOAN RECEIVABLE	72
16.6	DEFERRED AND CURRENT TAX ASSETS AND LIABILITIES	73
16.7	OTHER RECEIVABLES	74
16.8	OTHER ASSETS	74
16.9	CASH AND CASH EQUIVALENTS	74
16.10	ASSETS HELD FOR SALE	74
16.11	EQUITY	75
16.12	PROVISIONS	75
16.12.1	SPECIFICATION PROVISION FOR EMPLOYEE BENEFITS	75
16.12.2	OTHER PROVISIONS	75
16.13	DEBT CERTIFICATES	76
16.14	LOAN PAYABLE	76
16.15	OTHER LIABILITIES	76
16.16	OFF BALANCE SHEET COMMITMENTS	76
16.16.1	CONTINGENT LIABILITIES	76
16.16.2	OPERATIONAL COMMITMENTS	77
16.17	LEGAL PROCEEDINGS	77
16.18	RELATED PARTIES	78
16.19	POSITIONS AND TRANSACTIONS BETWEEN PROPERTIZE, ASSOCIATED COMPANIES AND JOINT VENTURES	79
16.19.1	POSITIONS AND TRANSACTIONS BETWEEN PROPERTIZE AND NLFI / THE DUTCH STATE	79
16.19.2	POSITIONS AND TRANSACTIONS WITH SWAN ACQUISITION AND SWAN FINANCE	79
16.19.3	POSITIONS AND TRANSACTIONS WITH MANAGERS IN KEY POSITIONS OF PROPERTIZE	80
16.20	SUBSEQUENT EVENTS	80
16.21	NET INTEREST INCOME	80
16.22	PROPERTY PROJECTS INCOME	80
16.23	OTHER INCOME AND RESULT ON SALE OF PROPERTY	81
16.24	STAFF COSTS	81
16.25	OTHER OPERATING EXPENSES	82
16.26	IMPAIRMENTS	83
16.27	TAXATION	83
16.28	NOTES TO THE CASH FLOW STATEMENT	84

17. COMPANY FINANCIAL STATEMENTS

85

17.1	COMPANY BALANCE SHEET	85
17.2	COMPANY INCOME STATEMENT	85
17.3	PRINCIPLES FOR THE PREPARATION OF THE COMPANY FINANCIAL STATEMENTS	86

18. NOTES TO THE COMPANY FINANCIAL STATEMENTS

87

18.1	TANGIBLE FIXED ASSETS	87
18.2	SUBSIDIARIES	87
18.3	RECEIVABLES FROM SUBSIDIARIES	88
18.4	LOANS AND ADVANCES TO CUSTOMERS	89
18.5	LOAN TO SHAREHOLDER	89
18.6	OTHER RECEIVABLES AND OTHER ASSETS	89
18.7	CASH AND CASH EQUIVALENTS	89
18.8	EQUITY	90
18.9	PROVISION INVESTMENTS IN SUBSIDIARIES	90
18.10	DEBT CERTIFICATES	90
18.11	LOAN PAYABLE	90
18.12	AMOUNTS DUE TO GROUP COMPANIES	91
18.13	OTHER LIABILITIES	91

19.	OFF BALANCE SHEET COMMITMENTS	92
19.1	GUARANTEES	92
19.2	OTHER OFF BALANCE SHEET COMMITMENTS	92
19.3	RELATED PARTIES	92
20.	SUBSEQUENT EVENTS	93
21.	AUDIT FEES	94
22.	OVERVIEW OF PRINCIPAL SUBSIDIARIES	95
23.	OTHER INFORMATION	96
23.1	PROVISIONS REGARDING PROFIT OR LOSS APPROPRIATION	96
23.2	INDEPENDENT AUDITOR'S REPORT	96

FOREWORD

In 2016 Propertize was dedicated mainly to the sale, which had been announced on 9 December 2015, at the instruction of the Minister of Finance. The Executive Board was delighted with this announcement, because since its privatization Propertize had achieved several good results, and the improved market conditions made it possible to accelerate the assignment. In addition, the sale of Propertize in its entirety offered new prospects for some of the staff members. Throughout the sale process we tried to manage our assignment as efficiently as possible: reducing our portfolio of property financing and property as cost-efficiently and as profitably as possible. The market dynamics persisted and we realised a substantial reduction in our portfolio.

SALE OF PROPERTIZE

We teamed up with the NLFI to ensure a robust sales process, with clearly stipulated terms. The exposure of the State-issued guarantee on the Propertize financing had to decline or at least remain unchanged, and the sales return needed to be an improvement over the risks and return that the Dutch State would face, if the reduction were continued.

The sale was a two-stage process. The public announcement in the *Financial Times* led eighty-four parties to express interest; four were admitted to the second stage, which consisted of a due diligence. In the end, two parties made a binding offer on the shares of Propertize. The offer from Lone Star Funds was accepted, because it was expected to provide the Dutch State with the highest risk-weighted return. This offer also discontinued the State guarantee on the Propertize financing, thereby fulfilling the terms stated. Moreover, this will continue Propertize as a loan servicing platform, along with future prospects for a considerable number of employees.

On 28 June 2016 Propertize, with the consent of the Minister of Finance, was sold to Lone Star Funds. Lone Star Funds, together with its consortium partner J.P. Morgan, acquired Propertize for € 895.3 million. Before the transfer could be finalized, several additional steps needed to be taken, including obtaining the approval of the relevant regulators and a positive recommendation from the Works Council. The definitive share transfer to the new owner followed on 27 September 2016.

We announce these results with pride. Selling the organisation to Lone Star Funds marks the highly successful completion of the assignment for Propertize; rather than a controlled reduction over a ten-year period, with the sale of Propertize, the property portfolio and related risks were completely sold within three years at an attractive return and at appealing terms. The Dutch property market has observed the sale with great interest arising from the history, scope and course of the transaction. This has added another dimension to the excellent outcome we have achieved by working together.

THE SALE AND THE PEOPLE

The sales process demanded the utmost from the staff members. Getting the organisation ready required a vast quantity of work in the period between the announcement and the ultimate closing. Business continued as usual, while Propertize carried out the assignment. The Executive Board is especially proud of this and wishes to convey its appreciation.

The Propertize platform shall remain intact for the future and offers prospects for a considerable number of employees in 2017. These prospects did not figure in the reduction strategy of Propertize. Starting in 2015 career guidance was intensified to enable staff members to improve their chances on the job market. The experience, knowledge and skill they acquire at Propertize and the professional and personal enrichment opportunities made available to them have started to bear fruit in 2016. Several staff members have advanced in their careers.

RESULTS

The result for 2016 is strongly influenced by the sale of Propertize to Lone Star Funds and the subsequent economic transfer of a large part of the loan and property portfolio to Lone Star and J.P. Morgan. The economic transfer is realized at the purchase price calculated by Lone Star and J.P. Morgan respectively, and agreed upon with Propertize. The differences between the Propertize book value and purchase prices from Lone Star and J.P. Morgan, leading to an additional loss at the moment of the economic transfer of € 359 million, are mainly caused by:

- a difference in cash flow projections, sometimes also driven by using another exit strategy, exit timing and expected exit value;

- a deviation in the return on investments used for calculating the present value of those cash flow projections as a result of different levels of required cost of equity, cost of debt and leverage;
- the related costs for winding down the remaining part of the current portfolio;
- and the fact that under IFRS for the loan portfolio only incurred losses are taken into account. Lone Star and J.P. Morgan have also taken possible expected losses in consideration by estimating their cash flows projections.

The net operating result decreased by € 39 million from € 39 million to a loss of nil. This drop resulted mainly from the sale of a large share of the loan portfolio, leading the interest margin to drop sharply. The € 7 million decline in operating expenses offset part of this. The total portfolio reduction was approximately € 3.1 billion.

FUTURE OF PROPERTIZE

On 1 January 2017 Propertize made a new start as the *servicing and asset management platform* of Lone Star Funds for the Benelux. On the current market success is contingent upon being flexible, alert and decisive. We have vast expertise on the property and financial markets and a proven track record. Thanks to our ability to assess risks and opportunities from our knowledge perspective, we bring about new opportunities.

The Executive Board wishes to thank all staff members for their dedication and contribution to the results in 2016. We have great confidence in the future of Propertize.

On behalf of the Executive Board,

Hans Copier
Chief Executive Officer

1. STRATEGY

1.1 INTRODUCTION

On 1 February 2013, SNS REAAL was nationalised by the Dutch State, after which Propertize (formerly known as SNS Property Finance) was separated from SNS REAAL. Its mission was to wind down the portfolio of real estate loans and direct real estate in ten years upon return of liquidity in the market, while maximizing the value of the portfolio. In addition, the risks of the organisation and the portfolio needed to be controlled, while maintaining the integrity of the organisation at the highest standards.

This resulted in the creation of the wind-down plan (*afbouwstrategie*) during the second half of 2013, which was subsequently reassessed at the end of 2014. This plan was primarily based on a bottom-up real estate strategy that envisioned an exit of the positions based on fundamental market recovery. However, relatively quickly after the start of the company in 2014, the liquidity in the capital markets started driving the wind down, which resulted in an expedited wind down of the portfolio.

A strategic study showed that a sale of the company would be the best option for Propertize given its mission, the objectives of the Dutch State, and the sustainable employment of the staff to the extent this is economically feasible. 2016 was the year in which Propertize was successfully privatised: on 9 December 2015 the start of the sale process was announced in the Financial Times, on 28 June 2016, the Dutch State reached agreement with Lone Star Funds with regard to a sale of Propertize and on 27 September 2016, the transaction was completed and Propertize fulfilled its mission for the Dutch State.

The sale has had a profound impact on Propertize's strategy. Until completion of the sale, Propertize executed its existing strategy as created in the second half of 2013. As of closing, Propertize became part of the group of companies under control of Lone Star Funds. Propertize's new strategy is derived from its role within that group.

1.2 STRATEGY PRIOR TO CLOSING

Within the existing strategy, the property and property finance loan portfolio has been split up into three 'buckets', i.e. Healthy, Value retention & value creation and Stop-loss. Each 'bucket' involves a specific approach to its constituent items.

Our strategy for the loans within the Healthy 'bucket' focused on maintaining cash flow and covering our operational costs. This concerned loans for which customers pay interest and repayments, where no loss was expected on the outstanding balance in the medium term.

Active individual asset management was essential for the Value Retention 'bucket'. This 'bucket' mainly comprised of Dutch loans and property assets that offered scope for optimising or creating value in the short or medium term. Obviously, the cash flow and potential value had to be higher than the costs of keeping the asset (or the financing).

For the assets in the Stop-loss 'bucket', there could be no conclusion other than that there was no scope for creating value and prolonged ownership would have negative financial repercussions. In that case, the best solution was for Propertize to exit as quickly as possible to minimise its losses. Until the exit, the main priority was to minimise the management costs and adequately control the legal structures.

1.3 STRATEGY POST CLOSING

Prior to closing, Propertize operated as a State-owned bank in wind down. Since the acquisition of the shares of Propertize by Lone Star Funds, the majority of the portfolio has economically been transferred to companies controlled by Lone Star Funds and J.P. Morgan, while simultaneously entering into a servicing agreement with regard to the management of these portfolios. As a result, the former wind-down plan has been replaced with Lone Star Fund's business plans for each of the loans and real estate assets.

As part of the group of companies controlled by Lone Star Funds, Propertize has altered its operating framework to adapt to the requirements of its new shareholder. The organization has transformed from a bank into an asset management / servicing organization. Important

implications are: Propertize renders services to the owners of the portfolios, who in turn pay a servicing fee to Propertize; the decision-making process is modelled in line with the requirements of the funds in which Propertize services and makes proposals for the wind down plan per loan. However, the funds, being the owners of the portfolio, take the final decisions. As a result, management of Propertize's own balances sheet has been simplified.

In addition to managing the existing portfolio of assets, it is envisioned that Propertize will become Lone Star's servicing and asset management platform in the Benelux region. This entails the sourcing, underwriting and acquisition of new loan portfolios. We aim at trading assets of € 500 million a year. In Lone Star Fund's vision, transactions could also include direct real estate or companies as long as there is a significant real estate component and the investment complies with Lone Star's risk / return requirements. In the long term, this provides longevity and continuity to the downsized organisation.

2. RISK MANAGEMENT, CAPITAL MANAGEMENT, ALM AND FUNDING

2.1 RISK MANAGEMENT

Recognising and managing strategic, operational, financial and compliance risks is primarily the responsibility of Propertize's Executive Board and the management. During 2016, Propertize used the 'Propertize Approach' for the entire organisation (the term used within the company for Propertize's administrative organisation and internal controls system) and the 'Three Lines of Defence' model to fulfil this task. This means that the staff departments ('the first line') were responsible for executing the tasks, and thus for accurately recording and reporting the transactions. They owned the risks and were responsible for managing them.

The 'second line' was constituted by both the Risk Management department, which reported to the CFRO, and the Compliance & Integrity (C&I) department, which reported to the CEO. These departments advised, coordinated and monitored whether the first line was actually fulfilling its responsibilities. This involved assessing the business operations and the financial reporting.

The Internal Audit ('third line') monitored the design, existence and operation of the administrative organisation and the internal controls system. The Internal Audit department reported to the Executive Board and the Audit, Compliance & Risk Committee.

After the sale of Propertize to Lone Star, Propertize's strategy changed. Almost the entire loan and property portfolio were economically transferred to Lone Star and J.P. Morgan and Propertize became a loan service provider. Propertize also asked for its status under Article 104(3), Book 1 of the Financial Supervision Act (Wet financieel toezicht – Wft) to be abolished. De Nederlandsche Bank (Dutch Central Bank) granted this request on 27 September 2016.

These developments will have consequences for Propertize's risk management in 2017. The risk management function changed as of 1 January 2017. The three-lines-of-defense model will be replaced by a two-lines-of-defense model. As Propertize, in the long term, no longer owns its portfolio from an economic perspective, the second line of defense with respect to credit and real estate risk will be performed by the portfolio owner.

For the remaining risk domains, the second and third line of defense will be merged into one. To be more precise, the Credit & Real Estate Risk Management function will no longer be required, and one new department will be responsible for compliance, operational risk management, KYC and internal audit. Furthermore, the Valuations Review Management function will be embedded into the front office.

The Executive Board has mapped out the main risks for Propertize and determined the risk appetite within the organisation (see Table 2.1). The various risk categories and the capital management are explained further in the following sections. Please also refer to section 11 in which the Risk Management organisation is further disclosed

Table 2.1 Overview of risks and risk appetite and corresponding measures within Propertize

Risk category	Risk	Description	Qualification	Measures
Strategic	Real estate market	Risks associated with developments in the markets for new business	High	Optimising obtaining external information
		Risks associated with developments in the markets for winding down current portfolio	Low	
	Staff	Risk of premature leaving staff	High	Offering career guidance and training
Financial	Credit	Risk of losses due to not fulfilling obligations by customers	High	Customer review policy
	Interest	Risk of losses due to interest positions	Middle	The aim is to have matched funding
	Exchange rate	Risk of losses due to currency positions	Low	Currency positions are hedged as much as possible
	Liquidity	Risk of losses due to liquidity shortages	Middle	Additional agreements with parent company in case of shortages
Operational	Controlled Business	Risks resulting due to change of ownership: - not complying to service level agreements (SLA) - increased organisational complexity - securing data privacy and information security	Middle	Monitoring SLA requirements, revise of the Propertize Approach and research information security.
Compliance	Compliance	Risk of loss of reputation and financial losses due to not complying with laws and regulations	Middle	Measures in the area of AO/IC and compliance training for employees
	Integrity	Risk of loss of reputation and financial losses due to integrity issues	Middle	Measures in the field of relational due diligence

2.1.2 STRATEGIC RISKS

Strategic risks are those risks that could have a major impact on the achievement of Propertize's target. Until the sale of Propertize on 27 September 2016, Propertize's target was winding down the portfolio in an ethical and controlled manner. In the 3rd and 4th quarter of 2016, € 1,897 million of book value of the portfolio was economically transferred to Lone Star and J.P. Morgan. Together with the repayments, this resulted in a portfolio at the end of 2016 of € 503 million on balance sheet and € 90 million off balance sheet. After the sale, Propertize's new target is to develop itself as a real estate asset manager and servicer, while at the same time winding down the rest of the portfolio.

Looking at the period before the sale, the strategic risks were clustered as real estate market developments and staff risks. After all, the movement of the real estate market and/or the markets for financing or refinancing property in an unfavourable direction could slow the wind-down. The Human Resources department focused on recruiting and keeping qualified personnel. Propertize succeeded in doing this by maintaining a focused careers policy and a satisfactory tailor-made training programme. Good detailed internal information on property value drivers and developments in property markets supported our ability to value and assess exit strategies per asset and were therefore of direct importance for the successful winding down of Propertize's portfolio.

The period between 27 September and 31 December 2016 was a transitional period in which the organisation transformed from a wind-down company under the flag of the Dutch State, into a real estate asset management organisation held by a private equity investor. In this period, Propertize's portfolio decreased sharply, which led to the workforce being adjusted to the size of the portfolio. Knowledge, both in terms of clients and organisation, was transferred in a structured manner. The associated risks were inventoried and monitored by the ORM department during the transitional period.

As long as Propertize has a loan portfolio, credit risk is still an important risk. After the finalisation of Propertize's transition into a real estate asset manager, Propertize will no longer have positions

in loans or real estate. As of that moment, the strategic, operational and compliance risks will still be in place.

2.1.3 FINANCIAL RISKS

Credit risk is the largest risk out of credit, interest, currency and liquidity risks, mainly because currency and liquidity risks are limited.

Propertize's answer to property market-related risks is to invest in professional knowledge, responding satisfactorily to market signals and systematic reviews of property positions. These measures will produce pro-active exit strategies, resulting in maximum returns under the market circumstances.

Propertize analyses the credit risks for the various property portfolios and property funding during the entire year. These analyses are designed to establish the current status of customers' various properties and to examine the entire portfolio. This includes looking at the progress in achieving specific exit strategies, calculating the expected exit value and the timing of the exit. The effectiveness and progress of the established individual exit strategies will also be assessed. For a more detailed description of this process, we refer to section 12 of this report.

After the sale of Propertize to Lone Star, Propertize can no longer use the State-guaranteed funding programme. However, the liquidity risk is limited for Propertize because it has arrangements in place with its new shareholder. Furthermore, the remaining assets are being wind down in a consistent manner, resulting in an increase in liquidities.

Propertize paid its MTN debt to the Dutch State which will substitute Propertize as debtor. New funding was provided by one of the companies of Propertize's new shareholder.

Market risk, including the interest rate and foreign currency risk, was up until 26 September 2016 managed by Propertize itself. From 27 September 2016, Propertize on the one hand manages its own interest and foreign currency risks, but executes this in close cooperation with Lone Star. In particular, three elements result in the market risks being very limited:

- 1 Due to the transactions and transfers in 2016, our loan and property portfolio is significantly reduced.
- 2 The manner in which the ALM (asset-liability management) policy and ALM function were set up until 27 September 2016, after which the ALM activities were transferred to our new shareholder. The interest rate and exchange rate risk policies are defensive and geared to restricting these risks as far as possible. Aside from contracts for forward exchange rate transactions, no hedge instruments are used; this is to avoid operating risks and adding any unnecessary complexities.
- 3 The limited risks as a result of the nature of the Lone Star funding. Equity is relatively large.

2.1.4 SENSITIVITY OF RESULTS TO FINANCIAL RISKS

Credit risk

Credit risk is the risk that a borrower and/or counterparty will fail to comply with a financial or other contractual commitment or liability. Table 2.2 sets out the maximum credit risk of financial instruments based on the guarantees and commitments that have been provided. This assumes that no counterparty will comply with its commitments and that none of the guarantees received has any value.

Table 2.2 Propertize's credit risk

Credit risk Propertize

(In € millions)	2016	2015
Loans and advances to customers	412	4,697
Other receivables	7	42
Other assets	20	47
Cash and cash equivalents	64	584
Subtotal	503	5,371
Off balance sheet commitments		
Undrawn credits	1	21
Guarantees and commitments	51	86
Total maximum credit risk	555	5,478

Table 2.3 Breakdown of loans and advances, property projects and assets held for sale into performing and non-performing

	Performing		Non-Performing		Total	
(In € millions)	2016	2015	2016	2015	2016	2015
Loans (gross)	106	1,728	306	2,969	412	4,697
Provisions	-	-	(178)	(1,469)	(178)	(1,469)
Loans (net)	106	1,728	128	1,500	234	3,228
Property projects	-	-	57	186	57	186
Net exposure loans and property project	106	1,728	185	1,687	291	3,414
Assets held for sale	42	-	6	21	48	21
Total net exposure	148	1,728	191	1,707	339	3,435

Table 2.4 Breakdown of loans and advances by underlying assets

Breakdown loans and advances by underlying assets

(In € millions)	2016	2015
Offices	71	1,156
Retail	28	875
Residential	51	1,168
Industrial	102	587
Other	70	802
Gross outstanding loans secured	322	4,588
Unsecured loans	90	109
Gross outstanding loans	412	4,697
Provisions for impairment	(178)	(1,469)
Total outstanding (net)	235	3,228

Market risk

Until 27 September 2016, Propertize used internally prepared risk reports to monitor and mitigate market risks. These reports were discussed at the regular meetings of the ALM Committee and the Executive Board. In these reports, the market risk was broken down into two components: interest rate risk and currency risk. Interest rate risk arises when there are differences in the interest rate sensitivity of the assets and liabilities on the balance sheet, while currency risk arises because Propertize has exposures in foreign currency as a result of loans and other activities. As of 27 September 2016, the ALM activities have been transferred to our new shareholder Lone Star.

Interest rate risk

The interest rate risks can be illustrated using a sensitivity analysis. This analysis calculates the impact of an immediate parallel shift of the yield curve on Propertize's financial assets and financial liabilities. The effect of this is set out in Table 2.5.

Table 2.5 Sensitivity of projected net interest income

(In € millions)	At 31 December	
	2016	2015
Interest rate +1% (100 bps)	1	-
Interest rate -0.25% (25 bps)	(0)	(3)

72.1% of Propertize's portfolio consisted of loans with a variable interest while the interest of the funding is fully variable.

Exchange rate risk

At the end of 2016, Propertize used only FX-contracts to mitigate its limited currency risk, with the exception of US dollars, since US dollars are the reporting currency of Lone Star. Besides US dollars, Propertize only holds positions in Canadian dollars and Danish krone. The book value (fair value) of the derivatives was € 0.6 million negative at year-end 2016 (2015: € 0.5 million negative). The position is presented under other liabilities on the balance sheet.

Table 2.6 Exchange rate position

(In € millions)	Assets		Liabilities		Balance		FX-contracts		Net exposure		Local currency +10%		Local currency -10%	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
US dollar	5	23	-	(4)	5	19	-	(19)	5	-	-	-	-	-
Canadian dollar	19	81	(1)	(60)	18	21	(19)	(21)	(1)	-	-	-	-	-
Danish krone	1	24	(3)	(6)	(2)	18	-	(18)	(2)	-	-	-	-	-
Total	25	128	(4)	(70)	21	58	(19)	(58)	2	-	-	-	-	-

Hedging of foreign currency positions using FX-contracts in foreign currencies, combined with the limited foreign currency positions to which Propertize is still exposed, means that Propertize's sensitivity to fluctuations in foreign currency against the euro is limited.

Liquidity risk

Liquidity risks are managed on the basis of the net (assets minus liabilities) nominal amounts payable in a net liquidity position as of due date. As of 27 September 2016, this risk is managed at Lone Star level. Liquidity forecasts show a surplus of liquidity for the next five years.

2.2 OPERATIONAL RISKS

During 2016, operational risks were managed in the same way as in 2015. Employees were expected to report incidents. Furthermore, the Compliance & Integrity, Operational Risk Management and Internal Audit departments carried out internal enquiries. No significant incidents were notified or discovered in 2016.

As of January 2017, the monitoring and inquiry role will be executed by the newly-formed Compliance & Operational Risk department.

The Operational Risk Management (ORM) department, which in 2016 was part of the Risk Management function, supports the organisation by clarifying, managing and monitoring operational risks. The task of ORM is to assist and persistently challenge the organisation to fulfil its own responsibility for operational risk management in a structured manner. As part of the 'second line of defence', the ORM department plays a coordinating, monitoring and advisory role in designing processes and products in the ORM framework. This includes accepting risks in a well-considered manner, where appropriate.

In addition to the above risk management activities, the ORM department plays a secretarial and advisory role within the 'Propertize Approach', which describes Propertize's organisational structure, processes and controls.

The standards and principles for the administrative organisation and internal controls at Propertize are extended as far as possible to the associates and holdings. The main emphasis is on complying with local rules and regulations, behaving in a controlled and ethical manner, and preventing fraud.

2.2.1 COMPLIANCE RISKS

The purpose of Compliance & Operational Risk (C&OR) department is to safeguard, advise and report on the quality of compliance and ethics of the organisation's risk management. In this context, employees are made aware of what is expected from them and from Propertize in the areas of compliance and ethics. It also investigates the effectiveness of business management with high ethical standards.

In consultation with the Legal department, C&OR reviews each quarter whether there have been amendments to the relevant Dutch laws and regulations, the impact of these, and whether policies need to be changed.

If reviews or other sources show infringements of the law and regulations, or if there are indications of money laundering, terrorism financing or unusual transactions, C&OR will notify this to the relevant agency or regulator.

In 2016, Propertize drew up a complete ethics risk analysis (internally and externally validated), which set out potential ethics risks and their associated manifestations. This risk analysis was based on two dimensions, namely parties (employees, customers and business partners/external service providers) and core processes (loans management, divestments, redemptions, etc.). The ORM department compared the risk analysis with the control frameworks in the 'Propertize Approach'. Based on this, it concluded that the design and existence of the identified risks are covered by the control measures in the processes or the rules. Examples of these are in-employment and pre-employment screening, Know Your Customer (KYC) reviews of customers, buyers of property and suppliers, and awareness and monitoring activities in the area of the code of conduct. The risk analysis was moreover used as the basis for the systematic investigation of various integrity risks. There was regular consultation with *De Nederlandsche Bank* (Dutch Central Bank) in this context.

In addition to the regular monitoring activities, C&OR investigates incidents and conducts person-related and/or ethics investigations if there are alleged infringements of the compliance and ethics policy. No significant ethics incidents were discovered in 2016. There were only a few operational incidents, which were investigated and closed. None of these incidents caused any material reputational damage or had any financial consequences.

2.3 FUNDING

Equity

Propertize's equity decreased in 2016. This decrease is entirely attributable to the negative results in 2016 of € 234 million, mainly as a result of the economic transfer of the portfolio to Lone Star and J.P. Morgan. Furthermore, a dividend of € 46 million was paid over the year 2015. At the end of 2016, the equity was € 943 million (€ 1,223 million at year-end 2015).

External funding

On 28 June 2016, the Dutch State and Propertize entered into a notes agreement under which it was agreed to transfer Propertize's MTN debt position to the Dutch State and that the Dutch State would substitute Propertize as principal debtor under these MTNs. As of the date of the transfer, € 2,350 million was outstanding. Propertize paid this amount, partly from its own cash position and partly from funding received from LSREF5 Swan Finance, a Lone Star company.

After the completion of the sale of Propertize to Lone Star, Propertize received a loan from LSREF5 Swan Finance in the amount of € 373 million. At the end of 2016, this loan amounted to € 226 million. Some Propertize real estate subsidiaries also received loans from LSREF5 Swan Finance. At the end of 2016 these loans amounted to € 32 million. The interest rate on all these loans are Euribor + 3.64%.

Liquidity

Propertize's liquidity position was comfortable in 2016. Liquidity is actively monitored on a weekly basis.

3. FINANCIAL DEVELOPMENTS

3.1 RESULTS

Propertize's results for 2016 are set out in table 3.1. This is in line with the way in which the results are monitored internally. The classification of the property operations differs from IFRS and provides improved understanding of the performance.

Table 3.1 Propertize results for 2016

Result

(In € millions)

	2016	2015	% Change
Result loan portfolio			
- Interest income	65	114	(43%)
- Interest expenses	(22)	(23)	(8%)
Net interest	43	91	(52%)
Result property projects	(0)	(2)	107%
Service fee	8	-	-
Other income	(1)	2	(152%)
Income from assets held for sale	(1)	5	(123%)
Total income	49	96	(50%)
Operating expenses	30	37	(18%)
Charge NLF/ costs of sale Propertize	10	2	472%
Operating result (pre-tax)	8	58	(87%)
Taxation on operating result	8	19	(59%)
Net operating result	(0)	39	(100%)
Discounts non default loans	186	0	-
Impairments	131	13	-
Result impairments and discounts (pre-tax)	(317)	(13)	-
Taxation on impairments and discounts	(83)	(20)	-
Net result impairments and discounts	(234)	7	-
Result before taxation	(309)	45	-
Taxation	(75)	(1)	-
Total Net result	(234)	46	-

Results 2016 compared to 2015

The net result amounted to a loss of € 234 million, a significant deterioration compared to the € 46 million profit in 2015. This decrease was mainly due to the higher impairment charges (- € 304 million), and the lower interest result on the loan portfolio (- € 48 million). The higher impairments are mainly the result of the economic transfer of a large part of the portfolio, which resulted in impairment and discount losses of € 359 million (gross). As a result of the smaller portfolio, the interest result decreased. These negative developments were partly compensated by an improved property result (+ € 2 million) and lower operating expenses (- € 7 million or -18%). The net operating result decreased by € 39 million (-100%) from € 39 million in 2015 to nil in 2016. This is the result of the earlier mentioned decrease of the interest result of € 48 million, the costs of the sale of Propertize and the costs charged by NLF/ of € 8 million, partly compensated by lower operating expenses of € 7 million.

Income

The net interest income fell by € 48 million (-52%) to € 43 million. The interest income declined by € 49 million due to the wind-down of the portfolio and the economic transfer of a large part of the portfolio, while interest expenses showed a modest decrease (- € 1 million). Due to the nature of the funding, only MTN's, at the end of 2015, it could not be redeemed before April 2016, even though enough liquidity was available. Furthermore, the decreasing need for funding did not yet fully result in lower interest expenses. The funding until the sale of Propertize to Lone Star was based on a mix of fixed and floating interest. On top of this, Propertize can no longer fund itself

under a State guarantee, which leads to higher interest rates. Also, high balances at the bank accounts during the year were charged with 0.4%, which also lead to high interest expenses. Finally, the ECB measures resulted in a further downward shift of the interest curve.

The operating result from the property operation increased by € 2 million (+107%) due to improvements of results in almost all property projects. Babylon Den Haag offices and shopping mall were sold at the end of 2015. In 2016, the activities of Bonita (1st July 2016) and the shares of Belval were sold (28 October 2016), so they did not contribute to the results for the entire year. Überseequartier was deconsolidated halfway through 2015 as a result of the sale and transfer of Überseequartier-North in 2015.

Adjusted for comparison, the property operating result showed a loss of € 5 million in 2015 (please refer to section 9). The income, excluding proceeds from sales of property, decreased by € 1 million. The rental income fell from € 9 million to € 7 million. This was partly compensated by an increase in the other operating income of € 1 million (from € 6 million to € 7 million). Property management costs decreased by € 7 million, mainly because of falling service charges and management fees.

The total operating expenses fell by € 7 million, mainly as a result of lower personnel costs (-€ 6 million) because of the reduction in the average number of FTEs.

Impairment charges

Impairments increased by € 304 million, from € 13 million in 2015 to € 317 million in 2016. After the sale of Propertize to Lone Star, a large part of the portfolio was economically transferred to Lone Star and J.P. Morgan. The economic transfer is realized at the purchase price calculated by Lone Star and J.P. Morgan respectively, and agreed upon with Propertize. The differences between the Propertize book value and purchase prices from Lone Star and JPM, leading to an additional loss at the moment of the economic transfer of € 359 million, are mainly caused by:

- a difference in cash flow projections, sometimes also driven by using another exit strategy, exit timing and expected exit value;
- a deviation in the return on investments used for calculating the present value of those cash flow projections, as a result of different levels of required cost of equity, cost of debt and leverage;
- the related costs for winding down the remaining part of the current portfolio;
- and the fact that under IFRS for the loan portfolio only incurred losses are taken into account. Lone Star and JPM have also taken possible expected losses in consideration by estimating their cash flows projections.

In 2016 property markets were improving further as a result of which other impairment charges out of Propertize's asset management activities were limited. This was partly due to the continuous low interest rate levels. This resulted in property prices picking up.

3.2 PORTFOLIO DEVELOPMENT

Total net exposure declined by € 3,096 million to € 339 million (-91%) compared with year-end 2015. This decline was mainly due to the economic transfer of a large part of the portfolio to Lone Star and J.P. Morgan and the winding-down transactions (other sales, redemptions).

Table 3.2 Breakdown of Propertize portfolio by region

Breakdown portfolio by region

(In € millions)	2016	2015
The Netherlands	182	2,800
Other Europe	138	596
North-America	19	39
Total	339	3,435

Table 3.3 Statement of net exposure

Breakdown of net exposure

	Performing		Non-Performing		Total	
(In € millions)	2016	2015	2016	2015	2016	2015
Loans (gross)	106	1,728	306	2,969	412	4,697
Provisions	-	-	(178)	(1,469)	(178)	(1,469)
Loans (net)	106	1,728	128	1,500	234	3,228
Property projects	-	-	57	186	57	186
Net exposure loans and property project	106	1,728	185	1,687	291	3,414
Assets held for sale	42	-	6	21	48	21
Total net exposure	148	1,728	191	1,707	339	3,435

The sale of Ørestad, reported at year-end 2015 in the line item 'Assets held for sale' of € 21 million, was completed in early 2016.

3.3 CAPITAL POSITION

Equity

On 27 September 2016, NLFI sold all its shares in Propertize to Lone Star. Propertize's authorised share capital was € 50,003, consisting of 50,003 shares with a nominal value of € 1.

Propertize's equity decreased in 2016. This decrease is entirely attributable to the results in 2016, a loss of € 234 million, mainly as a result of the economic transfer of the portfolio to Lone Star and J.P. Morgan. Furthermore, a dividend of € 46 million was paid over the year 2015. At the end of 2016, the equity was € 943 million (€ 1,223 million at year-end 2015).

External funding

On 28 June 2016, the Dutch State and Propertize entered into a notes agreement into which was agreed to transfer Propertize's MTN debt position to the Dutch State and that the Dutch State should substitute Propertize as principal debtor under these MTNs. At the date of the transfer, 27 September 2016, € 2,350 million was outstanding. Propertize paid this amount partly out of its own cash position as well as out of funding retrieved from LSREF5 Swan Finance, a Lone Star company.

After the completion of the sale of Propertize to Lone Star, the funding provided by LSREF5 Swan Finance amounted to € 373 million. At the end of 2016 this loan amounted to € 258 million at a consolidated level. The interest rate on these loans are Euribor + 3.64%.

4. OUR STAFF

4.1 SALE

2016 was also an eventful year for all of Propertize's employees. The first half of the year was mainly about the sales process of Propertize, which had been announced in the Financial Times of 9 December 2015. Many employees were directly or indirectly involved in this process.

The request for an advice in relation to the sale of Propertize was submitted to the Works Council (WC) on 6 July 2016. This formally requested the WC to give its advice on the intended transaction. The trade unions were also informed of the intended decision. After intensive talks and answering of its various questions, the WC issued a positive advice on 23 August 2016.

Besides the WC, the Netherlands Authority for Consumers & Markets (ACM) gave its approval. Both the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM) agreed to the intended transaction. On 27 September 2016, the Dutch State transferred Propertize's shares to Lone Star Funds. Accordingly, Propertize had a new owner and the sale process was completed as of that date. After the formal completion of the sales process, a transition period started in which working methods and processes were re-examined and, if necessary, adapted to the new future organisation.

4.2 REORGANISATION

On 12 October 2016, Propertize's Executive Board submitted a request for an opinion to the WC in order to make far-reaching changes to Propertize as an organisation. The capacity of the organisation would have to be adjusted to the size of the portfolio because of the implementation of the new loans system. Propertize would also have to transform from a State-held, wind-down organisation to a private-equity-held service organisation, which, besides its wind-down, would also be back in the market for the acquisition of loan portfolios and properties. In addition, certain past activities will have to be brought to a close over the coming period. The WC issued a positive opinion in response to the request on 9 November 2016.

The Executive Board informed on 13 October 2016 all the employees about the intended reorganisation during a plenary meeting. On that same day, team meetings and one-to-one discussions were also held, so that everyone ultimately understood the general and individual consequences of the announced reorganisation. As of January 2017, 44 people became 'reassignee' while 18 people will be dedicated to wind-down legacy activities limited to the coming 6-18 months.

The 'reassignees' were released from their work duties on or before 1 January 2017 to allow them to focus fully on finding a new job. In accordance with the Social Plan, all redundant employees are given counselling by a Career Adviser from an external Redundancy Counselling Service. Although the Executive Board realises that the reorganisation has a significant personal impact on those employees who have been appointed as 'reassignee', Propertize will, in accordance with the Social Plan, make every effort to support the people involved from work to work.

In addition to the announcement of the reorganisation, there were also new positions generated for the future organisation, 26 in total. The jobs can largely be filled with our own employees who would otherwise have been granted the status of 'reassignee'. They have deliberately chosen for the new future of Propertize.

As a result of the announced changes, 44 employees were made redundant as of 1 January 2017. These employees completed and, if necessary, transferred their work duties during November and December. The 'reassignees' were released from their work duties on or before 1 January 2017 to allow them to focus fully on finding a new job. In accordance with the Redundancy Plan, all redundant employees are given counselling by a Career Adviser from an external Redundancy Counselling Service. Although the Executive Board realises that the reorganisation has a significant personal impact on those employees who have been appointed as 'reassignee', Propertize will, in accordance with the Social Plan, make every effort to support the people who are seeking new employment.

4.3 WORKS COUNCIL

Cooperation between the WC and the EB was once again open and constructive in 2016. Consultation intensified during the year because of the sales process and significant reorganisation as of 1 January 2017. Besides the formal and informal monthly meetings, the CEO regularly kept

the WC aware of developments so both advisory and agreement-procedures could proceed in open dialogue.

Although its term was due to end on 1 June 2016, the WC proposed extending it until 31 December 2016 in view of the sales process and the expected reorganisation. The employees and trade unions consented to this extension. A fifth member joined the WC in the spring, bringing its membership to three men and two women.

A call for candidates for the new WC as of 1 January 2017 was made at the end of 2016. This has resulted in five new members: four men and one woman. The new members form a proper representation of the organisation. The transfer of the old WC to the new WC has since occurred.

A total of four requests for an advice and two requests for consent were submitted to the WC in 2016. A request for an advice was submitted as part of the wind down as of 1 July 2016. This request related to three departments in which a total of four employees would be made redundant. A request for an advice was also submitted for the sale of Propertize, for the appointment of Eddie Byrne as Chief Portfolio Officer. He is the successor of Reinout van Riel, who left the company on 31 July 2016. Furthermore, a request for an advice was also submitted for the reorganisation as of 1 January 2017. This request related to the entire organisation, where 44 employees were made redundant as of 1 January 2017. The WC issued a positive advice in response to all four of the requests for advices. With the exception of the appointment of Eddie Byrne, the other requests resulted in further agreements between the Works Council and Director, including the sale of Propertize and restructuring. These agreements have now all been completed.

The Executive Board submitted two requests for consent in the spring of 2016. This related to the Plan of Action following the Hazard Identification and Risk Assessment conducted by the occupational health and safety service 'Arbodienst Beter' in 2015. A request for consent was also submitted for the Working Conditions Policy. The WC consented to both of these requests.

4.4 LOOKING AHEAD TO 2017

The new year will focus on the one hand on the further development of the new organisation and on the other hand on guiding the reassignment candidates to a new job elsewhere. On July 1, 2017, January 1, 2018, and 1 July, 2018 in total, another 19 staff will have the status of 'reassignee'. They have been informed about this and will then, in accordance with the Social Plan, be assisted in seeking new employment. With a large group of enthusiastic employees, we give meaning and substance to the new future of Propertize.

Table 4.1 Key figures staff (excluding property projects)

	1-1-2017	2016	2015
Number of FTEs at year-end (labour contract)	86	130	158
Male/female ratio	69% – 31%	69% – 31%	67% – 33%
Full-time/part-time ratio	69% – 31%	71% – 29%	68% – 32%
Number of external FTEs at year-end	5	2	6
Training costs (euros per FTE)	-	€ 4,893	€ 3,461
Absenteeism due to illness	-	3.29%	2.95%

Closing words from the Executive Board

The Executive Board realised at the end of 2015 that 2016 would be an eventful year, and that turned out to be the case. In 2014, Propertize started its special mission that must be completed within 10 years. The last three years have successively been about further development (2014), making it possible to discuss the implied uncertainty in the future of Propertize and converting this into specific career plans (2015), and the sale with the chance for part of the organisation to have a future (2016).

The Executive Board thanks all employees for their contribution towards this special and eventful year, looks forward to the further development of the new organisation, and wishes all employees who are leaving the company a lot of success in finding a new challenge.

Utrecht, 23 March 2017

Hans Copier, CEO
Jack Mondt, CFO
Eddie Byrne, CPO

5. REPORT OF THE SUPERVISORY BOARD

5.1 COMPOSITION AND FUNCTIONING OF THE SUPERVISORY BOARD

Composition

Until the transfer of Propertize's shares to Lone Star Funds on 27 September 2016, the Supervisory Board was composed of Rob Meuter (Chairperson), Maurice Oostendorp (Vice-Chairperson), Kees de Boo and Susi Zijderveld. On 27 September 2016, the entire Supervisory Board resigned voluntarily. On the same date, Philippe Couturier (Chairperson), Alexander Hesse (Vice-Chairperson) and Jodi Cason were appointed as members of the Supervisory Board. More information on the composition of the Supervisory Board can be found in paragraph 6.2 of this annual report.

The retirement schedule is shown in Table 5.1.

Table 5.1 Retirement schedule

Name	Date of appointment	Retirement year
P. Couturier	27 September 2016	2020
A. Hesse	27 September 2016	2020
J.L. Cason	27 September 2016	2020

5.2 COMPOSITION OF THE EXECUTIVE BOARD

On 31 July 2016, Reinout van Riel resigned as Chief Portfolio Officer, after which Hans Copier combined this function with his CEO function for a short period of time. On 27 September 2016, Eddie Byrne was appointed as Chief Portfolio Officer. More information on the composition and the assignment of duties within the Executive Board can be found in section 6 of this annual report. Brief CVs and descriptions of the Executive Board members' positions with other companies and organisations are included in paragraph 6.1.2.

5.3 MEETINGS OF THE SUPERVISORY BOARD

5.3.1 MOST IMPORTANT TOPICS

In 2016 the Supervisory Board met five times in total. Informal consultations and information exchanges also took place on a regular basis between the Chairperson of the Supervisory Board and the CEO of Propertize, as well as between other Supervisory Board members and Executive Board members.

All the regular meetings were attended by the full Supervisory Board. Until the sale of Propertize's shares in June 2016, the Supervisory Board held a weekly conference call with the Executive Board to prepare for the sale of Propertize. Members of the Supervisory Board were present as observers at several consultations between the shareholder and the Executive Board in relation to the sale process.

In the first half of 2016, the Supervisory Board continued to monitor the various risks within Propertize. The following main issues were dealt with in the Supervisory Board meetings in 2016:

- Sale of Propertize's shares;
- Unwinding of the funding programme;
- Monthly and quarterly management reports;
- Asset and liability management reports;
- Termination of the status under Article 104(3), Book 1 of the Financial Supervision Act (Wft) (unwind-licence), as a result of which supervision by the Dutch central bank (DNB) ended on 27 September 2016;
- AFM (Authority for Financial Markets) licence;
- Draft 2015 annual report, including the fair value of the loans portfolio and the EY auditors report;
- Dividend policies to be pursued;
- Progress of the wind-down in each segment;
- Risk appetite statement and risk reports;
- Reports by Internal Audit (including the audit plan) and Compliance & Integrity, including the joint Management letter of Internal Audit and EY;
- Value changes and credit provisions;
- Quarterly 'in-control' statements of the Executive Board;
- Periodic reports of the external auditor;
- Legal proceedings in which Propertize is involved.

5.3.2 PRESENCE OF THE EXECUTIVE BOARD

In 2016, all Supervisory Board meetings were attended by all members of the Executive Board.

5.3.3 PRESENCE OF THE EXTERNAL AUDITOR

The external auditor attended all the meetings of the Audit Compliance & Risk Committee in 2016, and one Supervisory Board meeting.

5.4 COMMITTEE MEETINGS

Until the sale of Propertize on 27 September 2016, the Supervisory Board had two committees in:

- Audit Compliance & Risk Committee
- Remuneration and Nomination Committee

The task of each committee is to prepare the resolutions for adoption by the Supervisory Board on the duties assigned to it, and each Committee reports to the Supervisory Board. After the sale of Propertize, only the Remuneration and Nomination Committee was kept in place.

5.4.1 AUDIT, COMPLIANCE & RISK COMMITTEE (AC&RC)

The composition of the AC&RC until 27 September 2016 was as follows: Maurice Oostendorp (Chairperson) and Rob Meuter. In addition to the members of the AC&RC itself, the CEO, the CFRO, the CPO, the head of Internal Audit, the director of Risk Management, the head of Compliance & Integrity, the director of Finance & Control and the external auditor attended the meetings of the AC&RC. The duties of the AC&RC are to prepare the resolutions for adoption by the Supervisory Board and to render advice to the Supervisory Board in the following areas:

- Provision of financial information by the Company and its quality (the choice of accounting policies, the application and assessment of the consequences of new rules, insight into the recognition of 'estimates' in the annual financial statements, forecasts, the work of the internal auditors and external auditors in these areas, etc.);
- Compliance with recommendations and the follow-up of comments of internal auditors, external auditors, tax advisors and regulatory bodies;
- Scope and quality of the audit by the internal auditor, including the approval of the annual plan and the assessment of the quarterly reports;
- Company's policies on taxation matters;
- Scope and quality of the audit by the external auditor;
- Relationship with the external auditor, including the quality of the services rendered, his independence and remuneration, and any non-audit work performed for the company in particular. This Committee also assesses how the external auditor is involved in the contents and publication of financial communications other than the annual financial statements;
- Periodic assessment at strategic level to determine whether the business operations generally match the Company's risk appetite in relation to the returns;
- Profile of the Company's financial and non-financial risks, in particular whether the capital allocation and liquidity requirements correspond to the approved risk appetite at strategic level;
- Management of the Company's financial and non-financial risks, including the assessment of the company's whistle-blower regulations: 'How to proceed if you suspect any misconduct';
- Structure and functioning of the internal risk management and control systems, including supervision of compliance with the relevant laws and regulations, the way in which the codes of conduct function and the subject of integrity in a broad sense;
- Application of the information and communication technology from a risk management perspective;
- Discussing the annual financial statements, approving the annual budget and financing of the Company.

In 2016, the AC&RC met three times with all members present. As of 10 November 2016, the Supervisory Board will carry out the tasks of the AC&RC itself.

5.4.2 REMUNERATION AND NOMINATION COMMITTEE (RNC)

Until 27 September 2016, the RNC was composed of Susi Zijdeveld (Chairperson) and Rob Meuter. As of 10 November 2016, the members of the RNC are Jodi Cason (Chairperson) and Alexander Hesse. The duties of the RNC include the following activities with regard to the selection and

appointment of members of the Executive Board and Supervisory Board and the policies of the Executive Board for senior management, including identified staff:

- Drafting of selection criteria and appointment procedures for Executive Board and Supervisory Board members;
- Periodic assessment of the size and composition of the Executive Board and Supervisory Board and making proposals for a profile of the Supervisory Board;
- Making proposals for appointments and reappointments;
- Supervision over the policies of the Executive Board on selection criteria and appointment procedures for senior management.

To the extent that this responsibility ensues from the Regulation on Sound Remuneration Policies pursuant to the FSA 2014, the RNC is also responsible for preparing the resolutions for adoption by the Supervisory Board in the area of remuneration, including remuneration decisions that may have an impact on the risks for and risk control of the company. In 2016, the RNC met once and mainly concerned itself with the determination of the Identified Staff.

5.5 ANNUAL FINANCIAL STATEMENTS

Both the 2016 management report and the 2016 annual financial statements were discussed at various meetings of the Supervisory Board prior to publication. EY, the external auditor, has issued an unqualified audit opinion in respect of the 2016 annual financial statements. The annual financial statements were submitted to the General Meeting of Shareholders and adopted on 23 March 2017.

5.6 REMUNERATION REPORT

5.6.1 REMUNERATION POLICY FOR MEMBERS OF THE EXECUTIVE BOARD

The remuneration policy for the Executive Board complies with the relevant legal requirements, the Dutch Corporate Governance Code, the Regulation on Sound Remuneration Policy pursuant to the FSA 2014 and the Dutch Act on the Limitation of Liability of DNB & AFM and the Prohibition on Bonuses for State-Supported Companies. The remuneration of the Executive Board members comprises a fixed annual salary, a pension scheme and several other fringe benefits. The remuneration elements are explained in more detail below.

Remuneration elements of the remuneration policy:

- The total fixed gross salary of the Chairperson of the Executive Board is € 320,000 per annum;
- The other Executive Board members earn total fixed gross salaries of € 280,000 (CPO) and € 230,000 (CFRO) per annum respectively;
- If their employment is terminated at Propertize's initiative, the Executive Board members will receive a payment, depending on the number of years in service, not exceeding the total fixed salary for one year;
- The Executive Board members are not entitled to any variable remuneration;
- The Executive Board members participate in the same pension scheme as all the other employees of Propertize. This means that the Executive Board members pay the same percentage of their pensionable salaries in contributions as the other participants, in accordance with Propertize's collective labour agreement;
- Propertize has taken out three types of insurance for the Executive Board members: WIA (additional disability) insurance, disability insurance and term life insurance. The premiums for this purpose are paid by Propertize;
- The other fringe benefits are in line with the conditions that apply to the other employees.

Remuneration of the Executive Board 2016

Table 5.2 Summary of the total remuneration paid to each member of the Executive Board.

(In € thousands)	Fixed salary		Pension		Other benefits		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Hans Copier	320	320	50	52	5	5	375	376
Reinout van Riel	163	280	25	45	3	5	191	331
Jack Mondt	224	224	35	36	5	5	264	265
Total Executive Board	707	824	110	133	13	15	830	972

The other employer's costs for each member of the Executive Board are presented in table 5.3.

Notes on Table 5.2

The costs of Eddie Byrne, the new CPO and member of the Executive Board since 27 September 2016, is paid by his employer Hudson Advisors Ireland and invoiced to Propertize by Hudson Advisors UK based on a service agreement between Hudson UK and Propertize. This amounted to € 311,000 including VAT for 2016. The variable remuneration of Eddie Byrne over Q4 2016 did not exceed the permitted 20% for his time attributed to Propertize.

The column 'Fixed remuneration' includes holiday pay. The amounts in the 'Pension' column are the pension contributions paid to the ABP Pension Fund, minus the employee's contributions. The amounts in the 'Other benefits' column represent a fixed expense allowance. No shares or other forms of variable remuneration have been granted to the Executive Board members.

As per 31 December 2013, the shares in Propertize were transferred from SNS Bank to NLF and a group of employees of SNS REAAL, including the Executive Board members, transferred to Propertize. These employees had accrued pension up to and including 31 December 2013 with the SNS REAAL Pension Fund. From 1 January 2014 their pensions are built up with pension fund ABP. Within that framework SNS REAAL and Propertize have made agreements with the trade unions about the consequences that this separation would have for the terms of employment of the employees involved and on how these consequences could be compensated in a neutral way for the employees. In that context, Propertize pays, in addition to the above-mentioned remuneration, a monthly amount to every employee concerned in order to compensate them for the differences between the pension schemes and the difference in funding position, the change to the employee's contribution and the change to the value of the dependents' pension. The amount of the compensation is determined for every employee individually by Towers Watson. This calculation is carried out at two different times and the amount of the compensation is adjusted to reflect that calculation. The pension compensation, which is not included in table 5.2, totalled € 31,000 in 2016 (€ 36,000 in 2015), sub-divided into € 14,000 (for Hans Copier), € 6,000 (for Reinout van Riel) and € 11,000 (for Jack Mondt).

Other employer's costs

In addition to the remuneration of the Executive Board members, there are a number of compulsory employer's costs which have to be paid, i.e.:

- Social security contributions;
- The WIA insurance contributions, the disability insurance premiums and term life insurance premiums;
- The contribution towards the health insurance premiums;
- The costs of company cars.

These costs are shown in Table 5.3:

Table 5.3 Employer's expenses for Executive Board members

(In € thousands)	2016	2015
Hans Copier	47	40
Reinout van Riel	44	45
Jack Mondt	32	32
Total Executive Board	123	117

5.6.2 REMUNERATION OF SUPERVISORY BOARD MEMBERS

The new Supervisory Board will not receive any remuneration from Propertize. For the former Supervisory Board, the remuneration policy was adopted by the General Meeting of Shareholders (AGM) in 2014. The remuneration policy for the Supervisory Board members of the Company is as follows:

Supervisory Board members receive remuneration consisting of (i) a fixed annual remuneration, (ii) remuneration for their membership of committees, and (iii) an expense allowance:

- The fixed annual remuneration is € 25,000 for a member, € 30,000 for the Vice-Chairperson and € 35,000 for the Chairperson of the Supervisory Board;
- The annual remuneration for membership of the committees that the Supervisory Board may form from its number is € 3,000. This excludes the Audit, Compliance & Risk Committee, for which the annual remuneration is € 5,000. Supervisory Board members may be members of no more than two committees;
- Supervisory Board members may submit statements of expenses for their travel and other expenses.

The Chairperson of the Executive Board will assess and approve these statements. The Compliance & Operational Risk department will examine these statements of expenses and report on them to the Executive Board and the Audit, Compliance & Risk Committee once a year. Given the company's history as part of the SNS REAAL Group until 31 December 2013, Maurice Oostendorp has not received any remuneration as a Supervisory Board member of the company as an exception to the above remuneration policy.

Table 5.4 Gross remuneration of the Supervisory Board

	As member of the Supervisory Board		As member of a committee		Other benefits		Total	
(In € thousands)	2016	2015	2016	2015	2016	2015	2016	2015
R.J. Meuter	26	35	6	8		0	32	43
C.A.M. de Boo	19	25	-	-		-	19	25
M.B.G.M. Oostendorp	-	-	-	-	-	-	-	-
S.M. Zijderveld	19	22	2	1	0	0	21	22
Total Supervisory Board	64	82	8	9	0	1	72	91

The new Supervisory Board will not receive any remuneration from Propertize.

5.7 CLOSING WORDS

The Supervisory Board wishes to express its gratitude and appreciation to all the employees of Propertize. In the past period much was asked of them, both externally and internally. This has not always been easy for those involved, as the sale of Propertize to Lone Star has resulted in a loss of jobs in the near and longer term. In spite of these circumstances, the employees of Propertize continue to devote themselves to the company with a great deal of enthusiasm to create a new future for the downsized organisation. The Supervisory Board realises that this should not be taken for granted and wishes to express its great appreciation for this.

A great effort was also demanded of Propertize's Executive Board in 2016. The cooperation between the Executive Board and the Supervisory Board was excellent. The Supervisory Board also wishes to express its appreciation for this.

Utrecht, 23 March 2017

On behalf of the Supervisory Board
Philippe Couturier,
Chairperson

6. CORPORATE GOVERNANCE

6.1 EXECUTIVE BOARD

6.1.1 COMPOSITION AND FUNCTIONING

On the date of publication of this annual report the Executive Board of Propertize comprises:

- Hans Copier (Chief Executive Officer)
- Jack Mondt (Chief Financial Officer)
- Eddie Byrne (Chief Portfolio Officer)

The Executive Board is responsible for formulating and achieving Propertize's strategic aims, as set out in section 1 'Strategy'. In doing so, the Executive Board is responsible for servicing the loan and property portfolio of Lone Star Funds and J.P. Morgan and the wind down of its own property portfolio, the compliance policies, the risk management policies, communications, the IT policies and staff policies of Propertize, as these are determined on the basis of the strategic targets.

The Executive Board is composed such that the members can properly perform their duties. Within the Executive Board there is thorough knowledge of the financial industry in general and of the real estate sector in particular.

Executive Board resolutions are adopted by a majority of the votes cast. The formal rules of procedure for the Executive Board are laid down in Propertize's articles of association and the Executive Board Regulations. The Executive Board members have declared that they agree to the contents of the Regulations and will comply with the associated rules. The articles of association and Regulations list the resolutions that are subject to the approval of the Supervisory Board and/or the General Meeting of Shareholders.

6.1.2 RESPONSIBILITIES, CV'S AND POSITIONS WITH OTHER COMPANIES AND ORGANISATIONS

Hans Copier

Hans Copier (1957) has been Chief Executive Officer of Propertize since 26 June 2013. In that capacity, he is responsible for the Compliance & Operational Risk, Legal, HR and Acquisition & Underwriting corporate staff departments. Before Hans Copier joined Propertize, he was a member of the European Executive Committee and Country Manager Netherlands at CBRE Global Investors. He has also held the post of fund manager for several Dutch real estate portfolios. Hans Copier was moreover a member of the group management of the Giesbers Groep and held several positions at FGH Bank, including that of statutory director.

Current positions with other companies and organisations: Chairperson of Adviesgroep BREEAM In-Use, member of the Group of Experts of the Dutch Green Building Council (DGBC), Supervisory Board member of Vesteda and Supervisory Board member of Pink and Nelson

Jack Mondt

Jack Mondt (1959) has been Chief Financial Officer of Propertize since January 2012 and its predecessors. Prior to his appointment as CFO, he held various functions such as business office director and Chief Financial & Risk Officer. In his capacity as CFO, he is a member of the Executive Board, responsible for Finance, Operations and IT. Within the Executive Board he works closely with Hans Copier (CEO) and Eddie Byrne (CPO). From 2002 he worked at SNS REAAL and in the past held several financial management positions within SNS REAAL and SNS Bank. Previously, he worked 14 years at Fortis Bank Netherlands and Fortis Netherlands, Nutsspaarbank The Hague. He started his career at KPMG Accountants.

Current positions with other companies and organisations: none.

Eddie Byrne

Eddie Byrne (1966) has been Chief Portfolio Officer at Propertize since 27 September 2016. In that capacity, he is responsible for all the business activities of Propertize that are implemented by the Asset Management, Loan Asset Management and Real Estate Asset Management departments. Eddie Byrne is also Executive Director of Hudson Advisors Ireland Limited, Adelaide Real Estate Investments PLC, Clear Real Estate Investments PLC and Start Mortgages Ltd with responsibility for the management of all Lone Star Investments in Ireland. Before that, Eddie Byrne held various positions at IBRC Boston, Anglo Irish Bank, Investec Bank Plc and Ulster Bank.

Current positions with other companies and organisations: none.

6.2 SUPERVISORY BOARD

6.2.1 COMPOSITION, APPOINTMENT AND FUNCTIONING

On the date of adoption of this annual report, the Supervisory Board of Propertize comprises:

- Philippe Couturier (Chairperson)
- Alexander Hesse (Vice-Chairperson)
- Jodi Cason

Supervisory Board members are appointed for a maximum period of four years. Subject to through deliberations, they can be reappointed for a maximum period of four years each time, although not more than twice. This means that a Supervisory Board member can sit on the Supervisory Board for a maximum of three four-year periods. Supervisory Board members are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The Supervisory Board meets at least four times a year according to a schedule that is prepared every year. The resolutions of the Supervisory Board are adopted by a majority of votes. The formal rules of procedure for the Supervisory Board are laid down in Propertize's articles of association and the Supervisory Board Regulations. The Supervisory Board members have declared that they agree to the contents of the Regulations and will comply with the associated rules. The Supervisory Board members have also undertaken to comply with Propertize's Code of Conduct. All Supervisory Board and Executive Board members have taken the oath for the financial services sector.

6.2.2 RESPONSIBILITIES, CV'S AND POSITIONS WITH OTHER COMPANIES AND ORGANISATIONS

Philippe Couturier

Philippe Couturier (1966 – French nationality) is CEO of Hudson Europe, Hudson UK Limited and has been a member and Chairperson of the Supervisory Board since 27 September 2016.

Alexander Hesse

Alexander Hesse (1969 – German nationality) is Senior Managing Director of Lone Star Germany GmbH and of Lone Star Real Estate Fund V Acquisitions LLC, serves as Director of Lone Star France Acquisitions S.a.r.l., Lone Star Spain Acquisitions S.L.U., Lone Star Netherlands Acquisitions B.V., Lone Star Portugal Acquisitions S.A., is a member of the Supervisory Board of Centrice Real Estate GmbH, Isaria Wohnbau AG, and is Chairperson of the Supervisory Board of Global Trade Center S.A. He has been a member and Vice-Chairperson of Propertize's Supervisory Board since 27 September 2016.

Jodi Cason

Jodi Cason (1973 - American nationality) is the President and Chief Operating Officer of Hudson Advisors L.P. Ms. Cason is a member of Lone Star's Senior Management, Global Risk, Legal and Compliance Risk, Market Risk and Liquidity Risk Committees and is Chairperson of the Operational Risk Committee. Additionally, she serves on the board of directors of Hudson Advisors GenPar, Inc. (the general partner of Hudson Advisors). She has been member of the Supervisory Board of Propertize on 27 September 2016.

6.3 REMUNERATION POLICY

The remuneration policy is well-balanced, controlled, future-proof and in line with Propertize's strategy. The underlying principle of the remuneration policy is that it may not induce Executive Board members to take risks and that the remuneration received must be proportional to the work performed.

Remuneration for the Supervisory Board members is determined by the shareholder. The remuneration policy for the Executive Board members is likewise determined by the shareholder. The remuneration policy for senior management and other employees (not covered by the Collective Labour Agreement) is determined by the Supervisory Board. The prevailing Collective Labour Agreement applies (along with the Staff Manual) to the largest group of employees. In accordance with the applicable Collective Labour Agreement, all employees who's annual Performance and Competence Evaluation is 'adequate' or better, will receive a performance allowance.

7. STATEMENTS BY EXECUTIVE BOARD

The members of the Executive Board state the following:

7.1 'IN-CONTROL' STATEMENT

At Propertize, Risk Management and Internal Control are processes that are implemented by the Executive Board, management and employees. All of this has been designed to achieve a reasonable degree of certainty in relation to:

- The effectiveness and efficiency of our processes;
- The reliability of financial information and accountability;
- Compliance with internal laws and regulations; and
- Propertize's strategic objectives.

Based on the risk management organisation, as described in section 2 'Risk and capital management, ALM and Financing', the Executive Board declares the following with regard to the risks that could affect the achievement of Propertize's strategic objectives:

- Risk management and internal controls are built into the objectives, existence and operation, and offer a reasonable degree of certainty that Propertize will not be prevented from achieving its business objectives.
- Based on the functioning of the business operations, the Executive Board believes that there are no material aspects that could jeopardise the achievement of the business objectives.
- As a result of their inherent limits, the risk management and internal control systems at Propertize do not provide full certainty that all the business objectives will be achieved and do not always prevent inaccuracies, fraud and failure to comply with internal laws and regulations.

7.2 CONTROL OF FINANCIAL REPORTING

The management and control systems in the area of financial reporting form an integral part of Propertize's risk management and control systems. The most important principles for the control of financial reporting are:

- The departments and identified staff are responsible for the performance of the work and thus for the accurate recording of and reporting on transactions.
- A system of financial key controls exists within the administrative and reporting departments for monitoring the proper operation of the management and control system for financial reporting. This includes the coordination of the source administration systems with the financial administration and the compilation of analyses.
- The assessment of the financial reporting, including that carried out based on the outcomes of the Internal Control Statements (ICS) by the Executive Board.
- The investigation by the external auditor into the functioning of the management and control systems in the area of financial reporting. The external auditor reports on this to the extent that this ensues from his audit of the annual financial statements.
- The findings of the external auditor are discussed with the Executive Board and the Supervisory Board.

The Executive Board believes that the financial reporting process has been adequately in control.

Utrecht, 23 March 2017

Hans Copier, CEO

Jack Mondt, CFO

Eddie Byrne, CPO

8. CONSOLIDATED FINANCIAL STATEMENTS

8.1 CONSOLIDATED BALANCE SHEET

Consolidated balance sheet

Before result appropriation (In € millions)	Notes	31-12-2016	31-12-2015
<u>Assets</u>			
Tangible fixed assets	16.1	1	3
Investments in associates and joint ventures	16.2	1	1
Property projects	16.3	57	186
Loans and advances to customers	16.4	235	3,228
Loan to shareholder	16.5	882	-
Deferred tax assets	16.6	6	8
Other receivables	16.7	7	42
Other assets	16.8	20	48
Cash and cash equivalents	16.9	64	584
Assets held for sale	16.10	48	21
Total assets		1,321	4,121
<u>Equity and liabilities</u>			
Share capital and share premium reserve		3,117	3,117
Other reserves		(1,940)	(1,940)
Retained earnings		(234)	46
Equity attributable to the owner of the parent company	16.11	943	1,223
Provisions	16.12	19	20
Debt certificates	16.13	-	2,597
Loan payable	16.14	258	-
Deferred tax liabilities	16.6	7	148
Current tax liabilities	16.6	41	42
Other liabilities	16.15	53	91
Total liabilities		378	2,898
Total equity and liabilities		1,321	4,121

8.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated statement of comprehensive income

(In € millions)	Notes	2016	2015
Income			
Interest income		65	114
Interest expense		(22)	(22)
Net interest income	16.21	43	92
Rental income		7	18
Service charge income		3	5
Property projects income	16.22	10	23
Share in result of associates and joint ventures		(1)	3
Result on sale financial instruments		(186)	(0)
Sale of property	36		124
Bookvalue sale of property	(36)		(124)
		0	0
Service Fee		8	-
Other operating income		7	12
Result on assets and liabilities held for sale		(1)	5
Total other income	16.23	(173)	20
Total income		(120)	134
Expenses			
Staff costs	16.24	20	28
Depreciation and amortisation of fixed assets		0	0
Service charge expenses		0	1
Fee and commission / management expenses		2	3
Other operating expenses	16.25	36	45
Total operating expenses		58	77
Impairment charges	16.26	131	13
Total expenses		189	90
Result before tax		(309)	45
Taxation	16.27	75	1
Net result for the period		(234)	46
Net result / Total comprehensive income: attributable to shareholders		(234)	46
Net result / Total comprehensive income for the period		(234)	46

Propertize has no items in Other comprehensive income.

8.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity

	Issued share capital	Share premium reserves	Other reserves	Retained earnings	Equity attributable to the owner of the parent company
<i>(In € millions)</i>					
Balance as at 1 January 2015	0	3,117	(1,891)	(49)	1,177
Transfer of net result 2014	-	-	(49)	49	-
Transfers 2014	-	-	(49)	49	-
Amounts charged directly to equity	-	-	-	-	-
Net result 2015	-	-	-	46	46
Total result 2015	-	-	-	46	46
Transactions with shareholder	-	-	-	-	-
Balance as at 31 December 2015	0	3,117	(1,940)	46	1,223
Dividend to shareholder	-	-	-	(46)	-
Net result 2016	-	-	-	(234)	-
Total result 2016	-	-	-	(234)	-
Balance as at 31 December 2016	0	3,117	(1,940)	(234)	943

For more information, please refer to paragraph 10.5.8 Equity and paragraph 16.11 Equity.

8.4 CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement

	2016	2015
<i>(In € millions)</i>		
Cash flow from operating activities		
Operating profit before taxation	(309)	45
<i>Adjustments on non-cash items included in profit:</i>		
Changes in other provisions and deferred taxes	(140)	(56)
Impairment charges / reversals	131	13
<i>Change in operating assets and liabilities:</i>		
Property projects	109	189
Assets held for sale	(27)	287
Loans and advances to customers	2,993	943
Corporate income tax received / paid	(65)	(33)
Other operating assets and liabilities	53	66
<i>Loans and advances to shareholder:</i>		
Loan and advances to shareholder	(882)	-
Net cash flow from operating activities	1,863	1,453
Cash flow from investment activities		
Sale of investments in associates and joint ventures	-	1
Acquisition of tangible fixed assets	2	(1)
Net cash flow from investment activities	2	(0)
Cash flow from finance activities		
Proceeds from the issuance of debt certificates	-	463
Dividends paid	(46)	-
Loans from related party	258	-
Repayments of debt certificates	(2,597)	(1,369)
Repayments of amounts due to banks	-	(262)
Net cash flow from financing activities	(2,385)	(1,168)
Net increase (decrease) in cash and cash equivalents	(520)	285
Cash and cash equivalents as at 1 January	584	299
Effect of exchange rate differences on cash and cash equivalents	-	-
Cash and cash equivalents as at 31 December	64	584
Supplementary disclosure of operating cash flow information		
Interest income received	58	111
Interest paid	24	27

Disclosure to the consolidated cash flow statement is presented in paragraph 16.28.

9. PROFIT AND LOSS ACCOUNT MANAGEMENT VIEW¹

In accordance with IFRS, the property projects (real estate companies) that Propertize has included in its balance sheet as part of the restructuring and recovery of the property are consolidated on a line-for-line basis as far as the income and expenses of the property are concerned. As a result, income went up by € 17 million (2015: € 35 million) excluding income from sale of property. This mainly concerned the rental income and absorbed service charges.

As a result, the operating expenses, excluding the book value of the property sold, increased by € 17 million (2015: € 37 million). On balance, the operating result from property projects amounted to nil (2015: € 2 million negative).

For management and performance measurement purposes Propertize recognises the balance of income and expenses as part of the result from property projects. The profit and loss account then shows the following picture in accordance with the management view:

Result

(In € millions)

	2016	2015	% Change
Result loan portfolio			
- Interest income	65	114	(43%)
- Interest expenses	(22)	(23)	(8%)
Net interest	43	91	(52%)
Result property projects	(0)	(2)	107%
Service fee	8	-	-
Other income	(1)	2	(152%)
Income from assets held for sale	(1)	5	(123%)
Total income	49	96	(50%)
Operating expenses	30	37	(18%)
Charge NLF/ costs of sale Propertize	10	2	472%
Operating result (pre-tax)	8	58	(87%)
Taxation on operating result	8	19	(59%)
Net operating result	(0)	39	(100%)
Discounts non default loans	186	0	-
Impairments	131	13	-
Result impairments and discounts (pre-tax)	(317)	(13)	-
Taxation on impairments and discounts	(83)	(20)	-
Net result impairments and discounts	(234)	7	-
Result before taxation	(309)	45	-
Taxation	(75)	(1)	-
Total Net result	(234)	46	-

The above table is in line with the way in which the results are monitored and reported internally. The classification of the property operations differs from IFRS. We prefer this classification in order to provide an insight into the performance.

Interest result

The interest result decreased by € 48 million (-52%) to € 43 million. Interest income decreased by € 49 million due to the economic transfer of a large part of the portfolio and the wind-down of the remaining portfolio. Interest expenses, decreased with a modest € 1 million. The decreasing need for funding did not fully compensate for the higher interest rates Propertize has to pay. This is the result of the fact that Propertize can no longer fund itself under a State guarantee. Furthermore, high balances at the bank accounts during the year were charged with 0.4%.

¹ The profit and loss management view is part of the disclosures of the consolidated annual accounts

Operating result property

The table below shows how the operating result from property has been recognised in the IFRS profit and loss account:

Operating result from property adjusted for comparative purposes

(In € millions)

	2016	2015 compared	2015
Rental income	7	9	18
Service charge income	3	3	5
Sale of property	36	124	124
Other operating income	7	6	12
Total income	53	142	159
Staff costs	2	2	5
Service charge expenses	0	1	1
Commission / management expenses	2	2	3
Bookvalue sale of property	36	124	124
Other operating expenses	13	19	30
Total expenses	53	148	161
Operating result property	0	(5)	(2)

In the column '2015 compared', the 2015 figures have been adjusted to better be able to compare these to the 2016 results. Babylon Den Haag offices and shopping mall were sold at the end of 2015. In 2016, the activities of Bonita (1st July 2016) and the shares of Belval were sold (28 October 2016), so they did not contribute to the results for the entire year. Überseequartier was deconsolidated halfway through 2015 as a result of the sale and transfer of Überseequartier-North in 2015. Compared with 2015, the operating result from the property portfolio increased by € 2 million (+100%), from negative € 2 million to negative € nil. Adjusted for comparison purposes, the result from property projects improved by € 5 million, from negative € 5 million to negative € nil. The total income from property projects for 2015 would have been € 142 million. Compared to 2015 income decreased by € 89 million, mainly due to lower income from property sales. The reduction in rental income as a result of vacancies and sales is compensated by higher other operating income.

The other operating expenses decreased by € 95 million, especially as a result of the book value of the real estate companies sold. The costs decreased considerably by € 5 million, or 22%, mainly as a result of lower service costs and lower costs for maintenance.

Total expenses

The total expenses decreased by € 7 million (- 30%), mainly as a result of lower personnel costs (- € 6 million).

Impairment charges

In 2016, property markets were improving further, mainly caused by an increasing demand for Dutch property by Dutch and international investors. As a consequence, impairment charges out of Propertize's asset management wind-down activities were limited. This was partly due to the continuous low interest rate levels. Both developments resulted in property prices picking up.

In contrast to these developments, impairments increased by € 304 million, from € 13 million in 2015 to € 317 million in 2016. After the sale of Propertize to Lone Star, a fast majority of the portfolio was economically transferred to Lone Star and J.P. Morgan. The economic transfer is realized at the purchase price calculated by Lone Star and J.P. Morgan respectively, and agreed upon with Propertize. The differences between the Propertize book value and purchase prices from Lone Star and J.P. Morgan, leading to an additional loss at the moment of the economic transfer of € 359 million (€ 186 million discounts on performing loans and € 173 million impairments), are mainly caused by:

- a difference in cash flow projections, sometimes also driven by using another exit strategy, exit timing and expected exit value;
- a deviation in the return on investments used for calculating the present value of those cash flow projections as a result of different levels of required cost of equity, cost of debt and leverage;

- the related costs for winding down the remaining part of the current portfolio;
- and the fact that under IFRS for the loan portfolio only incurred losses are taken into account. Lone Star and J.P. Morgan have also taken possible expected losses in consideration by estimating their cash flows projections.

10. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

10.1 ADOPTION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of Propertize BV for the year ended on 31 December 2016 were prepared by the Executive Board following and approved by the Supervisory Board on 23 March 2017. The financial statements were submitted to and adopted by the General Meeting of Shareholders on 23 March 2017.

10.2 GENERAL INFORMATION

Propertize BV, incorporated and established in the Netherlands, is a private company incorporated under the laws of the Netherlands. Propertize BV's registered office is located at Daalseplein 101, 3511 SX Utrecht. The consolidated financial statements of Propertize BV (referred to as 'the company' or 'Propertize') comprise the accounts of all the companies controlled by Propertize and the interests of Propertize in associated companies and entities.

Until 30 December 2013, Propertize BV was a 100% subsidiary of SNS Bank NV. On 31 December 2013 SNS Bank transferred the shares to the Dutch State. The State subsequently transferred these shares on the same date to Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments, NLFI). NLFI is the holding company of government investments in appointed financial institutions.

On 27 September 2016, The Dutch State, after decertification, sold its shares to LSREF5 Swan Acquisition S.a.r.L, a Lone Star company.

The main accounting principles used in the preparation of the consolidated financial statements and the company financial statements are set out in this section.

The consolidated financial statements are prepared on a going concern basis.

10.3 BASIS OF PREPARATION

10.3.1 STATEMENT OF IFRS COMPLIANCE

Propertize prepares the annual financial statements in accordance with International Financial Reporting Standards, as adopted within the European Union IFRS and Book 2, Title 9 of the Dutch Civil Code. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, Propertize prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements. For the application of section 2:402 of the Dutch Civil Code, please refer to paragraph 17.3 Principles for the preparation of the company financial statements.

10.3.2 CHANGES IN PUBLISHED STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2016

In 2016, no new standards or interpretations were issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee respectively that were adopted by the EU.

10.3.3 INTERPRETATIONS OF EXISTING STANDARDS OR AMENDMENTS TO STANDARDS, NOT YET EFFECTIVE IN 2016

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2017 and effective for accounting periods beginning on or after 1 January 2017, were not early adopted by Propertize.

- IFRS 9 Financial Instruments (2018).
- IFRS 15 Revenue from contracts with customers (2018).
- Amendments to IFRS 10, IFRS 12 and AS 28: Investment entities – Applying the Consolidation Exception. These amendments do not apply to Propertize.

IFRS 9 Financial Instruments

July 2014 the IASB issued the completed version of IFRS 9, which will replace IAS 39. The

standard deals with the classification and measurement, impairments and hedge accounting requirements of financial instruments.

If endorsed by the EU, Propertize will apply IFRS 9 as of 2018. Due to the change of the business model, the wind-down and the economic transfer of a large part of the portfolio, we do not expect a material impact of this standard on the financial statements.

IFRS 15 Revenue from contracts with customers.

This standard establishes principles to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer.

We do not expect a material impact on the financial statements.

The following newly issued IFRS standards are not yet accepted by the EU. Propertize is investigating the possible effects.

- IFRS 16 Leases (2019)
- Amendments to IFRS 12: Recognition of deferred Tax Assets (2017)
- Amendments to IAS 7: Disclosure initiative (2017)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (2018)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (2018)
- Amendments to IFRS 4: Applying IFRS 9 Financials Instruments with IFRS 4 Insurance Contracts (2018)

Propertize expects, based on current available information, that the other new standards or amendments to standards, will not have a material impact on equity or result of Propertize from the moment of first adoption.

10.3.4 CHANGES IN PRINCIPLES, ESTIMATIONS AND PRESENTATION

There were no material changes in the principals, estimations and presentation of the financial statements.

10.3.5 ACCOUNTING PRINCIPLES USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements. All group entities have applied the accounting principles consistently.

10.3.6 ACCOUNTING PRINCIPLES APPLIED TO BALANCE SHEET ITEMS

In preparing the financial statements, the accounting principles 'amortised cost', 'recoverable value', 'net realisable value', 'historic cost' and 'nominal value' are used.

Amortised cost is used for Loans and advances to customers, Debt certificates and Amounts due to banks. Property projects are valued at the lower of cost or Net Realisable Value (NRV).

Except for the cash flow information, the financial statements have been prepared on an accrual basis.

- **Amortised cost**

The amortised cost of the financial asset or financial liability is the amount measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

- **Recoverable value**

The expected recoverable value is based on the chosen exit strategy and equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the original effective interest rate of the loan or lease (i.e. the effective interest rate computed at initial recognition).

- **Net realisable value**

Net realisable value (NRV) is the estimated sales price of an asset at the projected exit-date less cost of sales, in which the projected revenues and costs (including the estimated sales price at the end of the exit period) are discounted at the weighted average cost of capital (WACC).

- **Historic cost**

Historic cost is the amount of cash or cash equivalents paid, or the fair value of any other form of compensation to acquire an asset at the moment of its acquisition or construction, or, if applicable, the amount measured upon initial recognition according to specific IFRS requirements.

- **Nominal value**

The nominal value is the stated value on a monetary instrument or on a traded financial instrument such as a stock or bond.

10.3.7 FUNCTIONAL CURRENCY AND REPORTING CURRENCY

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional currency of Propertize. All financial data presented is rounded off to the nearest million, unless stated otherwise. Counting is based on unrounded figures. Their sum may differ from the sum of the rounded figures.

Upon initial recognition, transactions in foreign currencies are converted into euros at the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the official exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currency are recorded in the statement of comprehensive income under 'result on financial instruments'.

Non-monetary items measured at historical cost are measured at the exchange rate applicable on the initial transaction date.

10.3.8 ACCOUNTING BASED ON TRANSACTION DATE AND SETTLEMENT DATE

All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, in other words, the date on which Propertize commits itself to buy or sell the asset or liability. All other purchases or sales are recorded at settlement date.

10.3.9 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle the items on a net basis, or to settle the asset and the liability simultaneously. If these conditions are not fulfilled, amounts will not be offset.

10.3.10 ELIMINATION OF GROUP TRANSACTIONS

Intra-group transactions, intra-group balances and unrealised gains arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between Propertize and its associates and joint ventures are eliminated to the extent of Propertize's interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

10.3.11 DISCONTINUED OPERATIONS OR ASSETS HELD FOR SALE

Assets and liabilities that are part of operations to be discontinued and assets held for sale, of which it is highly probable that, on balance sheet date, the discontinuation or sale is within 12 months, are recognised at the lower of the book value and fair value less expected sales costs.

Property projects of Propertize held for sale are measured upon initial recognition at the lower of cost or net realisable value. Financial instruments held for sale follow the measurement of the instrument.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs, which can result in a reversal of impairments previously recognised. Results after reclassification are presented in 'Result assets and liabilities held for sale'.

Based on own research, Propertize interpreted the subjective element 'highly probable'. The interpretation of this likelihood in the business operation of Propertize results in the classification of a transaction as held for sale if and when a (provisional) contract of sale is concluded and the Credit and Transaction Committee (CTC) or, after 27 September 2016 the Asset Management meeting, has given its approval on the proposed sale. In addition, the planned sale must be concluded within 12 months.

10.3.12 INFORMATION BY SEGMENT

Propertize does not manage its organisation through distinctive operating segments but acts as a single business line servicer. The Executive Board, as chief operating decision maker for the purpose of allocating resources and assessing Propertize's performance considers the company as a whole.

10.3.13 MAIN ACCOUNTING PRINCIPLES, ESTIMATES AND ASSUMPTIONS

10.3.13.1 The use of estimates and assumptions in the preparation of the financial statements

The preparation of the financial statements requires Propertize to make estimates and assumptions based on complex and subjective opinions and estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year.

Hereby, management judges situations on the basis of available information and financial data which could potentially alter in the future. Although these estimates are made to the best of the management's knowledge, actual results may differ from the estimates and the use of other propositions or data can lead to materially different results.

Estimates and underlying assumptions are reviewed on a regular basis. The impact of revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future accounting periods, depending if the revision has an impact in the reporting period and future reporting periods. The most important accounting principles involving the use of estimates concern the methods for determining the provision for impairment of loans and advances to customers and the determination of the net realisable value of property projects.

For detailed information and disclosure of the accounting estimates and assumptions we refer to the next sections and the notes to the financial statements items. Assumptions used in the fair value disclosure of loans and advances to customers are disclosed in paragraph 14.3 Hierarchy in determining the fair value of assets and liabilities.

10.3.13.2 Provision for impairment of loans and advances to customers

Propertize assesses periodically whether there is objective evidence that a financial asset (property finance loan or financial lease) is impaired. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset, but before the balance sheet date, and that loss event (or events) has an impact on the estimated future cash flows of the financial asset. The following circumstances (default indicators), among others, are considered objective evidence that a financial asset is impaired:

- The borrower / lessee sought or has been placed in bankruptcy or similar protection and this leads to avoidance of or delays in repayment of the financial asset;
- The borrower / lessee has failed in the repayment of principal, interest or fees and the payment failure has remained unsolved for a certain period;
- The borrower / lessee has entered into a forbearance agreement or similar agreement (restructuring of the credit obligation), in which the conditions of the loan and / or financial lease are changed with respect to principal, interest, fees and terms;

- The borrower / lessee has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- Historic evidence, updated for current events where necessary, provides evidence that assets are impaired although the related events that represent impairment triggers are not yet captured by Propertize's credit risk system.

As part of the provisioning process, an exit-scenario is drafted of the major part of the finance loan portfolio (both performing and non-performing loans). In this scenario an analysis is executed of the expected future cashflows from the collateral, the expected exit-values of the real estate objects, the expected cashflows of commitments (such as guarantees and pledges) present, and expected redemptions of (co)debtors. The provision recognised equals the difference between the book value and the expected recoverable value. The expected recoverable value is based on the chosen exit strategy and equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the original effective interest rate of the loan or lease (i.e. the effective interest rate computed at initial recognition).

The results of the analysis are discussed in the Executive Board. For further information please refer to section 11 Risk management and organisation and paragraph 12.2 Credit risk.

Reassessments of the risk, the exit strategies, exit-scenario's and expected exit values, as well as the underlying cashflows is performed on a regular basis. Changes in circumstances are taken into account in the financial reporting insofar the (subsequent) events occurred after initial recognition but before the reporting date, and if the event impacts the estimated future cashflows of the financial asset.

If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the previously recognised impairment loss is reversed in the statement of comprehensive income. When a loan is uncollectible, it is written off against the relevant provision for impairment. Amounts that are subsequently collected are deducted from the addition to the provision for impairment in the statement of comprehensive income.

10.3.13.3 Net realisable value of property projects

Property projects are valued at the lower of cost or net realisable value (NRV) based on IAS 2. NRV is the estimated sales price based on the chosen exit strategy at the expected future exit date less cost of sales, in which the projected revenues and costs (including the estimated sales price at the end of the exit period) are discounted at the weighted average cost of capital (WACC). The latter amounted to 5.1% in 2016 (2015: 5%).

The estimated sales price at the exit date in the future is determined based on projections of the rental income, price per square meter, construction costs, interest costs and expected market returns on exit date and is based on valuations provided by professional external appraisers. Please also refer to paragraph 10.5.2 Property projects.

10.4 ACCOUNTING PRINCIPLES USED FOR CONSOLIDATION

10.4.1 SUBSIDIARIES

Subsidiaries, i.e. all companies and other entities in respect of which Propertize has control are consolidated.

Propertize controls an investee based on IFRS definitions when it has:

1. power to direct the relevant activities of the investee; and
2. exposure, or has rights to, the variable returns from its involvement with the investee; and
3. the ability to affect those returns through its power over the investee (link between 1 and 2).

Subsidiaries are fully consolidated from the date on which control is transferred to Propertize based on IFRS definitions. They are de-consolidated from the date control ceases. The financial statements of these group companies are fully consolidated, with Propertize accounting principles being applied. The interests of third parties (if applicable) are separately included in the consolidated balance sheet and statement of comprehensive income.

10.4.2 ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in associated companies (associates) are entities in which Propertize generally has between 20% and 50% of the voting power, or over which Propertize can exercise significant influence on the operational and financial policies, but has no control.

Joint ventures are entities over which Propertize has joint control. This control is laid down in an agreement, and strategic decisions on the financial and operational policies are taken unanimously.

The activities of associates and joint ventures can comprise the development (and sale) of property or the exploitation of property. In addition to its investment, Propertize always has a finance loan or financial lease with the associate or joint venture in question.

The consolidated financial statements include Propertize's share in the total results of associates and joint ventures, from the date that Propertize acquires significant influence to the date that significant influence ceases. The result is accounted for using the equity method, after adjusting the result to comply with Propertize's accounting principles, if needed.

Upon recognition, associates and joint ventures are initially accounted for at the cost price (including the transaction costs) and subsequently according to the equity method. The item also includes goodwill paid upon acquisition less accumulated impairment losses, where applicable.

Under the equity method, the share of Propertize in the result of associates and joint ventures is recognised in the statement of comprehensive income under 'share in the result of associates'. The share of Propertize in changes in the reserves of associates or joint ventures is recognised directly in shareholders' equity (change in share of associates in other comprehensive income).

If the book value of the associate falls to zero, no further losses are accounted for, unless Propertize has entered into commitments or made payments on its behalf. If Propertize has also provided loans to the associate or joint venture, and its share in the losses of the associate or joint venture exceeds the book value, a provision is made against these loans. The share in the future profits of the associate or joint venture is a reversal of the provisions for commitments, loans and subsequently may result in a positive book value of the associate or joint venture.

10.4.3 RESTRICTIONS

Some foreign entities of Propertize (subsidiaries, joint ventures or affiliated companies) are confronted with a negative equity balance as at year-end. This could potentially pose some regulatory restrictions on the transfer of funds from respective countries to Propertize either in the form of cash dividends or repayment of capital or repayment of loans and advances.

On balance sheet date there are no third parties that have an interest in Propertize's capital or protective rights that restricts Propertize's use of assets or settlement of its liabilities.

10.4.4 ASSESSMENT AND ASSUMPTIONS INVESTMENTS IN ENTITIES

Propertize includes in its assessment of power, exposure and/or rights to variable returns, and the agent/principal relationship, the following – non-limitative – information and circumstances:

- Share ownership and voting rights;
- Right of pledge on the rental proceeds;
- Management clause;
- (Ir)revocable power of attorney of the sale of the assets;
- Acquittal of residual debt after sale of the assets;
- Financial and operational management of the entities;
- Board of Directors, management and other key personnel;
- (In)dependency of the administrator or manager of the entities;
- Indemnification for director's liability;
- Possible kick-out rights (removal rights) by third parties, or blocking possibilities of third parties;
- Curator / court appointed trustee;
- The finance loans provided in relation to the provided loans by third parties to the entity;
- Special purpose entities (silo's) designed to separate the loans provided by Propertize and the accompanying collateral of the existing business.

Depending on the situation, the aforementioned facts can be classified as either a protective right or a substantive right. Also, a cumulating of protective rights, in combination with substantive rights can lead to an 'in-control' situation or significant influence. This assessment is made by loan and/or client relation complex.

In addition to investments in associates and joint ventures, Propertize has also issued loans to these entities. As a result Propertize is exposed to non-financial risks (see section 13) and financial risks, including credit risk. For more information please refer to paragraph 12.2 Credit risk, and for the principal associates and joint ventures paragraph 16.2 Investments in associates and joint ventures. The subsidiaries are presented in section 22 Overview of principal subsidiaries.

10.5 SPECIFIC BALANCE SHEET ACCOUNTING PRINCIPLES

10.5.1 TANGIBLE ASSETS

Propertize has no property in own use.

IT equipment and other property and equipment are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

The cost price comprises the expenses directly attributable to the acquisition of the asset and is depreciated on a straight-line basis over the useful life, taking into account any residual value. The estimated useful life can vary from three to ten years.

Regular impairment tests are performed on the other property and equipment. If the book value of the tangible asset exceeds the realisable value, it is written down to the realisable value.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of the other tangible fixed assets in relation to their original use are capitalised and then depreciated.

Results on the sale of property and (IT-) equipment are defined as the balance of the realisable value less transaction costs and the book value. These results are recognised as part of 'other operating income' or 'other operating expenses' depending whether the result is a profit or a loss.

10.5.2 PROPERTY PROJECTS

Property projects comprise property for which no specific sales agreement with a third party exists. Property projects comprises completed and not yet completed projects. These properties are stated at the lower of cost price and net realisable value (NRV).

If the NRV is lower than the book value, an impairment is recognised in the statement of comprehensive income. Reversals of impairments are also recognised in the statement of comprehensive income. Positive results on sales are recognised in 'other income'. See also paragraph 10.3.13.3 Net realisable value of property projects.

10.5.3 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers consist of property finance loans and financial leases. Accrued interest at the reporting date and the invoiced mortgage debtors (interest and redemption) are presented in 'other assets' and 'other receivables'. These items are included in the amortised cost of the financial instrument.

Property finance loans

These are defined as loans and advances to customers with or without mortgage collateral. These loans and advances are measured at amortised cost using the effective interest method. The conditions of loans and advances can change as a result of renegotiations or other reasons (see next section). If the net present value of the cash flows under the new conditions differs from the net present value of the cash flows under the current terms and conditions, this is considered a trigger to perform an impairment test.

In certain circumstances Propertize grants borrowers postponement and / or reduction of loan principal and / or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and / or reduction of loan principal and / or interest payments is executed it is also

referred to as “forbearance”. In general, forbearance represents an objective impairment trigger (see also paragraph 10.3.13.2 Provision for impairment of loans and advances to customers). If the forbearance results in a substantial modification (a complex restructuring, resulting in one or more new financial instruments with different conditions and cash flows) of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

Loans and advances not derecognised but adjusted after renegotiations or otherwise adjusted are measured on the basis of the original effective interest rate before the terms and conditions were revised.

Financial lease

Propertize has entered (as lessor) into a number of financial lease agreements. These are agreements for which Propertize has transferred almost all of the risks and benefits of the property to the lessee. The book value of the lease receivable is equal to the present value of the lease instalments, calculated on the basis of the implicit interest rate and, if applicable, any guaranteed residual value. Financial leases solely concern property finance in the Netherlands.

The book value of the lease agreement is derecognised if the contractual cash flows from the asset have expired. This will apply at the end of the term when the lessor has no more right to the cash flows of the lessee.

A number of financial lease agreements have a purchase option of the property by the lessee. If at the expiration of the lease agreement (the end of the term) the lessee does not use this option, the asset is derecognised, and subsequently recognised as a property project. The value at initial recognition will be the book value of the derecognised lease receivable.

Should a new financial lease agreement be issued for the property, either by the same lessee or another lessee, the asset will continue to be recognised as a lease receivable.

Impairments

As far as the loans and advances are concerned, a provision for impairment is recognised if there are objective indications that Propertize will not be able to collect all the amounts due in accordance with the original contract. See also paragraph 10.3.13.2 Provision for impairment of loans and advances to customers.

In addition the provision for impairments is impacted by:

- The reversal of previously taken impairments; or
- Acquittal by Propertize of (part of) the provided loan; or
- The property finance loans are settled completely; with the subsequent derecognition any related provision is settled as well.

10.5.4 TAXES

10.5.4.1 Deferred tax assets and tax liabilities

Deferred tax assets and liabilities are recognised for tax loss carry forwards and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are only recognised if sufficient tax profits are expected to be realised in the near future to compensate these temporary differences. Deferred taxes are recognised for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless Propertize can determine the time at which these temporary differences are realised or settled and if it is likely that these differences will not be realised or settled in the near future. The latter are permanent differences.

Deferred tax assets are assessed at the balance sheet date and if it is no longer likely that the related tax asset can be realised, the asset is reduced to the recoverable value. Potential losses from liquidation are only taken into account as far as they are actually realised.

Deferred tax liabilities concern tax payable in future periods in connection with taxable temporary differences.

The most significant temporary differences relate to the difference between the tax and accounting valuation of the property finance portfolio.

10.5.4.2 Current tax assets and tax liabilities

Current tax assets and tax liabilities relate to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any. Current tax receivables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

10.5.5 OTHER RECEIVABLES

Other receivables consist mainly of the invoiced interest and redemption due on loans and advances to customers. Upon initial recognition, other receivables are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost. Mortgage debtors are included in the provision process of the loans and advances to customers; the resulting provision is presented in full as part of this balance sheet item.

10.5.6 OTHER ASSETS

Other assets consist of accumulated interest on financial instruments measured at amortised cost, other taxes (including VAT, payroll tax), as well as other accruals.

10.5.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the non-restricted and restricted demand deposits with credit institutions with a remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairment losses. Foreign currency risks are hedged with FX-contracts. These are valued at fair value.

10.5.8 EQUITY

Issued share capital and share premium reserve

The share capital comprises the issued and paid-up ordinary shares. The share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued ordinary shares. Costs directly attributable to the issue of equity instruments are deducted net of tax from the share issue income.

Share dividend

Dividend for a financial year, which is payable after the balance sheet date, is disclosed in paragraph 23.1 Provision regarding profit or loss appropriation under Other information. Since Propertize reported a loss over 2016, no dividend will be declared, made available or distributed.

Other reserves

Other reserves comprise Propertize's retained profits.

10.5.9 DEBT CERTIFICATES

Upon initial recognition, debt certificates are measured at fair value, which is the issue proceeds (the fair value of the received consideration) including transaction costs incurred. Thereafter, they are measured at amortised cost using the effective interest method.

10.5.10 PROVISIONS

10.5.10.1 Employee benefits

Post-employment commitments

Propertize's pension scheme by the ABP is a multi-employer defined benefit scheme. However, at the moment, the ABP arrangement does not provide enough detailed information to use as a basis for calculating the liability, mutual fund investments and costs of the scheme to individual employers taking part. That is why this pension scheme is treated as a defined contribution scheme for reporting purposes.

10.5.10.2 Other provisions

General

Provisions are made if there is a present obligation arising from events in the past, the settlement of which is likely to require an outflow of assets, and a reliable estimate of the size of the obligation

can be made. Provisions are measured at the present value of the expected future cash flows. Additions and any subsequent releases are recorded in the statement of comprehensive income.

Restructuring provision

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or actual obligation to make the payment arises.

No provision is formed for costs or future operating losses stemming from continuing operations.

Propertize recognises termination benefits if Propertize has demonstrably committed itself, either through a constructive or legally enforceable obligation, to:

- The termination of the employment contracts of current employees in accordance with a detailed formal plan without the option of the plan being withdrawn; or
- The payment of termination benefits as a result of an offer to encourage voluntary redundancy.

Benefits that are due after more than twelve months after the balance sheet date are discounted with a discount rate of 0% (2015: 0.5%). The discount rate is based on yield high quality corporate bonds (IAS 19.83) – EUR Europe Corporate AA+, AA, AA-. Since the curve shows a negative yield up to three years, the discount rate used in the calculation of the Restructuring provision is now set at zero.

Claim provisions

Propertize recognises a provision for legal proceedings at the balance sheet date for the estimated liability with respect to ongoing legal proceedings. The provision comprises an estimate of the legal costs and payments due during the course of the legal proceedings, to the extent that it is more likely than not that an obligation exists at the balance sheet date, and a reliable estimate can be made of the obligation.

10.5.11 AMOUNTS DUE TO BANKS

Amounts due to banks comprise the current account (debit) cash balances of customers of Propertize held at SNS Bank, and loans extended by foreign banks to entities consolidated by Propertize.

Upon initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.

10.5.12 OTHER LIABILITIES

Other liabilities primarily consist of interest accrued on financial instruments that are stated at amortised cost. This item also includes creditors, other taxes short term staff obligations and other accrued liabilities.

10.6 SPECIFIC STATEMENT OF COMPREHENSIVE INCOME ACCOUNTING PRINCIPLES

The accounting principles of the main statement of comprehensive income items are described below.

General

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate.

Income

10.6.1 INTEREST INCOME

The interest income comprises interest on the property finance loan portfolio activities attributable to the period. Interest on financial assets is accounted for using the effective interest method based on the actual purchase price.

The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and the direct costs and income, such as the transaction costs charged and discounts or premiums. If the risk of early redemption

cannot be reliably determined, Propertize calculates the cash flows over the full contractual term of the financial instruments.

10.6.2 INTEREST EXPENSES

Interest expenses comprise the current accounts, interest expenses, amortisation of discounts or premiums and transaction costs arising from financial liabilities of the funding (loans, debt certificates). In addition, the fee related to the guarantee by the Dutch State on the funding is recognised as an interest expense. Interest on financial liabilities is recognised using the effective interest method.

10.6.3 PROPERTY PROJECTS INCOME

The total result related to the Property projects comprises rental income and service charge income. The related service costs and management costs are presented separately as part of the expenses (see paragraph 10.6.10).

10.6.4 SHARE IN RESULT OF ASSOCIATES AND JOINT VENTURES

The share of Propertize in the result of associates and joint ventures is here accounted for. If the book value of the associated company or joint venture falls to zero, no further losses are accounted for, unless Propertize has entered into commitments or made payments on its behalf.

Where necessary, the accounting principles applied by the associated companies have been adjusted to ensure consistency with the accounting principles applied by Propertize.

10.6.5 RESULT ON FINANCIAL INSTRUMENTS

The result on forward exchange rate transaction contracts (FX-contracts), the result on the sale of non-default loans and other financial instruments is recognised under this item. FX-contracts are recognised at fair value. The result on revaluation to fair value is immediately taken through profit or loss under the line item 'result on financial instruments'.

10.6.6 OTHER OPERATING INCOME

As of 2016, this item includes the service fee which Propertize receives out of its activities as a service provider. These fees are calculated in two ways:

- on a cost + increment basis
- as a percentage of the portfolio under management.

Furthermore, results from disposal of financial instruments are included in this line item, as well as all the income that cannot be accounted for under other headings.

10.6.7 RESULT ON ASSETS AND LIABILITIES HELD FOR SALE

This comprises the results on subsequent remeasurement of assets and liabilities classified as held for sale, and the results from the unwinding of the assets held for sale, for instance guarantees.

Expenses

Expenses are recognised in the statement of comprehensive income on the basis of a direct relationship between the costs incurred and the corresponding economic benefits. If future economic benefits are expected to be derived across different reporting periods, expenses are recognised in the statement of comprehensive income using a systematic method of allocation. Expenses are directly included in the statement of comprehensive income if they are not expected to generate any future economic benefits.

10.6.8 STAFF COSTS

These costs concern all costs that pertain to the personnel. This includes, inter alia, salaries, social security costs and pension costs.

The employee fringe benefits stemming from 2013 or previous years granted to employees of Propertize and employees of SNS REAAL which entered into service of Propertize, is settled in so-called terms of employment harmonisation protocols. The interest benefit on savings- and insurance products has been settled by means of a one-time gross compensation included in the 2014 salary. The harmonisation of the other terms of employment (discount on mortgages and pensions) results in a monthly gross compensation to the salary of the employee in question

(pension compensation only related to former SNS REAAL personnel), as long as the employment contract or product continues.

10.6.9 DEPRECIATION AND AMORTISATION OF FIXED ASSETS

This item comprises the depreciation and amortisation of IT-equipment and other tangible fixed assets. The specific principles for depreciation and amortisation are explained in more detail in paragraph 10.5 Specific balance sheet accounting principles under the applicable items.

10.6.10 SERVICE CHARGE EXPENSES & FEE AND COMMISSION / MANAGEMENT EXPENSES

The service charge expenses consist of service costs (i.e. cleaning, shared (office) space, energy) that are charged to the tenants of the property projects in question. The income received is presented under Service charge income (paragraph 10.6.3).

Fee and commission / management expenses relate to the management fees of the property projects.

10.6.11 OTHER OPERATING EXPENSES

This includes office, accommodation and other operating costs. It also comprises expenses that happen occasionally, and occur in a single financial year, or arise in a single financial year, and are amortised over multiple financial years.

10.6.12 IMPAIRMENT CHARGES

This item includes downward revaluations of assets for which the book value exceeds the recoverable value. Tangible fixed assets, associated companies, property projects, receivables (loans and advances to customers) and other assets may be subject to impairment. As soon as impairment is identified, it is included in the statement of comprehensive income.

The specific principles for impairments on loans and advances to customers are explained in more detail in paragraph 10.5.3.

10.7 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities are liabilities not recognised in the balance sheet because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of Propertize, and/or it is not possible to make a reliable estimate of such liabilities. In addition Propertize's customers may have the availability on undrawn credit lines.

The maximum potential credit risk arising from pledges and guarantees is stated in paragraph 12.2.1. In determining the maximum potential credit risk, it is assumed that all the counterparties will no longer live up to their contractual obligations and that all the existing collateral is without value.

10.8 CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method, and distinguishes cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in (consolidated) subsidiaries and associates are stated under 'cash flow from investing activities'. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item 'cash and cash equivalents'.

11. RISK MANAGEMENT AND ORGANISATION

11.1 DEVELOPMENTS IN RISK MANAGEMENT

The sale of Propertize by the end of Q3 2016 has earmarked the transition from a Three Lines of Defence model into a Two Lines of Defence model due to the different position of Credit Risk Management within Lone Star / Hudson Advisors. Credit Risk Management, till Q3 2016 an elementary segment of the second line of defence, is part of Acquisition & Underwriting since Q4 2016 and is incorporated within the First Line. Operational Risk Management is incorporated in the new department Compliance & Operational Risk as of January 1, 2017. Hence, ORM is no longer positioned under the Chief Financial & Risk Officer (CFRO – as of January 1, 2017 CFO) but under the Chief Executive Officer (CEO). There were no major developments in risk management in 2016.

Please refer also to section 2 'Risk management, capital management & ALM and Funding' of the Annual Report.

11.2 RISK MANAGEMENT ORGANISATION

Before the sale of Propertize

Propertize's risk management organisation focused on the management of risks, both financial and non-financial, to ensure that its wind-down strategy could be successfully completed. The most significant financial risk that Propertize faced was the credit risk. Other financial risks to which Propertize was exposed were interest rate, currency and liquidity risks. Examples of non-financial risks which were targeted by Propertize's risk management were fraud, compliance and operational risks.

In 2016, within the Propertize structure, the Restructuring & Recovery, Loan Management and Asset Management departments constituted the first line risk management organisation. They report to the Chief Portfolio Officer (CPO).

The Risk Management department and the Compliance & Integrity department jointly formed the second line.

As the third line risk management, the Internal Audit department reviewed the set-up, existence and functioning of the activities of the first line and second line risk management. Internal Audit reported to the Chief Executive Officer (CEO) and had a direct line to the Chairperson of the Audit Compliance & Risk committee and the Chairperson of the Supervisory Board.

After the sale of Propertize

Propertize has changed from a bank in wind-down into a servicing organisation as of Q4 2016. Therefore, the role of credit risk management is no longer necessary due to the fact that Propertize itself is no longer the economically owner of the portfolio. The Credit Transaction Committee (CTC) is no longer in place and is replaced by the Asset Management Committee (AMC) under the chairpersonship of the Chief Portfolio Officer (CPO). Nevertheless, the role of the AMC has changed. The CTC was allowed to take decisions, the AMC renders advice to the economical owners of the portfolios. Also the Valuation process is no longer in place.

Operational Risk Management is repositioned in the new department Compliance & Operational Risk (C&OR). Part of C&OR is also the first line activities of Client Due Diligence (CDD)/Know Your Customer (KYC) and second line activities of Compliance. C&OR is also responsible for (the coordination of) the (Internal) Audit activities.

11.3 FRAMEWORK FOR RISK MANAGEMENT

Within the framework for risk management (e.g. the Strategic Risk Analysis and the Risk Appetite Statement) risks are identified and quantified by the Executive Board and Management Team members in yearly evaluation process. Measures are taken in order to keep the identified risks controllable.

Risk governance

The framework for risk governance is based on the governance of Propertize. Corporate governance is guiding. Any risk must remain within the boundaries of the risk appetite. In order to restrict the risks, risk governance measures are implemented which are anchored in the organisation. The risk management measures and governance are laid down in the Administrative

Organisation and Internal Control System: the 'Propertize Approach'. In addition to the so-called hard key-controls, Propertize also focuses on soft controls.

Soft controls are given shape through efforts in areas including risk awareness. Using the framework, Propertize works on maintaining and managing the risk profile and on supporting efficiency and efficient risk management in all the layers of the organisation and on taking risks that are in accordance with the determined risk appetite.

Although risk management takes away risks to a significant extent, residual risks can always continue to exist. Any resolution passed and any activity undertaken entail certain residual risks. Propertize believes that these residual risks are acceptable.

Table 11.1 Overview of risks and risk appetite and corresponding measures within Propertize

Risk category	Risk	Description	Qualification	Measures
Strategic	Real estate market	Risks associated with developments in the markets for new business	High	Optimising obtaining external information
		Risks associated with developments in the markets for winding down current portfolio	Low	
	Staff	Risk of premature leaving staff	High	Offering career guidance and training
Financial	Credit	Risk of losses due to not fulfilling obligations by customers	High	Customer review policy
	Interest	Risk of losses due to interest positions	Middle	The aim is to have matched funding
	Exchange rate	Risk of losses due to currency positions	Low	Currency positions are hedged as much as possible
	Liquidity	Risk of losses due to liquidity shortages	Middle	Additional agreements with parent company in case of shortages
Operational	Controlled Business	Risks resulting due to change of ownership: - not complying to service level agreements (SLA) - increased organisational complexity - securing data privacy and information security	Middle	Monitoring SLA requirements, revise of the Propertize Approach and research information security.
Compliance	Compliance	Risk of loss of reputation and financial losses due to not complying with laws and regulations	Middle	Measures in the area of AO/IC and compliance training for employees
	Integrity	Risk of loss of reputation and financial losses due to integrity issues	Middle	Measures in the field of relational due diligence

From three to two lines of defence

Before the sale of Propertize

In 2016, for risk management purposes, three responsibilities are distinguished based on the 'Three lines of defence Model', which is considered best practice in the financial services industry. This model not only provides for clear responsibilities, but also guarantees that the importance of risk management is understood throughout the organisation:

1. The departments and staff departments constitute the 'First line of defence'. The First line has primary responsibility for the daily execution of the work and risk governance, and thus for the accurate execution and recording of transactions and reporting on this. The statutory management of the company (to be further referred to as 'the Executive Board') and the line management are part of the First line. Up until the sale of Propertize to Lone Star, also the Credit & Transactions Committee (CTC) was part of the 'First line of defence', as the CTC receives its mandates from the Executive Board and takes decisions on risk positions. The Executive Board has final responsibility for all the risk management activities within the organisation and for guaranteeing risk awareness, integrity and ethical conduct. Line management is responsible for the daily execution of the risk management within their line organisation and for guaranteeing risk awareness, integrity and ethical conduct throughout the organisation.
2. The Risk Management and Compliance & Integrity departments jointly constitute the 'Second line of defence'. This Second line supports the organisation by actively challenging line

management in its efforts to realise the business objectives and controlled business operations. This contributes to a conscious weighing of the risks, risk governance and insight into the costs and proceeds of measures to control these risks. To this effect the Second line monitors the risks by guiding the First line, assessing the activities, facilitating risk management processes and acting as a sparring partner in the area of effective risk management. The Second line operates independently from the First line and is not responsible for the daily execution of the risk management activities. The Operational Risk Management department (which is part of Risk Management) plays an important monitoring role as part of the system of financial key controls within the administrative and reporting departments in order to monitor the proper functioning of the management and control system for financial reporting.

3. The 'Third line of defence' is an independent function that provides the Executive Board (and thus also line management) and the Supervisory Board with additional certainty about the quality, existence and functioning of the Administrative Organisation and Internal Control System. The Internal Audit department is responsible for the Third line supervision of all risk categories.

After the sale of Propertize

The First line of defence is still in place and its activities will even be widened due to acquisition and underwriting activities and the fact that credit & real estate risk assessment is part of the profile of an Asset Manager.

The Risk Management department is no longer in place with the exception of Operational Risk Management. Internal Audit, as an independent department directly linked to Executive and Supervisory Board, was in place till the end of 2016.

As of 2017, Internal Audit and Compliance and & Operational Risk Management will be integrated in the new department Compliance & Operational Risk (C&OR). As a result there will be a two lines of defence model.

Risk decision framework

Before the sale of Propertize

The Executive Board is responsible for the balance between the primary business activities and the risks taken. The risk must remain within the boundaries of Propertize's risk appetite. The Executive Board makes effective agreements about good risk governance, allowing for the various responsibilities and powers.

When decisions are to be taken on credit risks, the Executive Board is supported by the Credit & Transactions Committee (CTC). The CEO (and in his absence the CFRO) of the Executive Board is the Chairperson of the CTC. Risk Management has the right of veto within the CTC.

As regards the market risk and the liquidity risk, the Executive Board is supported by the Asset & Liability Committee (ALCO). The CFRO of the Executive Board is the Chairperson of the ALCO. The Supervisory Board is responsible for the approval of the risk appetite and assesses whether Propertize is operating within the framework of the determined risk appetite. The Supervisory Board judges the risk governance and strategy implementation by the Executive Board. In this area, the Audit, Compliance & Risk Committee (AC&RC) assists the Supervisory Board. A member of the Supervisory Board is Chairperson of the AC&RC.

After the sale of Propertize

The Executive Board is still responsible for the balance between the primary business activities, providing services to the owners of the managed portfolios, and the risks taken.

Credit Risk is no longer applicable for Propertize itself and therefore no part of an approval process anymore. The CTC is superseded by the AMC. The duties of the AMC are to render advice to the owners of the portfolios.

ALCO was no longer kept in place. As of Q4 2016, credit risks as well as market risks and liquidity risks are taken after consultation with Lone Star. AC&RC was also no longer kept in place. Audit, Compliance & Risk issues will be addressed directly to the agenda of Supervisory Board Meetings.

11.4 RISK CLASSIFICATION

Propertize uses a risk classification. Based on this risk classification the various risks are reported on in more detail in sections 12 and 13. Section 14 will specifically deal with financial instruments. The risk classification uses the following definitions:

Strategic risk

The risk that the strategic objectives – both non-financial and financial – are not realised because the company fails to pay attention to changes in the environmental factors and business climate or because the company's response to them is inadequate or comes too late.

Strategic risks of a non-financial nature relate to reputation and governance. Strategic risks of a financial nature are related to positioning, capitalisation and risk concentration and internal models.

Financial risks (section 12)

Credit risk

The risk that a borrower and/or counterparty fails to comply with a financial or other contractual obligation.

Market risk (Interest rate risk and currency risk)

The risk that equity, result or the continuity are threatened because the company is exposed to developments at the level of and/or movements in market prices. The market risk is sub-divided into price risk, interest rate risk, credit spread and currency risk.

Liquidity risk

This is the risk that there will be insufficient liquid assets available in the short term to meet financial obligations, both under normal circumstances and in times of stress, without this leading to unacceptable costs or losses.

Non-financial risk (section 13)

The risk of direct or indirect losses due to inadequate or incomplete processes and systems, negligence, human error or external events.

Compliance risk

Integrity and compliance risk

The risk that the company's integrity will be damaged by acts (or omissions) that are in breach of the internal (core) values, social standards and values or legislative requirements to be observed by the company when offering financial services or translating them into internal regulations. This may result in regulatory measures, financial losses or damage to the company's reputation.

Crime risk

The risk that the company's integrity will be harmed by employees, customers or third parties due to fraud (deceit, misappropriation of property or infringement of the law, rules or company policies) or criminal activities directed against the company and/or its customers in their relationship with the company.

12. FINANCIAL RISKS

12.1 INTRODUCTION

This section discusses the principal financial risks arising from the financial instruments which Propertize uses. These risks consist largely of credit risk, market risk (in turn broken down into interest rate risk and exchange rate risk) and liquidity risk.

12.2 CREDIT RISK

12.2.1 CREDIT RISK OVERVIEW

Loans and advances to customers are the principal credit risk. For more insight into and a better understanding of the information presented in the section on credit risk and Propertize's activities, property projects have also been included in this overview.

Propertize hedges its positions in foreign currencies by means of foreign exchange forward transaction contracts (FX-contracts) with SNS Bank. The counterparty risk of these FX-contracts is deemed to be limited because SNS Bank is a Dutch State-owned bank and is well funded.

The notional amount of the FX-contracts is € 19 million (2015: € 58 million) and the fair value was € 0.5 million negative at year-end 2016 (2015: € 0.5 million negative). See paragraph 12.3.5 for more details.

On 27 September 2016, a large part of Propertize's portfolio was economically transferred to Lone Star and J.P. Morgan after which Propertize started to transform into a service provider. A relatively small part of the portfolio still has to be wound down. This portfolio consist of leases, real estate and short term loans.

Propertize's maximum credit risk

The credit risk is the risk that a borrower and/or counterparty will fail to comply with a financial or other contractual obligation. The following table sets out the maximum credit risk on financial instruments and the risk on guarantees and commitments, for which it is assumed that none of the counterparties comply with their obligations and that none of the securities provided has any value.

Credit risk Propertize

(In € millions)

	2016	2015
Loans and advances to customers	412	4,697
Other receivables	7	42
Other assets	20	47
Cash and cash equivalents	64	584
Subtotal	503	5,371
Off balance sheet commitments		
Undrawn credits	1	21
Guarantees and commitments	51	86
Total maximum credit risk	555	5,478

12.2.2 CREDIT RISK PROFILE AND CREDIT RISK MANAGEMENT

The default loans of Propertize (and loans for which a potential default situation is plausible) are managed in principal by the departments Loan Asset Management and Real Estate Asset Management. Non-default loans are managed by the Loan Management department.

The net exposure on the Propertize loans and property projects (real estate entities) was reduced by € 3,096 million in 2016 (2015: € 1,483 million), from € 3,435 million to € 339 million. The economic transfer of a large part of the portfolio contributed for € 1,833 million to this reduction. Furthermore, this reduction is the net result from regular redemptions combined with the economic transfer of a large part of the portfolio to Lone Star and J.P. Morgan, the sale of loans, debt restructuring and impairment charges of the portfolio.

The balance-sheet item property projects decreased mainly as a result of the sale of the Belval project.

The following table shows the total exposure.

Breakdown of net exposure

	Performing		Non-Performing		Total	
<i>(In € millions)</i>	2016	2015	2016	2015	2016	2015
Loans (gross)	106	1,728	306	2,969	412	4,697
Provisions	-	-	(178)	(1,469)	(178)	(1,469)
Loans (net)	106	1,728	128	1,500	234	3,228
Property projects	-	-	57	186	57	186
Net exposure loans and property project	106	1,728	185	1,687	291	3,414
Assets held for sale	42	-	6	21	48	21
Total net exposure	148	1,728	191	1,707	339	3,435

Breakdown portfolio by region

<i>(In € millions)</i>	2016	2015
The Netherlands	182	2,800
Other Europe	138	596
North-America	19	39
Total	339	3,435

The quality of the loans is as follows.

Breakdown loans by Performing / Non-performing (including closing commission)

<i>(In € millions)</i>	2016	2015
Non performing loans	306	2,969
Performing loans	106	1,728
Loans (gross)	412	4,697
Coverage ratio	58%	50%

12.2.3 PROPERTIZE'S CREDIT RISK MANAGEMENT

The Propertize items which are in default (and items on which a default could occur) are managed by the Restructuring & Recovery department. As of 2017 this will become a responsibility of the Loan Asset Management department and the Real Estate Asset Management department.

Reviews

Risks are assessed at regular intervals. Customers and property projects are reviewed regularly. When it conducts a review, Propertize checks whether the wind-down strategy regarding its loan and property projects is still appropriate and whether execution of that strategy is still on track. Based on cash flow projections, the value of loans and property projects is estimated and discussed in the Executive Board. Based on this information, the Executive Board decides if impairments are necessary.

Defaults

The competent approving body declares loans with an increased risk profile in default as soon as there are indications to this effect, mainly using the following default indicators: the customer's payment record (arrears and overdrafts), the Loan to Value (LtV), the customer's financial position, the compliance with agreements, the risk status, (other) internal and external signals and, finally, the extent to which a loss is likely to manifest itself on the intended exit date (payments with a credit facility). In principle, loans which have been declared in default are passed on to the Restructuring & Recovery department.

Provisions

Loans are valued on the basis of the base-case scenario, using a chosen exit-strategy, an expected exit-value, the cash flow up until the exit and the most recent internal or external appraisals. If the expected revenues for a loan upon exit are lower than the present outstanding balance plus any expected costs, a provision for impairment is recognised or any previous provision is adjusted to the required level.

Property projects

In 2016, Propertize did not gain any property on its balance sheet as a result of foreclosure on collateral provided as security to Propertize.

Loans with restructured conditions (forbearance)

If a customer is unable to repay its loan, the possibility of nevertheless collecting the loan is looked at from three angles: the value of the collateral, the financial quality of the customer and the possibility of a quick exit. When assessing the financial quality of the customer, we decide among other things whether it is worth restructuring the contract with the customer. Propertize considers a forbore asset to be a contract of which the terms have been modified or which has been refinanced by Propertize because the counterparty is in, or is considered to face, financial difficulty.

The rationale behind forbearance is that Propertize demonstrates leniency towards the opposite party by agreeing on modified terms to which it would not have agreed if the customer was not in financial difficulty. On the one hand, the objective is to allow the counterparty to regain its financial health within its means, so that a sustainable relationship between Propertize and the counterparty can be maintained and, on the other hand, to avoid non-payment, foreclosure or compulsory sale.

In 2016 there were no significant amendments to the conditions regarding interest and/or repayments to prevent failure.

Impairment charges

The impairment charges on the Propertize in-default loans reflect the changes in the expectations for the chosen exit-strategy, the expected exit-value and the cash flow up until the exit. Expected cash flows are based on factors such as rental income, price per square metre, construction costs, interest costs and recent valuation reports provided by professional appraisers.

When estimating future cash flows, Propertize uses observable similar market transactions to the extent possible. However, it is not always possible to make comparisons with recent similar transactions. In those cases, the assumptions and estimates for valuing loans drawn up by Propertize are exposed to significantly larger uncertainties. This results in a broader bandwidth for the valuations.

Impairments

(In € millions)

	2016	2015
Impairment charges (gross)	53	226
Impairment reversals (recurring)	(96)	(213)
Subtotal impairments	(42)	13
Impairment charges (Economic transfer)	284	-
Impairment reversal (Economic transfer)	(111)	-
Total impairments	131	13
Investments in associates and joint ventures	-	-
Property projects	52	(14)
Loans and advances to customers	119	54
Other / deconsolidation	(40)	(27)
Total	131	13

Impairments loan portfolio Propertize by region

(In € millions)

	2016	2015
The Netherlands	151	58
Other Europe	(30)	(10)
North-America	(2)	6
Total	119	54

The loans and advances and the property projects are discussed in detail in the following sections. See paragraph 16.2 Associated and joint ventures for impairments on associates and joint ventures.

12.2.4 CREDIT RISK LOANS AND ADVANCES TO CUSTOMERS

The total gross outstanding loans decreased by € 4,285 million (2015: € 1,150 million), from € 4,697 million to € 412 million (-91%). In 2016 the total gross outstanding loans decreased by € 2,993 million (-93%) to € 235 million (reduction in 2015: € 994 million).

Breakdown loan portfolio Propertize

(In € millions)

	2016	2015
Outstanding loan portfolio (gross)	412	4,697
Provisions for impairment	(178)	(1,469)
Outstanding loan portfolio (net)	235	3,228

Breakdown loans and advances by underlying assets

(In € millions)

	2016	2015
Offices	71	1,156
Retail	27	875
Residential	51	1,168
Industrial	102	587
Other	71	802
Gross outstanding loans secured	322	4,588
Unsecured loans	90	109
Gross outstanding loans	412	4,697
Provisions for impairment	(178)	(1,469)
Total outstanding (net)	235	3,228

In 2016, the development of the decrease of € 4,282 million (-91%) in gross outstanding loans was per category: 96% residential, 97% retail, 94% office premises, 83% industrial property, 17% unsecured loans and 91% other.

Performing and non-performing loans

The following table shows a breakdown of the loan portfolio by performing and non-performing loans, by region.

Breakdown performing and non-performing loans and advances by region

(In € millions)	The Netherlands		Other Europe		North-America		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Performing								
Book value loans (gross value)	55	1,592	51	135	-	(0)	106	1,727
Provisions	-	-	-	-	-	-	-	-
Book value loans (net value)	55	1,592	51	135	-	(0)	106	1,727
Amortized close end commissio	-	0	0	0	-	-	0	0
Book value loans on balance	55	1,592	52	135	-	(0)	106	1,727
Book value % of total portfolio	59%	59%	42%	27%	0%	0%	45%	54%
Coverage ratio	0%	0%	0%	0%	0%	0%	0%	0%
Fair value collateral loans	82	2,136	87	307	-	-	169	2,443
Loan to Value	67%	75%	59%	44%	0%	0%	63%	71%
Non-Performing								
Book value loans (gross value)	103	2,107	125	775	78	76	306	2,958
Provisions	(66)	(1,004)	(53)	(410)	(59)	(55)	(178)	(1,469)
Book value loans (net value)	37	1,103	72	365	19	21	127	1,489
Amortized close end commissio	1	8	0	2	0	1	1	11
Book value loans on balance	38	1,111	73	367	19	22	128	1,501
Book value % of total portfolio	41%	41%	58%	73%	100%	100%	55%	46%
Coverage ratio	64%	48%	42%	52%	76%	72%	58%	50%
Fair value collateral loans	45	1,327	70	368	33	38	148	1,733
Loan to Value	229%	161%	179%	185%	234%	202%	206%	171%
Total								
Book value loans (gross value)	158	3,699	177	910	78	76	412	4,685
Provisions	(66)	(1,004)	(53)	(410)	(59)	(55)	(178)	(1,469)
Book value loans (net value)	93	2,695	124	500	19	21	233	3,216
Amortized close end commissio	1	8	1	2	0	1	1	11
Book value loans on balance	93	2,703	124	502	19	22	235	3,228
Coverage ratio	42%	27%	30%	45%	76%	72%	43%	31%
Fair value collateral loans	127	3,463	157	676	33	38	317	4,176
Loan to Value	124%	108%	113%	135%	234%	202%	130%	112%

The non-performing loans as percentage of the total net loan portfolio increased from 46% to 55%. The coverage ratio on the non-performing loans increased from 50% in 2015, to 58% in 2016.

The loan to value (LtV) of the performing loans improved from 71% in 2015, to 63% in 2016.

However, the LtV of the non-performing loans deteriorated from 171% in 2015, to 206% in 2016. This was mainly caused by the fact that, after the economic transfer of a large part of the portfolio, relatively more non-performing loans with a high LtV stayed in Propertize's portfolio. These developments resulted in an LtV at the end of 2016 for the total portfolio of 130% (2015: 112%)

The credit quality of the loans

The following tables provide information on payment arrears. A customer's payment record is one of the default indicators which Propertize uses.

Arrears in loans and advances

(In € millions)	Outstanding		Loan to Value	
	2016	2015	2016	2015
Neither past due, nor impaired	101	1,540	62%	69%
Past due but not impaired	5	332	68%	89%
Impaired	306	2,825	206%	179%
Total	412	4,697	130%	112%

On 27 September 2016, a large part of the Propertize portfolio was economically transferred to Lone Star and J.P. Morgan. The performing loans were all transferred, while a part of the non-performing loan portfolio stayed with Propertize. This resulted in a deterioration of the LtV ratios.

The decrease in loans which are not in arrears and not impaired (€ 1,438 million) is a result of a shift towards impaired loans (-€ 108 million), redemptions (-€ 608 million), arrears caught up (€ 51 million), and the economic transfer and sale of loans (-€ 773 million).

Ageing analysis past due, but not impaired loans and advances

(In € millions)	Outstanding		Loan to Value	
	2016	2015	2016	2015
< 30 days	5	39	68%	52%
30 - 60 days	-	38	0%	63%
60 - 90 days	-	12	0%	80%
> 90 days	-	243	0%	101%
Total	5	332	68%	84%

If there are payment arrears or there is a collateral shortfall (LtV is >100%) or a combination of the two, a thorough analysis may still lead to the decision that a specific provision is not necessary. The reasons for such a decision could be:

- additional security is available, such as cross-collateral connections with loans with a collateral excess, or additional guarantees are available (limited recourse);
- sufficient cash flow is available, which can be used for interest and redemption to reduce the collateral shortfall;
- the collateral shortfall or arrears is mitigated by means of restructuring.

12.2.5 EXPOSURE TO HIGH-RISK EUROZONE COUNTRIES

Propertize considers a Eurozone country to be 'higher risk' when the country exhibits higher volatility and economic and political uncertainties than other Eurozone members. In line with market practice, Propertize considers the so-called GIIPS countries as high-risk countries.

A sum of € 29 million (2015: € 88 million) of the position of € 139 million in the 'Other Europe' region (see paragraph 12.2.2 Credit risk profile and credit risk management) concerns exposures in the GIIPS country Spain (2015: Spain and Italy).

12.3 MARKET RISK

The market risk is the risk that the equity, result or going concern is threatened by movements at the level of and/or the volatility in market prices to which the company is exposed. Market risk is broken down into price risk (of property projects), interest rate risk, credit spread risk and currency risk. For Propertize the price risk and interest rate are relevant. Propertize does not run any material credit spread risks or currency risks arising from financial instruments.

12.3.1 MANAGING MARKET RISK

After the spin-off in 2014, Propertize introduced its own market risk reports to monitor and mitigate market risks. The ALM reports are prepared by the Finance & Control department of which the Treasury function forms part. Earnings at Risk (EaR) forms part of the reporting. The EaR is a measure for the sensitivity of the results for changes in the yield-curve. The EaR is calculated on the basis of a number of stress scenarios related to potential developments in the interest rate curve. These Propertize reports are discussed at the regular meetings of the ALM-committee and the Executive Board. In this respect market risk is split into two components: interest rate risk and currency risk. Interest rate risks arise due to the fact that there are differences in the interest rate sensitivity of the assets and liabilities in the balance sheet. Currency risk arises as Propertize has (very limited) exposures in foreign currency as a result of financing and other activities.

After the economic transfer of a large part of the portfolio of Propertize to Lone Star and J.P. Morgan, the ALM function was performed in association with Lone Star, in which Propertize mainly focuses on liquidity and currency risk.

12.3.2 PRICE RISK PROPERTY PROJECTS

In the past years, as a result of unfavourable developments on the Dutch and international real estate markets, it was necessary to foreclose the collateral on a number of loans which had been provided in favour of Propertize. As a result, Propertize obtained effective control over a number of property projects, which have thus been included in Propertize's consolidation scope.

The property on Propertize's balance sheet is valued at the lower of cost or net realisable value. The latter is determined on the basis of the expected present value of the cash flows, as estimated on the basis of the realistic exit-strategy, the expected exit-value and the cash flow up until the

exit, in the same way as the method used in the loan provisioning process. This entails that estimates are made for the costs (completion costs, costs to sell), income (rents, sales proceeds) and the time needed to execute the scenario. The Weighted Average Cost of Capital (WACC) is used to discount the cash flows.

The following table provides an overview of the impairment charges (according to region) of the property projects which were included in the results in the 2016 reporting period.

Impairments property projects by region

<i>(In € millions)</i>	2016			2015
	Economic transfer	Regular	Total	
The Netherlands	(2)	-	(2)	12
Other Europe	17	34	51	-27
North-America	-	3	3	1
Total	15	37	52	-14

The high impairments as a result of the economic transfer in Other Europe were mainly caused by projects in Spain and Luxembourg.

The total sum of the property projects on the Propertize balance sheet amounted to € 57 million as at 31 December 2016 (year-end 2015: € 186 million). Out of this sum, € 41 million concerns The Netherlands (2015: € 75 million), € 16 million concerns Other Europe (2015: € 97million). At the end of 2015 Propertize also held a project in North America for an amount € 14 million. This project was sold in 2016.

The book value at year-end 2016 is fully based on the lower net realisable value.

Accumulated impairments property projects

<i>(In € millions)</i>	2016	2015
Property projects (at cost)	181	458
Cumulative impairments / (reversals) as at 31 December	124	272
Total	57	186

In particular the sale of Belval and important parts of Babylon have mainly caused a decrease in the book value.

12.3.3 INTEREST RATE RISK

In the table below the amounts due are shown categorised interest refixing date.

Term to maturity gap profile 2016

<i>(In € millions)</i>	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Provision	Total
Loans and advances to customers	296	30	13	74		(178)	235
Loan to shareholder			882				882
Cash and cash equivalents	64						64
Total assets	360	30	895	74	-	(178)	1,181
Loan payable	-		258				258
Total liabilities	-	-	258	-	-	-	258
Interest rate sensitivity gap	360	30	637	74	-	(178)	923

Term to maturity gap profile 2015

<i>(In € millions)</i>	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Provision	Total
Loans and advances to customers	3,831	528	126	161	52	(1,469)	3,229
Cash and cash equivalents	584						584
Total assets	4,415	528	126	161	52	(1,469)	3,813
Debt certificates	250	1,000		1,350			2,600
Total liabilities	250	1,000	-	1,350	-	-	2,600
Interest rate sensitivity gap	4,165	(472)	126	(1,189)	52	(1,469)	1,213

The tables show that, as a result of the economic transfer of a large part of the loan portfolio to Lone Star and J.P. Morgan, less funding is needed. All buckets show a surplus of cash at the end of 2016. The loan receivable is a loan to LSREF5 Swan Acquisition. The loan payable is a loan from LSREF5 Swan Finance. Both loans can be repaid at any time, but on 30 September 2019 at the latest. The loan receivable has an interest rate of 3 months Euribor + 3.75%, while the loan payable has an interest rate of 3 months Euribor + 3.64%,

Due to the fact that the winding-down of the portfolio was going faster than expected, the maturity of the funding did not match with the developments in the loan portfolio. After the economic transfer of a large part of the portfolio of Propertize to Lone Star and J.P. Morgan, the funding is better matched with Propertize's activities.

On 28 June 2016, the Dutch State and Propertize entered into a notes agreement under which it was agreed to transfer Propertize's MTN debt position to the Dutch State and that the Dutch State would substitute Propertize as principal debtor under these MTNs. The note holder meetings agreed with this transfer. As of the date of the transfer, € 2,350 million was outstanding. Propertize paid this amount, partly from its own cash position and partly from funding received from LSREF5 Swan Finance, a Lone Star company.

12.3.4 SENSITIVITY TEST INTEREST RATE RISK

The interest rate risks can be illustrated by a sensitivity analysis. This analysis calculates the impact of an immediate parallel shift of the yield curve on Propertize's financial assets and financial liabilities. Interest rate movements affect reported equity because retained earnings also change by an increase or decrease in net interest income. There is no impact on the equity other than through the result. The results of the calculations in the following table are including taxation. Compared with 2015, there are no changes in the assumptions or the methodology of the sensitivity analyses.

There are negative interest rate gaps in the long segment. At the end of 2016, due to the accelerated wind-down, the funding consisted exclusively of a loan payable with a term of two years.

The sensitivity of net interest income for changes in the yield-curve is shown in the table below.

Sensitivity projected net interest income

	At 31 December	
<i>(In € millions)</i>	2016	2015
Interest rate +1% (100 bps)	1	-
Interest rate -0.25% (25 bps)	(0)	(3)

As a result of the refinancing, Propertize is less sensitive for changes in the interest rates than in 2015.

In 2016, interest was 72.1% variable for property finance loans (2015: 88.6%), compared with 100% variable for funding (2015: 48.1%).

An interest rate increase of 100 basis points will have a very limited impact on the gross result.

12.3.5 CURRENCY RISK

Propertize has very limited positions in assets and liabilities denominated in foreign currency. The balance of the assets and liabilities in the same foreign currency positions exposes Propertize, given the size of the positions, to a limited extent to currency risk. All positions in foreign currency are measured on a monthly basis, and forward exchange rate transaction contracts (FX-contracts), which are deemed to be derivative transactions, are purchased to minimise the open foreign currency exposure.

Provisions recognised in relation to assets denominated in foreign currency in the course of the month could result in exposure. Normally, these provisions are known before month-end, as a result of which the exposure can be mitigated. However, part of the information on other balance sheet items in foreign currency become available only after the month-end, causing limited unhedged currency positions. If necessary, these positions are hedged in the first half of the following month. FX-contracts are purchased or funding is raised in the relevant currency to reduce currency exposure. This results in a fair value hedge, in which currency results on assets, liabilities and derivatives are recognised in the consolidated statement of comprehensive income. Propertize does not apply hedge accounting.

Until Propertize was sold to Lone Star on 27 September 2016, the currency risk was monitored and reported to the Executive Board at a monthly Asset & Liability Committee meeting chaired by the CFRO at which the ALM report is discussed in the presence of the Finance & Control and Risk Management departments. After the sale, ALM was mainly performed on Lone Star level, while Propertize focused on liquidity and currency risks.

At the end of 2016 and 2015, Propertize only used FX-contracts to mitigate the currency risk. Funding in foreign currency was ended in September 2015 because the counterparty property funding was redeemed in foreign currency. The book value (fair market value) of the derivatives amounted to € 0.5 million negative at the end of 2016 (2015: € 0.5 million negative). Foreign currency exposure was significantly reduced in 2016 as a result of the sale of property projects in the USA and Canada.

The derivatives exposure is presented under other liabilities in the balance sheet.

Exchange rate position 2016

(In € millions)	Assets		Liabilities		Balance		FX-contracts		Net exposure		Local currency +10%		Local currency -10%	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
US dollar	5	23	-	(4)	5	19	-	(19)	5	-	-	-	-	-
Canadian dollar	19	81	(1)	(60)	18	21	(19)	(21)	(1)	-	-	-	-	-
Danish krone	1	24	(3)	(6)	(2)	18	-	(18)	(2)	-	-	-	-	-
Total	25	128	(4)	(70)	21	58	(19)	(58)	2	-	-	-	-	-

The table present nominal amounts.

The table shows the impact of a 10% exchange rate movement on the result (excluding tax). There is no other impact on the equity other than through the result. The impact on both the result and the equity is not material.

The hedging of foreign currency positions using FX-contracts, in combination with the very limited positions in foreign currency to which Propertize is still exposed, means that Propertize's sensitivity to fluctuations in foreign currency against the euro is limited.

12.4 LIQUIDITY RISK

This is the risk that there will be insufficient liquid assets available in the short term to meet financial obligations, both under normal circumstances and in times of stress, without this leading to unacceptable costs or losses.

Liquidity risk policy

Propertize's liquidity management is based on two pillars. The first is maintaining a liquidity buffer and the second is monitoring the liquidity prognosis. In that prognosis, expected liquidity deficits with a maturity less than one month may not exceed a certain maximum. This maximum sum was until 27 September 2016 reviewed, monitored and discussed internally at the monthly ALM

meeting and by the Executive Board. The objective of the risk management and risk policy is to safeguard sufficient liquid assets in the short term as well as anticipating long-term liquidity requirements. After 27 September 2016, the ALM activities were performed at Lone Star level.

If liquidity is needed, additional liquidity will be made available by Lone Star within a reasonable time frame. Furthermore, two additional funding commitment guarantees from Lone Star are in place, one regarding the payment of taxes (maximum € 58 million) and one for litigation payments with a maximum of € 70 million.

Managing liquidity risk

Liquidity risks are managed on the basis of the net (assets minus liabilities) nominal amounts payable in a gap profile per due date. The following table presents the gap profile at year-end 2016 on the basis of the remaining contractual maturity.

Liquidity risk 2016

<i>(In € millions)</i>	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Loans and advances to customers	22	-	123	52	38	235
Loan to shareholder				882		882
Other receivables	7					7
Other assets	20					20
Cash and cash equivalents	64					64
Total assets	113	-	123	934	38	1,208
Shareholders' equity					943	943
Liabilities						-
Loans payable				258		258
Other liabilities	53					53
Total equity and liabilities	53	-	-	258	943	1,254
Net liquidity gap	60	-	123	676	(905)	-46

Liquidity risk 2015

<i>(In € millions)</i>	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets						
Loans and advances to customers	216	20	268	894	1,830	3,228
Loan to shareholder	-					-
Other receivables	42					42
Other assets	48					48
Cash and cash equivalents	584					584
Total assets	890	20	268	894	1,830	3,902
Shareholders' equity					1,223	1,223
Liabilities						-
Loans from associates						-
Debt certificate	-		250	2,347		2,597
Other liabilities	90					90
Total equity and liabilities	90	-	250	2,347	-	3,910
Net liquidity gap	800	20	18	(1,453)	1,830	-8

At the end of 2015, Propertize had large amount of cash due to the fact that the wind-down was going faster than anticipated, while the funding could not be redeemed. After the sale of a large part of the loan portfolio to Lone Star and J.P. Morgan, less funding is needed.

On 28 June 2016, the Dutch State and Propertize entered into a notes agreement under which it was agreed to transfer Propertize's MTN debt position to the Dutch State and that the Dutch State would substitute Propertize as principal debtor under these MTNs. The note holder meetings agreed with this transfer. As of the date of the transfer, € 2,350 million was outstanding. Propertize paid this amount, partly from its own cash position and partly from funding received from LSREF5 Swan Finance, a Lone Star company.

The assets have been presented on the basis of the information which the Management uses for internal purposes. The reason for this is that the contractual due date of the in-default portfolio for the loans and advances to customers does not give a correct view of the liquidity flows. Many of the loans and advances to customers which are in default have maturity dates of 1-5 and >5 years.

The liabilities in the above table are based on the contractual due date.

13. NON-FINANCIAL RISK MANAGEMENT

As set out in the risk classification, Propertize recognises both financial and non-financial risks. Non-financial risks are subdivided into strategic risk, integrity and operational risks. The Operational Risk Management department and the Compliance & Integrity department are the departments that monitor and advise on the management of these non-financial risks.

Until Q4 2016, the non-financial risks were managed in conformity with the Three Lines of Defence. Since Q4 2016 a Two Lines of Defence model is in place. As of January 1, 2017 CDD and Compliance (first and second line activities) are joined together with Operational Risk Management and Audit within one department as one second line of defence.

13.1 MANAGEMENT OF NON-FINANCIAL RISKS

Propertize has taken various measures to manage the non-financial risks. The main components are the following:

The Operational Risk Management framework. This framework provides for risk analyses, risk monitoring and reporting. The framework also ensures that periodic 'in control' statements are issued. The Operational Risk Management department plays a coordinating and advisory role in the realisation of these products. The periodic 'in control' statements issued by the Management team members of the departments and the Executive Board members report on the most important risks and the accompanying management measures, the improvements made compared to the previous period and which improvement actions are being undertaken. The 'in control' statements identify the most important risks.

- A clear governance structure, including a clear assignment of duties and responsibilities and escalation routes, supported by a clear risk management structure. This governance structure, the process descriptions and the descriptions of management measures are recorded in the Administrative Organisation/Internal Controls system.
- Signals of fraud will always be investigated. Fraud investigations are always conducted on a risk basis, possibly with specialist external experts. Please refer also to paragraph 16.17 Legal proceedings.

14. FINANCIAL INSTRUMENTS

14.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows the fair value of the financial assets and liabilities of Propertize. A number of fair values are based on estimates. Balance sheet items that do not meet the definition of financial assets or liabilities are not included. As a result, the total fair value presented below does not indicate the value of Propertize and should not be interpreted as such.

Fair value and book value financial assets and liabilities

(In € millions)	2016		2015	
	Fair value	Book value	Fair value	Book value
Assets				
Financiële instrumenten (derivaten)				
Loans and advances to customers*	120	143	2,401	3,004
Loan to shareholder	882	882	-	-
Total assets	1,002	1,025	2,401	3,004
Liabilities				
Debt certificates	-	-	2,637	2,597
Loan payable	258	258	-	-
Totaal passiva	258	258	2,637	2,597

* The financial lease portfolio (IAS 17) is out of scope of IFRS 13 Fair Value Measurement (IFRS 13.6b).

Fair value represents the price (exit price) that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the balance sheet date. Fair value is market-based, not entity specific. Where observable, the fair values of assets and liabilities are based on quoted prices (for example, if information is available on the reporting date of a sale in a subsequent period). If actively quoted market prices are not available, valuation techniques are used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and various assumptions are used, for instance for the discount rate and the timing and size of expected future cash flows. To the extent possible and available, the valuation techniques make use of observable inputs in relevant markets. Changes in the assumptions can significantly influence the estimated fair values. Moreover, the calculation of the fair value is based on market conditions and assumptions as at 31 December 2016 (or more generally, at a specific point in time) and may not be indicative of future fair values.

The main assumptions for every balance sheet item are explained in the section below.

14.2 NOTES TO THE VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Loans and advances to customers

The loans and advances to customers consist of property finance loans and financial leases. The latter are not financial instruments and not in the scope of the IFRS 13 Fair Value Measurement, and are therefore excluded from this fair value disclosure.

The fair value is based on a valuation model with observable as well as non-observable inputs. The fair value of loans and advances to customers has been established by determining the present value of the expected future cash flows. For more information please refer to paragraph 14.3 Hierarchy determination fair value of assets and liabilities.

Other receivables and other assets

Due to the predominantly short-term nature of the other receivables (e.g. issued invoices payable within 30 days) and other assets, the book value is considered to be a reasonable approximation of the fair value.

Cash and cash equivalents

The book value of the liquid assets is considered to be a reasonable approximation of the fair value.

Debt certificates

The fair value of the MTNs was based on internal fair value calculations at year-end 2015.

Loan payable

This loan replaced the MTN for the remaining funding needed after the sale of Propertize to Lone Star. The loan has a variable interest and can be redeemed at any time. Therefore, the book value is considered to be the fair value.

Other debts

The book value of the other liabilities is considered to be a reasonable approximation of the fair value.

14.3 HIERARCHY DETERMINATION FAIR VALUE OF ASSETS AND LIABILITIES

Of all the financial instruments in the balance sheet only the derivatives are valued at fair value.

Hierarchy financial instruments 2016

<i>(In € millions)</i>	Level 1	Level 2	Level 3	Fair value	Book value
Assets					
Loans and advances to customers*			120	120	143
Loan to shareholder		882		882	882
Liabilities					
Debt certificates	-	-		-	-
Loan payable		258		258	258

Hierarchy financial instruments 2015

<i>(In € millions)</i>	Level 1	Level 2	Level 3	Fair value	Book value
Assets					
Loans and advances to customers*			2,401	2,401	2,401
Loan to shareholder		-		-	-
Totaal activa					
Liabilities					
Debt certificates	2,639			2,639	2,597

This section starts with a general overview of the distribution of financial instruments into categories (levels). Level 1 (the fair value is based on published stock prices in an active market), level 2 (the fair value is based on models whose parameters consist of observable market data) and level 3 (the fair value is based on models whose parameters consist of both observable and non-observable market data). The distribution is followed by a description of the fair value valuation of loans and advances to customers (e.g. the property finance loan portfolio).

Disclosure level distribution

Financial instruments requiring disclosure on the fair value are distributed into three levels. The level depends on the parameters used in the fair value measurement and provides information on the valuation. The different levels are explained in more detail below.

Level 1 - Fair value based on published stock prices in an active market

For all the financial instruments in this valuation category, published stock prices are observable from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows the stock prices to accurately reflect current and regularly recurring market transactions between independent parties.

Level 2 - Fair value based on observable market data

This category includes financial instruments for which no stock prices or market quotes are available, and instruments in markets that have been identified as being inactive. The fair value is based on (appraisal) models by external valuation agencies as well as internal, independent appraisers, in which the input variables in the model consist of available and observable market data. If certain input in the model is non-observable, but all significant input is observable, the instrument is still classified in this category, provided that the impact of this non-observable input is insignificant in relation to the overall valuation.

Level 3 - Fair value not based on observable market data

This category includes financial instruments whose fair value is determined using a valuation technique (a model) which makes use of input variables that are not observable in the market, which, in terms of the overall valuation, constitute more than a non-significant part of the information (for instance if a significant part of an instrument's fair value is determined by non-observable input). Non-observable in this context means that there is little or no current market data available from which the price at which an 'at arm's length' transaction would be likely to occur can be derived.

Fair value measurement property finance loan

The value of the property loan portfolio is determined on the basis of a valuation for each category of similar loans, based on their risk profile. A discount rate is calculated for each category and the fair value of the relevant category is calculated on that basis. The valuation technique can be classified as 'income approach'. The valuation model that is used is a dividend discount model or 'flow-to-equity' approach.

The main key value drivers is the WACC, which is set at 5.1% (2015: 5%), based on the following assumptions:

- Loan development, future impairment charges and interest income derived from the characteristics of the property loan portfolio.
- Cost of debt on the basis of 3.33% (2015: 3.1%).
- Cost of equity on the basis of 20.0% (2015: 12.3%).
- Target funding ratio (capital structure) to finance the portfolio of 80% debt and 20% equity (2015: 70% debt and 30% equity).

Sensitivity analysis, key value drivers

Variations in the WACC influence the resulting fair value. A sensitivity analysis has been conducted, of which the results are shown in the following table:

Debt leverage	80%					75%	70%
Cost of debt	2.33%	2.83%	3.33%	3.83%	4.33%	3.33%	3.33%
Cost of equity	11.30%	11.80%	12.30%	12.80%	13.30%	12.30%	12.30%
WACC	4.1%	4.6%	5.1%	5.6%	6.1%	5.6%	6.0%
Fair value (€ x 1m)	120	120	120	120	120	120	120

The table shows that changes in the WACC hardly influence the fair value of the loans. The majority of the loans mature in the short-term. Therefore, changes interest rates have little effect on the fair value.

15. CAPITAL MANAGEMENT

15.1 GOING CONCERN CAPITAL MANAGEMENT

Propertize is positioned by Lone Star Funds as its servicing and asset management platform for the Benelux region. Propertize will wind-down its entire portfolio and will become a service provider for real estate and real estate loan portfolios. As a consequence, Propertize asked for abolishment of the Article 1:104(3) regime under the Financial Supervision Act (Wet financieel toezicht – Wft). *De Nederlandsche Bank* granted this request on 27 September 2016. Therefore, there are no longer specific capital requirements set by DNB which Propertize has to meet.

Propertize still has an AFM-license (Autoriteit Financiële Markten) because Propertize still has a small private residential mortgage portfolio. AFM did not set any capital requirements.

In 2016, the development of equity was as follows:

Consolidated statement of changes in equity

	Issued share capital	Share premium reserves	Other reserves	Retained earnings	Equity attributable to the owner of the parent company
<i>(In € millions)</i>					
Balance as at 1 January 2015	0	3,117	(1,891)	(49)	1,177
Transfer of net result 2014	-	-	(49)	49	-
Transfers 2014	-	-	(49)	49	-
Amounts charged directly to equity	-	-	-	-	-
Net result 2015	-	-	-	46	46
Total result 2015	-	-	-	46	46
Transactions with shareholder	-	-	-	-	-
Balance as at 31 December 2015	0	3,117	(1,940)	46	1,223
Dividend to shareholder	-	-	-	(46)	-
Net result 2016	-	-	-	(234)	-
Total result 2016	-	-	-	(234)	-
Balance as at 31 December 2016	0	3,117	(1,940)	(234)	943

16. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16.1 TANGIBLE FIXED ASSETS

Propertize has no property (land and buildings) in own use. The lease on the three floors at Graadt van Roggenweg 500 was ended in 2015 and a new site was leased at Daalseplein 101 in Utrecht. Also see paragraph 16.16.2 Obligations not shown in the balance sheet.

Specification tangible fixed assets

<i>(In € millions)</i>	2016	2015
IT equipment	-	0.0
Other assets	0.9	3.3
Total	0.9	3.4

Statement of changes in tangible fixed assets

<i>(In € millions)</i>	2016	2015
Accumulated acquisitions costs	5.6	5.7
Accumulated amortisation and impairments	(4.7)	(2.4)
Balance as at 31 December	0.9	3.4
Balance as at 1 January	3.4	2.3
Investments	0.4	1.4
Divestments	(2.1)	(0.3)
Depreciation	(0.7)	(0.2)
Exchange rate differences	(0.1)	0.2
Balance as at 31 December	0.9	3.4

The other assets comprise the inventory and office equipment of Propertize (€ 0.9 million).

16.2 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The financial year of all material associates and joint ventures is consistent with the reporting date of Propertize.

Specification of investments in associates and joint ventures

<i>(In € millions)</i>	2016	2015
Associated companies	0.7	0.7
Joint ventures	0.2	0.2
Total	0.9	0.9

Statement of changes in investments in associates and joint ventures

<i>(In € millions)</i>	2016	2015
Balance as at 1 January	0.9	1.7
Disposals and divestments	0.0	(0.9)
Impairments (including reversals)	0.0	(0.0)
Other movements	0.0	0.1
Balance as at 31 December	0.9	0.9

Propertize is dependent on the delivery of financial statements by companies and joint ventures. Therefore it may occur that the most recent available financial statements of the associate or joint venture are from a financial year prior to the financial year for which Propertize

prepares its consolidated financial statements. If and when necessary, Propertize will adjust this information to reflect developments during the reporting period.

Overview most significant investments in associates 2016

(In € millions)	Country	Interest	Share in equity	Assets		Liabilities		Income	Net result
				Current	Non-current	Current	Non-current		
Kapelaansdijk I BV	NL	25.0%	0	1	11	6	6	1	0
Koppelenweg I BV	NL	33.3%	1	1	28	2	25	2	0
ETV Groep Expl en ontw .mij C.V.	NL	19.8%	0	2	11	9	9	1	-1
Total			1	4	50	17	40	4	-1

The Dutch entities in the table above relate to property for which Propertize has engaged in lease contracts. Subsequently, although Propertize holds less than 20% of the voting power, Propertize still holds legal title to the property, has a financial interest in the affiliated companies, certain veto rights on important decisions, and the lessee has an unguaranteed option to purchase the property at the end of the lease term. Therefore the management has concluded that Propertize has significant influence, but no control, since Propertize has transferred the majority of the risks and benefits of owning the property to the lessee.

In 2017, a significant part of the lease contracts will be transferred to Lone Star.

Overview most significant investments in associates 2015

(In € millions)	Country	Interest	Share in equity	Assets		Liabilities		Income	Net result
				Current	Non-current	Current	Non-current		
Kapelaansdijk I BV	NL	25.0%	0	0	12	2	11	3	1
Koppelenweg I BV	NL	33.3%	1	1	30	2	27	2	0
Zwarte Land CV	NL	1.0%	0	0	0	0	0	0	0
Total			1	2	41	3	38	5	1

In 2015 the financial lease contracts of Zwarte Land C.V. were ended. The C.V. (limited partnership) was dissolved.

A total of € 20.2 million (2015: € 39 million) of loans was granted to associates. These are presented under 'loans and advances to customers'. At year-end 2016, the associates have no investment commitments (2015: nil).

Overview most significant investments joint ventures 2016

(In € millions)	Country	Interest	Share in equity	Assets		Liabilities		Income	Net result
				Current	Non-current	Current	Non-current		
Retail Fund North Holding B.V.	NL	33%	0	0	0	0	0	0	0
Alaska Building B.V.	NL	28%	0	0	0	0	0	0	0
LPM/BFP Holding VOF	NL	50%	0	0	7	11	0	0	0
Post-X-Change B.V.	NL	50%	0	0	0	0	0	0	0
VOF Madevin Zijdebaleen	NL	50%	0	0	0	0	0	0	0
VOF De Lanen	NL	15%	0	14	0	0	13	0	0
Überseequartier GmbH	DE	50%	0	21	95	29	99	-1	0
Chestermere Land Development	CA								
Limited Partnership LP		33%	0	0	0	0	0	0	0
Homburg SNS Property Finance LP	CA	50%	0	2	26	3	23	14	-2
Other	Divers	15%-50%							
Total			1	37	128	43	135	13	-2

Overview most significant investments joint ventures 2015

Overview most significant investments Joint ventures 2013									
	Country	Interest	Share in equity	Assets		Liabilities		Income	Net result
(In € millions)				Current	Non-current	Current	Non-current		
Retail Fund North Holding B.V.	NL	33%	0	1	55	80	1	5	2
Alaska Building B.V.	NL	28%	0	0	1	20	0	4	2
LPM/BFP Holding VOF	NL	50%	0	0	7	11	0	1	1
Post-X-Change B.V.	NL	50%	0	20	0	1	71	0	-4
VOF Madevin Zijdebalen	NL	50%	0	0	0	0	0	21	21
VOF De Lanen	NL	15%	0	14	0	0	13	0	0
Überseequartier GmbH	DE	50%	0	147	89	236	0	8	-62
Chestermere Land Development Limited Partnership LP	CA	33%	0	0	0	0	0	0	0
Homburg SNS Property Finance LP	CA	50%	0	2	26	3	23	14	-2
Other	Divers	15%-50%	1	1	0	1	37	0	-5
Total			1	185	178	352	144	54	-46

Overview most significant investments joint ventures 2016

	Country	Interest	Cash	Current financial liabilities	Non-current financial liabilities	Depreciation and amortisation	Interest income	Interest expense	Income tax
(In € millions)									
Retail Fund North Holding B.V.	NL	33%	0	0	0	0	0	0	0
Alaska Building B.V.	NL	28%	0	0	0	0	0	0	0
LPM/BFP Holding VOF	NL	50%	0	0	0	0	0	0	0
Post-X-Change B.V.	NL	50%	0	0	0	0	0	0	0
VOF Madevin Zijdebale	NL	50%	0	0	0	0	0	0	0
VOF De Lanen	NL	15%	0	0	13	0	0	0	0
Überseequartier GmbH	DE	50%	0	0	0	5	0	0	0
Chestermere Land Development Limited Partnership I	CA	33%	0	0	0	0	0	0	0
Homburg SNS Property Finance LP	CA	50%	1	0	0	0	0	0	0
Other	Divers	15%-50%	0	0	0	0	0	0	0
Total			1	0	13	5	0	0	0

Overview most significant investments joint ventures 2015

	Country	Interest	Cash	Current financial liabilities	Non-current financial liabilities	Depreciation and amortisation	Interest income	Interest expense	Income tax
(In € millions)									
Retail Fund North Holding B.V.	NL	33%	0	80	1	0	0	2	0
Alaska Building B.V.	NL	28%	1	17	0	0	0	2	0
LPM/BFP Holding VOF	NL	50%	0	0	0	0	0	0	0
Post-X-Change B.V.	NL	50%	0	0	71	4	0	0	0
VOF Madevin Zijdebale	NL	50%	0	0	0	0	0	0	0
VOF De Lanen	NL	15%	0	0	13	0	0	0	0
Überseequartier GmbH	DE	50%	0	0	0	7	0	0	0
Chestermere Land Development Limited Partnership I	CA	33%	0	0	0	0	0	0	0
Homburg SNS Property Finance LP	CA	50%	1	0	23	0	0	0	0
Other	Divers	15%-50%	1	0	37	3	0	1	0
Total			3	97	144	15	0	5	0

The joint ventures were granted a gross total amount of € 130 million (2015: € 319 million) in loans and advances. These are presented under 'loans and advances to customers'. At year-end 2016 the joint ventures have no further investment commitments (2015: nil). Propertize exercises joint control over the joint ventures together with real estate development partners, without any unilateral control by one of the participants.

The associates and joint ventures have no results from discontinued operations or items in the comprehensive income. The net result is therefore equal to the net comprehensive income.

The book value ('interest' in the tables) is the equity value that Propertize expects to receive upon complete settlement of the associate or joint venture. Prior year losses of the associates or joint ventures have usually resulted in book values of nil.

There are no contingent liabilities in relation to associates and joint ventures.

16.3 PROPERTY PROJECTS

Property projects on the balance sheet of Propertize are stated at the lower of cost or net realizable value. The net realizable value is determined based on the present value of expected cash flows as determined in the most realistic exit strategy as estimated by management, the expected net realizable value when sold and the future cash flows to the exit date. This means that estimates are made regarding future revenues and costs from the operation and the expected timeframe for the implementation of the scenario and the expected realisable value. The Weighted Average Cost

of Capital (WACC) is used for the discounted cash flow. The WACC used to discount the expected net cash flows is 5.1% (2015: 5.0%).

The estimated proceeds on future exit date will be determined based on projections of rental income, price per square meter, construction costs, interest costs and expected market returns on exit date and on appraisals issued by professional external valuation experts. The increased level of estimates in determining the net realisable value of the real estate projects and the underlying assumptions by the Executive Board affects the uncertainty in the valuations of real estate projects by year-end.

Accumulated impairments property projects

(In € millions)

	2016	2015
Property projects (at cost)	181	458
Cumulative impairments / (reversals) as at 31 December	124	272
Total	57	186

At the end of 2016 the property projects comprise finished property, including land (2015 € 7 million development projects and € 179 million finished projects).

Statement of changes in investments in property projects

(In € millions)

	2016	2015
Balance property projects as at 1 January	186	387
Additions and foreclosures	5	(0)
Disposals	(39)	(121)
Economic transfer	(64)	-
Deconsolidations	(11)	(75)
Assets held for sale (reclassification)	-	(21)
Impairments	(1)	14
Impairments economic transfer	(19)	-
Exchange rate differences	(1)	1
Other changes	1	1
Balance as at 31 December	57	186

As in 2015, also in 2016 no control was obtained by recovering property.

The divestments in 2016, mainly comprised the sales of Belval, Babylon apartments, Bonita and Arcadialaan Real Estate. The divestment item in 2015 mainly comprised of the sale of Babylon and the deconsolidation of Überseequartier.

16.4 LOANS AND ADVANCES TO CUSTOMERS

Propertize assesses periodically whether there is objective evidence that a financial asset (property finance loan or financial lease) is impaired. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset, but before the balance sheet date. As part of the provisioning process, an exit-scenario is drafted of the major part of the finance loan portfolio (both performing and non-performing loans). In this scenario an analysis is executed of the expected future cashflows from the collateral, the expected exit-values of the real estate objects, the expected cashflows of commitments (such as guarantees and pledges) present, and expected redemptions of (co)debtors. The provision recognised equals the difference between the book value and the expected recoverable value. The expected recoverable value is based on the chosen exit strategy and equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the original effective interest rate of the loan or lease (i.e. the effective interest rate computed at initial recognition).

Impairments on Propertize's, loans in default reflect the changes in the expectations regarding the chosen exit-strategy, the expected exit-value and the cash flow up until the exit.

When estimating future cash flows, Propertize uses observable similar market transactions as much as possible. However, on account of the unique nature of the underlying assets, it is difficult to make comparisons with recent similar transactions for a large part of the portfolio. This means that the assumptions and estimates for valuing loans drawn up by Propertize are exposed to larger uncertainties. This results in a broader bandwidth for the valuations.

For an explanation of the fair value of the loan portfolio, please refer to paragraph 14.3.

*Statement loans and advances to customers
(In € millions)*

	2016			2015		
	Gross	Impairment	Nett	Gross	Impairment	Nett
Loans (gross)	318	169	149	4,488	1,461	3,027
Financial lease (gross)	95	9	86	209	8	201
Total loans and advances to customers	412	178	235	4,697	1,469	3,228

*Statement of changes in gross exposure by bucket
(In € millions)*

	2016			2015		
	Gross	Impairment	Nett	Gross	Impairment	Nett
Balance as at 31 December 2015	4,697	1,469	3,228	5,847	1,625	4,222
(De)consolidations and Foreclosures	65	7	59	154	24	130
Withdrawal	4		4	26		26
Redemptions and transactions	(1,708)	(493)	(1,215)	(1,332)	(275)	(1,057)
Economic transfer	(2,592)	(779)	(1,813)			
Reclassification held for Sale	(57)		(57)			
Addition		50	(50)		201	(201)
Release		(97)	97		(147)	147
Subtotal addition -/- release)		(47)	47		54	(54)
Exchange rate differences	3	3	0	2	(2)	5
Other movements		18	(18)		44	(44)
Balance as at 31 December 2016	412	178	235	4,697	1,469	3,228

The real estate loans and the financial lease are covered by collateral; see paragraph 12.2.4.

On 27 September 2016, a large part of the loan portfolio was economically transferred to Lone Star and J.P. Morgan. Therefore, all the results out of this portfolio which were realised after the economic transfer are for Lone Star and J.P. Morgan. This transfer, as well as deconsolidation and foreclosures have resulted in a decrease of the provision.

Withdrawals concern the end of the term, economic transfer or sale of a loan and wind-down, as a result of which the loan and provision for the loan are no longer stated.

The net amount of 'Addition' and 'Release' ties in with the related figure in paragraph 16.26 Impairments. Please also refer to paragraph 10.3.13.2 Provision for impairment of loans and advances to customers.

For a full picture of the exposure, the real estate projects and assets held for sale are also set out in the following table.

For loans and receivables with associates see paragraph 16.19 Positions and transactions between Propertize, associated companies and joint ventures.

Lease portfolio

Overview maturities (In € millions)	Gross		Unearned interest		Impairment		Nett	
	2016	2015	2016	2015	2016	2015	2016	2015
< 1 year	9	32	(0)	(0)	(1)	-	8	31
1 - 5 year	94	108	(13)	(6)	(7)	(7)	74	95
> 5 year	5	112	(0)	(36)	(1)	(1)	4	75
Total	108	252	(13)	(42)	(9)	(8)	86	201

The lease assets are presented in the balance sheet as advances to customers of which the amount is equal to the net investment in the lease. Lease activities relate to the financing of property in The Netherlands. The unearned interest regards the interest to be received which are included in the lease payments. The amount of unguaranteed residual values (the value for which the lessee has a call option to purchase the property at the end of the term of the lease) is € 84 million (2015: € 119 million). In addition, some contracts include an option for the lessee to purchase the property at the end of the term at the market value. The residual values are remeasured on a regular basis, together with the other property finance loans, and a provision for any shortfall is taken, if necessary.

16.5 LOAN RECEIVABLE

On 27 September 2016, Propertize provided a loan to LSREF5 Swan Acquisition, initially of € 873 million. At the end of 2016 this loan amounted to € 882 million. This loan can be redeemed at any time, but on 30 September 2019 at the latest. The interest rate is 3 months Euribor + 3.75%. Since Euribor was negative, the interest rate was set at 3,75% and the interest earned was capitalised.

16.6 DEFERRED AND CURRENT TAX ASSETS AND LIABILITIES

Specification deferred tax assets and liabilities

(In € millions)

	2016	2015
Deferred tax assets	6	8
Deferred tax liabilities	(7)	(148)
Total	(2)	(140)

The deferred tax liabilities mainly relate to the difference between the tax and accounting valuation of the loan portfolio and the property projects portfolio. At the end of 2013, SNS REAAL agreed with the tax authorities that Propertize (at that moment still part of the fiscal unity SNS REAAL) would include an amount in the corporate income tax declaration for 2013 of € 967 million more in impairments than commercially usual. For this a passive deferred tax liability of € 241.8 million was created on Propertize's balance sheet on 31 December 2013 which will decrease as more commercial impairments are entered. At the end of 2016, the deferred tax liability on this item was € 7 million (2015: € 145 million). When calculating this deferred tax liability account is taken of the pace of the wind-down of the portfolio.

Please refer also to paragraph 16.27 Taxation for more information regarding the disentanglement on 31 December 2013.

	1 January		Change through profit or loss		31 December	
<i>(In € millions)</i>	2016	2015	2016	2015	2016	2015
Loans and advances to customers	(145)	(202)	139	57	(6)	(145)
Restructuring provision	5	4	(0)	1	5	5
Total	(140)	(198)	139	58	(2)	(140)

In 2016, the deferred tax liability decreased by € 138 million due to recognised impairments mainly as a result of a large part of the loan portfolio.

Current tax assets and liabilities

(In € millions)

	2016	2015
Current tax assets and liabilities within fiscal unity	40	42
Current tax assets and liabilities outside fiscal unity	1	(1)
Total	41	42

Current tax assets and liabilities relate to the years 2014, 2015 and 2016.

No deferred tax asset has been created for losses in foreign subsidiaries that are outside the fiscal entity, as there is insufficient certainty that these losses will be compensated by future profits. Potential liquidation losses are only taken into account to the extent that these can actually be realised in the foreseeable future. Depending on the final liquidations of a number of entities and the tax deductibility of actual liquidation losses that are still to be realised, it may be possible to realise a tax benefit of € 20-25 million in the coming years. For one specific tax benefit of € 22.5 million, it was agreed that the Dutch State will be entitled to receive this as part of the sale of Propertize.

16.7 OTHER RECEIVABLES

Specification other receivables

(In € millions)

	2016	2015
Debtors	1	36
Other receivables	6	6
Total	7	42

Debtors comprise the (short-term) invoices issued to customers in relation to the investment finance and financial lease portfolio. Other receivables consist of receivables from participants and tenants including any related provisions in the amount of € 3.1 million (2015: € 7 million). There are no other receivables from related parties.

The book value of receivables is included in the credit provisions process, in which the financial asset is tested for impairment and a provision is made, if necessary. The resulting provision is presented under the loans and advances to customers.

Other receivables include, amongst other items, receivables from tenants and financing of lease cars.

16.8 OTHER ASSETS

Specification other assets

(In € millions)

	2016	2015
Accrued interest	0	7
Other accrued assets	11	3
Accrued assets	11	10
Other taxes	0	1
Other advances	9	37
Total	20	48

The other taxes relate to VAT and social security charges. The line 'Other advances' mainly consists of mortgage debtors regarding repayments and interest.

16.9 CASH AND CASH EQUIVALENTS

Specification cash and cash equivalents

(In € millions)

	2016	2015
Cash and balances with other banks	64	584
Total	64	584

This item relates to the bank balances of Propertize and its subsidiaries in the amount of € 64 million (2015: € 584 million). Of this amount, € 5 million is not freely available.

In 2015, an amount of € 2.1 million was restricted.

16.10 ASSETS HELD FOR SALE

In 2016, Propertize was in the process of selling a part of its loan portfolio to Lone Star. These loans amounted to a total of € 48 million. This sale will be completed in the first half year of 2017.

In 2015, all the conditions for finalising the sale of the Ørestad property were met. The largest part of the property was transferred in 2015. The part of € 21 million which was categorised as held for sale at the end of 2015 was delivered in the first quarter of 2016.

Specification assets held for sale

(In € millions)

	2016	2015
Property projects	-	21
Loans	48	-
Total	48	21

16.11 EQUITY

Specification equity

(In € millions)

	2016	2015
Share capital and share premium reserve	3,117	3,117
Other reserves	(1,940)	(1,940)
Retained earnings	(234)	46
Equity attributable to the owner of the parent company	943	1,223

The number of issued and paid-up shares is 50,003 with a nominal value of € 1 per share. For further information on total equity, see paragraph 8.3 Consolidated statement of changes in equity.

In 2016 a dividend was paid to NLF I of € 46 million.

16.12 PROVISIONS

16.12.1 SPECIFICATION PROVISION FOR EMPLOYEE BENEFITS

Propertize's pension scheme with the Stichting Pensioenfonds ABP (ABP) is a defined benefit scheme. However, the ABP pension scheme does not offer a consistent and reliable basis for charging costs, mutual fund investments and costs for the scheme for individual participating employees. That is why this pension scheme is treated as a defined contribution scheme for reporting purposes and Propertize has made no provision in the balance sheet for post-employment benefits.

16.12.2 OTHER PROVISIONS

Specification other provisions

(In € millions)

	2016	2015
Restructuring provision	18	19
Other provisions	1	1
Total	19	20

Statement of changes in restructuring provision

(In € millions)

	2016	2015
Balance as at 1 January	19	18
Addition	0	2
Withdrawal	(1)	(1)
Balance as at 31 December	18	19

After the sale of Propertize to Lone Star, the staff was informed about the updated strategy during several sessions with Executive Board and Works Council. During these sessions it was made clear to the staff that the social plan would stay in place until the end of 2023.

The future of Propertize is still uncertain. The Executive Board believes that 2017 will be a transition year for Propertize to change from a loan providing company into a loan servicing company. Each year, new business has to be acquired. Although management is confident, it is uncertain how successful Propertize will be in realizing that goal. However, the Executive Board does not expect that Lone Star will stop these activities within one year.

The social plan is still valid. According to this plan people will be assisted in finding a new job for a period of nine or twelve months in which they are exempted from work, but will still be receiving their salary. When they've found a new job, or after these nine months, people also receive a termination benefit.

The principles underlying the calculation of the restructuring provision are reassessed annually. The discount rate is based on a yield of high quality corporate bonds – EUR Europe Corporate AA+, AA, AA-. Since the curve showed a negative yield up to three years, the discount rate used in the calculation of the Restructuring provision is now set at zero (2015: 0.50%).

The other provision concerns a provision in relation to claims, excluding claims which are already included in the valuation of the asset item as regards advances to customers and property projects. This also includes a provision for guarantees where the payment probability is estimated as being higher than 50%.

16.13 DEBT CERTIFICATES

Debt certificates

(In € millions)

	2016	2015
Medium Term Notes (MTN)	-	2,597
Total	-	2,597

On 28 June 2016, the Dutch State and Propertize entered into a notes agreement into which was agreed to transfer Propertize's MTN debt position to the Dutch State and that the Dutch State should substitute Propertize as principal debtor under these MTNs. The noteholder meetings agreed with this transfer. At the date of the transfer, € 2,350 million was outstanding. Propertize paid this amount partly out of its own cash position as well as out of funding retrieved from LSREF5 Swan Finance, a Lone Star company.

16.14 LOAN PAYABLE

After the completion of the sale of Propertize to Lone Star on 27 September 2016, Propertize received funding from LSREF5 Swan Finance for an amount of € 373 million. At the end of 2016 this loan amounted to € 258 million, consolidated. The loan can be repaid at any time, but on 30 September 2019 at the latest. The interest rate is 3 months Euribor + 3.64% and capitalised. Since Euribor was negative, the actual interest rate was 3.64%.

16.15 OTHER LIABILITIES

Other liabilities

(In € millions)

	2016	2015
Trade creditors	2	5
Un-earned interest associates	-	12
Other liabilities (accruals and deferred income)	47	58
Accrued interest	4	15
Total	53	91

Other liabilities includes a discount on the economically transferred portfolio, which has to be settled. Furthermore, other liabilities consist of accrued liabilities and deferred income (income not yet taken which will be recognised in the result in future periods). The decrease of this item and the un-earned interest associates is mainly due to the sale of a large part of the loan portfolio to Lone Star and J.P. Morgan.

The accrued interest decreased mainly as a result of the decrease of the funding needed.

The provision made in relation to the unused holiday entitlements of Propertize's employees is marginal at € 0.6 million (2015: € 0.5 million) and is presented under 'Other liabilities'.

16.16 OFF BALANCE SHEET COMMITMENTS

16.16.1 CONTINGENT LIABILITIES

Guarantees

An obligation is included in the balance sheet for guarantees with a probability exceeding 50%. Guarantees with a pay-out probability between 10% and 50% are recognised under contingent liabilities. A liability is included in the balance sheet for guarantees with a pay-out probability exceeding 50%. Propertize has given guarantees to third parties of € 1.6 million (2015: € 3.4 million) of which € 0.8 million (2015: € 0.6) is part of other liabilities.

Not included in the guarantees is the € 13 million guarantee that Propertize has issued to SNS Financial Markets as beneficiary for the guaranteed margin on the derivatives that SNS Financial Markets has concluded on behalf of customers of Propertize. When estimating the loan provisions

from the client concerned, a negative market value on derivatives is taken into account. See for further information the next paragraph.

Duty of care

A number of Propertize's customers have a loan contract including variable interest, consisting of an Euribor rate and an interest surcharge. In addition, these customers concluded a derivatives contract with SNS Bank in order to fix the Euribor rate of this loan provided by Propertize.

Propertize has issued a guarantee to SNS Bank in relation to potential shortfall for this customer group after settlement of the derivative. Any claims arising from an infringement of the duty of care on the part of SNS bank when entering into the derivatives agreement, are not covered by this guarantee.

In the context of the unbundling of Propertize and the SNS REAAL group, agreements have also been made concerning the settlement of the derivatives provided by SNS Bank. According to this agreement SNS Bank is responsible for the handling of complaints and claims regarding the provision of services rendered during the closing and execution of the derivatives. Propertize issued an indemnification therein to SNS Bank for potential claims following from not settling a derivatives contract in due time if a customer can no longer fulfil its margin obligations.

Compensation interest rate derivatives files

The Financial Markets Authority (AFM) has found that reassessments of interest derivatives files at the six banks involved included inaccuracies and omissions. The AFM announced to set up a recovery framework to which the various derivative files will be tested. The Minister of Finance appointed an independent committee of specialists who established the recovery framework. The final version of the recovery framework has been published on December 19, 2016. All Dutch banks who provided derivative products are a party to the recovery framework. Propertize is no party to the recovery framework (since Propertize only provided the loan and not the derivative product) and is therefore not bound to compensate clients on the basis of the Recovery Framework.

16.16.2 OPERATIONAL COMMITMENTS

In its daily operations, Propertize has entered into operational commitments with various parties. At year-end 2016 the main contracts were:

- Daalseplein 101, lease on ground floor and two floors, including parking spaces. Contract for 5 years, starting on 1 September 2015, annual rent € 0.7 million.
- Car lease contract. At year-end 2016 the number of cars leased is 43, annual rent € 0.3 million, with a 2 or 5-year contract, commenced February 2014 (cancellable upon payment of a penalty). Propertize itself finances the loan component.
- ICT services. This concerns a 3-year contract, annual amount € 1.4 million (commenced on 21 September 2014), with automatic prolongation afterwards for a consecutive year.

The total amount of future minimum payments based on irrevocable commitments amounts to € 4.4 million (2015: € 6.6 million), of which € 2 million within one year, and the remainder between 1-5 years.

16.17 LEGAL PROCEEDINGS

Propertize is involved in legal proceedings. Although it is impossible to predict the result of pending or threatened legal proceedings, on the basis of information currently available and after consulting legal advisors, the Executive Board believes that the outcome of these proceedings is unlikely to have any material adverse effects on the financial position or operating results of Propertize. A litigation provision is only recognised for those claims and legal cases which are more likely than not (> 50%) to result in a possible outflow of economic benefits. On the basis of the assessment of the various litigation proceedings and in consultation with legal advisors, a litigation provision of € 0.6 million has been recognised at year-end 2015.

Legal costs in relation to the day-to-day operation of Propertize's loans and advances and property projects are recognised in the projected cash flow calculations as part of the provisions of the aforementioned balance sheet items.

Propertize is confronted with a number of claims, in particular:

Belval

One of Propertize's property projects is the Belval Plaza project in Luxembourg. Since the loans were not repaid as agreed, in 2009 Propertize started to enforce its collateral, and as a result Belval Plaza was fully controlled by Propertize (and its subsidiary) as of 2009, until the sale to Lone Star on 28 October 2016.

Various (sub)contractors and suppliers started legal proceedings against the Belval Plaza companies for the payment of outstanding invoices and alleged compensation. To date, some disputes have been settled, while others have been withdrawn or are still ongoing. Propertize still strongly rejects all remaining claims.

In the second half of March 2013, 14 tenants of the commercial centres Belval Plaza I Mall and Belval Plaza II issued a claim against the Belval companies and four subsidiaries for alleged compensation of more than € 16 million. Out of court settlements have already been reached with some of these tenants and settlement agreements were concluded whereby they waived their claims. The proceedings with a small number of tenants are still continuing.

Trustees of 2SQR companies

The trustees of the 2SQR companies hold Propertize liable for the asset shortfall of an approximate total € 157 million of the seven 2SQR companies that went bankrupt in 2011/2012. Propertize has indicated that it does not accept any liability and has disputed the arguments of the trustees in court.

Colmar

In december 2016 Colmar Group Spain S.A. as well as two other Spanish companies related to Mr Ronald Ras started legal proceedings against Propertize and claim an amount of € 158 million plus consequential damages in relation to a possible refinancing in 2010 of Spanish real estate projects. Propertize rejects any liability in this matter.

Potential irregularities during the period 2011-2013

The investigation into integrity initiated in 2012 following signs of possible conflicts of interest and fraud by external members of staff of Propertize was completed in 2014. As a result of this investigation within Propertize, a number of irregularities were found to have occurred. The irregularities regarding invoices and expense claims have caused damage to Propertize. Recourse actions have been instituted. If these recourse actions are successfully completed, the proceeds will accrue to Propertize and will be accounted for at that moment.

16.18 RELATED PARTIES

A related party is a person or entity that has significant influence over another entity, or has the ability to affect the financial and operating policies of the other party. Parties related to Propertize include until 27 September 2016, the day Propertize was sold to Lone Star, NLF with control on behalf of the Dutch State (Ministry of Finance) with significant influence. After 27 September 2016, Lone Star and its subsidiaries became a related party. Furthermore, associates, joint ventures, managers in key positions and close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other related entities are part of the related parties.

Propertize has applied the partial exemption for government-related entities as described in IAS 24 sections 25-27. Propertize maintains various sorts of ordinary business relations with related companies and parties, particularly in the area of financing.

Transactions with related parties are conducted subject to market conditions, with the exception of transactions with the Dutch State. In the case of transactions with related parties, the best practice provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code have been fulfilled.

16.19 POSITIONS AND TRANSACTIONS BETWEEN PROPERTIZE, ASSOCIATED COMPANIES AND JOINT VENTURES

Positions between Propertize, associated companies and joint ventures

(In € millions)	Associated companies		Joint ventures		Total	
	2016	2015	2016	2015	2016	2015
Positions						
Loans and advances receivable (gross)	902	39	130	318	1,032	357
Provision for impairment	-	(11)	(64)	(194)	(64)	(205)
Loans and advances receivable (net)	902	28	66	124	968	152
Loans payable	258	-	-	-	-	-
Transactions						
Interest income	9	1	6	18	15	19
Change in loans and advances (provisio	11	(2)	130	7	141	5

No significant transactions occurred during the reporting period.

The usual conditions regarding lending apply to loans that Propertize has granted to associates and joint ventures, including foreclosure of collateral in the event of default of a borrower.

For more information please see paragraph 16.2 Associates and joint ventures.

16.19.1 POSITIONS AND TRANSACTIONS BETWEEN PROPERTIZE AND NLFI / THE DUTCH STATE

As at 31 December 2013 up until 27 September 2016, NLFI was the sole shareholder of Propertize. On 27 September 2016, NLFI sold all its shares in Propertize to Lone Star. LSREF 5 Swan Acquisition, a Lone Star company, now holds 100% of the shares in Propertize.

NLFI charged Propertize a fee for the costs incurred. In 2016 this fee was € 2.1 million (2015: € 1.4 million). In 2016, this amount included the settlement based on recalculation of the cost allocation 2015 and advisory services regarding the sale of Propertize.

Propertize had external funding at its disposal for a nominal amount of € 2,350 million on 27 September 2016, guaranteed by the Dutch State. The Dutch State charged a guarantee premium of 30 basis points for the issue of a guarantee on the debt instruments of Propertize. This premium is calculated on the entire outstanding amount. In 2016, the total fee charged was € 5.0 million (2015: € 7.9 million) for the period 1 January until 27 September.

On 28 June 2016, the Dutch State and Propertize entered into a notes agreement under which it was agreed to transfer Propertize's MTN debt position to the Dutch State and that the Dutch State would substitute Propertize as principal debtor under these MTNs. The noteholder meetings agreed with this transfer. As of the date of the transfer, € 2,350 million was outstanding. Propertize paid this amount, partly from its own cash position and partly from funding received from LSREF5 Swan Finance.

16.19.2 POSITIONS AND TRANSACTIONS WITH SWAN ACQUISITION AND SWAN FINANCE

In 2016, the following transactions between Propertize and LSREF5 Swan Finance and LSREF5 Swan Acquisition (both Lone Star companies) took place:

- Directly after the completion of the sale of Propertize to Lone Star, Propertize economically transferred for € 1,187 million a large part of its loan portfolio to Swan Finance, which resulted in a total loss of € 293 million.
- The shares of Belval were sold to LSREF5 Swan Finance for an amount of € 12,8 million, which resulted in a total loss of € 16 million.
- Propertize received funding from LSREF5 Swan Finance in the amount of € 373 million. As of the end of 2016, this loan amounted to € 258 million, on a consolidated basis. The loan can be repaid at any time, but on 30 September 2019 at the latest. The interest conditions for this loan are 3 months Euribor + 3.64% and is added to the loan (2016: € 3.0 million).

- Propertize issued a loan to LSREF5 Swan Acquisition of € 873 million. At the end of 2016 this loan amounted to € 882 million. The loan can be repaid at any time, but on 30 September 2019 at the latest. The interest conditions for this loan are 3 months Euribor + 3.75% and is added to the loan (2016: € 8.7 million).
- In 2016, Propertize charged LSREF5 Swan Finance a service fee for servicing its loan portfolio of € 7.4 million.

16.19.3 POSITIONS AND TRANSACTIONS WITH MANAGERS IN KEY POSITIONS OF PROPERTIZE

Managers in key positions comprise the (current and previous) members of the Executive Board and the (current and previous) members of Propertize's Supervisory Board.

The remuneration of the individual members of the Executive Board and the Supervisory Board of Propertize are explained in paragraph 5.6 Remuneration report of the Supervisory Board. This information is part of the consolidated financial statements.

16.20 SUBSEQUENT EVENTS

There were no material subsequent events in 2017 relating to 2016.

16.21 NET INTEREST INCOME

Net interest income

<i>(In € millions)</i>	2016	2015
Interest income	65	114
Interest expenses	(22)	(22)
Net interest income	43	92

The net interest income decreased by € 49 million (-53%) to € 43 million. Because of the wind-down, interest income decreased by € 49 million. Interest expenses Stayed at the same level as 2015. The decreasing need for funding compensated for the higher interest rates Propertize has to pay. This is the result of the fact that Propertize can no longer fund itself under a State guarantee. Furthermore, the high balances at the bank accounts during the year were charged with 0.4%.

The interest expenses include costs from current accounts, external funding (MTNs and ECPs), and costs of loans from other banks and related transactions, as well as other interest-related charges.

16.22 PROPERTY PROJECTS INCOME

Property projects income

<i>(In € millions)</i>	2016	2015
Rental income	7	18
Service charge income	3	5
Property projects income	10	23

This item comprises the components rental income and service charge income on property projects. The decrease in rental income with € 11 million was caused by a number of entities that were sold or deconsolidated in 2016 as a result of a changed 'in control' (IFRS-definition) situation.

Adjusted for comparison purposes (see also section 9 Profit and loss account management view), the rental income from property projects would have come to € 9 million for 2015.

Specification property projects income by region

<i>(In € millions)</i>	2016	2015
The Netherlands	5	12
Other Europe	5	11
Total property projects income	10	23

16.23 OTHER INCOME AND RESULT ON SALE OF PROPERTY

This comprises the share in results of associates and joint ventures, result on financial instruments, the sale of property and other operating income.

Other income

(In € millions)

	2016	2015
Share in result of associates and joint ventures	(1)	3
Result on financial instruments economic transfer	(177)	-
Result on financial instruments other	(9)	(0)
Service fee	8	-
Other operating income	7	12
Result on asstes held for sale	(1)	5
Total other income	(173)	144

Results on financial instruments

(In € millions)

	2016	2015
Result sale portfolio	(177)	-
Result reclass lease portfolio held for sale	(9)	-
Other results	0	0
Total results on financial instruments	(186)	0

The decrease in the result on financial instruments is mainly caused by the sale of the performing loan portfolio.

As of 2016, other income includes the service fee which Propertize receives out of its activities as a service provider. These fees are calculated as a percentage of the portfolio under management.

Other operating income mainly concerns the income from Bonita. This income decreased by € 6 million as a result of the sale of the Bonita property on 1st July 2016.

Result sale of property

(In € millions)

	2016	2015
Sale of property	36	124
Bookvalue sale of property	(36)	(124)
Total result sale of property	0	0

In 2016 this in particular concerned the sale of buildings in The Netherlands and the United States of America. In 2015 this in particular concerned the sale of buildings in The Netherlands, Denmark and Luxembourg.

16.24 STAFF COSTS

Staff costs

(In € millions)

	2016	2015
Salaries	15	17
Pension costs	0	2
Social security	2	2
Temporary staff	1	4
Other staff costs	2	3
Total	21	28

Other staff costs consist largely of travel costs and training and education costs. The restructuring costs (additions and releases) of the total staff of Propertize are included in 'Salaries' for a total amount of € 0.4 million (2015: € 1.6 million). The interest component is reported under interest expenses.

Transactions with individual members of the Executive Board and the Supervisory Board of Propertize are explained in paragraph 5.6 Remuneration report of the Report of the Supervisory Board. This information forms part of the consolidated financial statements.

Number of FTE at year-end

	2016			2015		
	Main office	Other	Total	Main office	Other	Total
Internal	130	0	130	158	0	158
External	2	1	3	6	52	58
Total	132	1	133	164	52	216

The number of internal FTEs decreased in 2016 as a consequence of the normal outflow of staff as well as the reassignment of 7 employees. There was also a decrease in the number of external employees. The decrease in the total FTE numbers are the result of winding down the portfolio.

External staff of Propertize as a percentage of total FTEs decreased to 2.2% (2015: 3.6%), based on contractual hours.

Pension costs

Propertize's pension scheme with the Stichting Pensioenfonds ABP (ABP) is a defined benefit scheme. However, the ABP arrangement does not provide a consistent and reliable basis for charging liabilities, mutual fund investments and costs of the scheme to individual participating employees. That is why this pension scheme is treated as a defined contribution scheme for reporting purposes.

ABP is a pension fund to which approximately 4,000 employers are affiliated, with over 2.8 million participants. The annual premium is € 7.8 billion (2015; employer and employee). ABP bears all the risks of the pension obligations. The premium is a so-called moderated cost coverage premium, including – if necessary – either surcharges to cover deficits or premium discounts to bring down excessive surpluses in the pension fund. The coverage level of the ABP in accordance with the most recently published information was 96.6% at year-end 2016.

Set against this, Propertize's share in the ABP is marginal. Propertize's contribution to the ABP (employer part) is estimated at € 1.5 million rounded for the year 2016 (2015: € 2 million).

16.25 OTHER OPERATING EXPENSES

The other operating expenses are impacted by the entities which were sold in 2016 (Belval, Bonita and Babylon). Adjusted for comparison purposes (see also section 9), the other operating expenses for 2015 would have come to € 32 million.

Other operating expenses

<i>(In € millions)</i>	2016	2015
External advisors	12	6
Audit, fiscal and legal advice	2	3
Housing	2	3
IT systems	4	2
Other costs	16	31
Total	36	45

The increase of costs for external advisors was mainly caused by the costs related to the sale of Propertize. The other operating expenses decreased mainly as a result of lower other costs at

Belval, Bonita and Babylon because of the fact that these entities were sold during the year. The other expenses include the property tax, administrative costs and promotional and marketing expenses.

16.26 IMPAIRMENTS

Specification impairment charges / reversals by class of asset

(In € millions)	2016			2015		
	Impairments	Reversals	Total	Impairments	Reversals	Total
Property projects	5	(0)	5	22	(36)	(14)
Economic transfer Property projects	19	(3)	16	-	-	-
Loans and advances to customers	48	(88)	(40)	201	(147)	54
Economic transfer Loans	263	(103)	160	-	-	-
Deconsolidation	-	-	-	2	(21)	(19)
Economic transfer other	2	(5)	(3)	-	-	-
Other	0	(7)	(7)	2	(10)	(8)
Total through profit or loss	337	(206)	131	227	(214)	13

The tax deductibility of impairments for corporate income tax depends on the nature of the impairment; by 'nature' is meant whether the impairment is taken on a loan, a property project or an associate.

The economic transfer is realized at the purchase price calculated by Lone Star and J.P. Morgan respectively, and agreed upon with Propertize. The differences between the Propertize book value and purchase prices from Lone Star and JPM, leading to an additional loss at the moment of the economic transfer of € 359 million (€ 173 million impairments and € 186 million discounts (page 54)), are mainly caused by:

- a difference in cash flow projections, sometimes also driven by using another exit strategy, exit timing and expected exit value;
- a deviation in the return on investments used for calculating the present value of those cash flow projections, as a result of different levels of required cost of equity, cost of debt and leverage;
- the related costs for winding down the remaining part of the current portfolio;

and the fact that under IFRS for the loan portfolio only incurred losses are taken into account. Lone Star and JPM have also taken possible expected losses in consideration by estimating their cash flows projections.

16.27 TAXATION

Specification taxation

(In € millions)	2016	2015
In financial year	64	57
Current tax assets and liabilities due	64	57
Due to temporary differences	(139)	(58)
Total	(75)	(1)

Reconciliation between statutory and effective tax rate

(In € millions)	2016	2015
Statutory income tax rate	25%	25%
Effective tax rate	24%	(3)%
Result before tax	(316)	45
Statutory income tax amount	77	(11)
Exempted/Non-deductible results associates	4	5
Other, mainly non-deductible expenses	(1)	(1)
Adjustment CIT previous years	(5)	8
Total	75	1

The effective tax rate is lower than the applicable rate of 25% in the Netherlands due to the fact that the negative results on associates are non-tax deductible (as a result of the participation exemption). The non-tax deductible part of the negative result resulted in a lower effective tax rate in 2015. Local corporate income tax is not calculated on the profit from the entities that are outside the Propertize fiscal unity to the extent that the profit can be compensated by losses from the past.

No deferred tax asset has been created for losses in foreign subsidiaries that are outside the fiscal entity, as there is insufficient certainty that these losses will be compensated by future profits. Potential liquidation losses are only taken into account to the extent that these can actually be realised in the foreseeable future. Depending on the final liquidations of a number of entities and the tax deductibility of actual liquidation losses that are still to be realised, it may be possible to realise a tax benefit of € 20-25 million in the coming years. For one specific tax benefit of € 22.5 million it was agreed that the Dutch State will be entitled to receive this as part of the sale of Propertize.

Fiscal unity

With the transfer of the shares of SNS Property Finance, the fiscal unity with SNS REAAL was ended. As from 31 December 2013, Propertize BV, together with a major part of its Dutch subsidiaries, constitutes a fiscal unity for corporate income tax. For VAT purposes the fiscal unity started on 1 January 2014. All companies within the Dutch fiscal entity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the fiscal unity.

Up until the time of separation on 31 December 2013, SNS Property Finance was part of the fiscal unity of SNS REAAL. Based on the advanced tax ruling agreed by SNS Reaal with the Dutch Tax Authority, it was determined that the reduction in value of the portfolio (€ 2.8 billion) that was used for its transfer, is directly and fully recognised for tax purposes. All financial relationships associated with tax between SNS Property Finance and SNS REAAL were settled at year-end 2013. The final settlement with the tax authorities in previous years did not result in any tax payments or restitutions in 2012 and 2013. Propertize is no longer jointly and severally liable for the income tax losses of SNS REAAL after the disentanglement from the fiscal unity with SNS REAAL.

Please also refer to paragraph 16.6 Deferred and current tax assets and liabilities.

16.28 NOTES TO THE CASH FLOW STATEMENT

In 2016, a number of entities were deconsolidated, which had no material effect on the results.

Cash flow from operating activities

The Property projects item also includes the settlement of the item 'Assets held for sale' at year-end 2015. During 2016, the loans and claims were wound down by mainly as the result of the economic transfer of a large part of our loan portfolio to Lone Star and J.P. Morgan. Furthermore regular repayments and early redemptions contributed to the increase of cash flow from operating activities.

Cash flow from financing activities

In 2016, the MTNs were transferred to the Dutch State (please refer to paragraph 16.13) and partly replaced by funding received from LSREF5 Swan Finance, a Lone Star company. Thanks to the high cash position at the moment of transfer, as well as the economic transfer of a large part of the portfolio, only a limited amount of funding was needed.

17. Company financial statements

17.1 COMPANY BALANCE SHEET

Company balance sheet

<i>(In € millions)</i>	Notes	31-12-2016	31-12-2015
Assets			
Tangible fixed assets	18.1	1	1
Subsidiaries	18.2	401	422
Receivables from subsidiaries	18.3	183	420
Investments in associates and joint ventures		1	1
Loans and advances to customers	18.4	76	2,905
Loan to shareholder	18.5	882	-
Deferred tax assets		5	7
Other receivables	18.6	5	37
Other assets	18.6	13	37
Cash and cash equivalents	18.7	33	544
Total assets		1,600	4,374
Equity and liabilities			
Share capital and share premium reserve		3,117	3,117
Statutory reserves		1	1
Other reserves		(1,941)	(1,941)
Retained earnings		(234)	46
Equity attributable to the owner of the parent company	18.8	943	1,223
Provision investment in subsidiaries	18.9	121	159
Other provisions		19	19
Debt certificates	18.10	-	2,597
Loan payable	18.11	226	-
Amounts due to group companies	18.12	167	86
Deferred tax liabilities		7	148
Corporate income tax		50	46
Other liabilities	18.13	67	96
Total liabilities		657	3,151
Total equity and liabilities		1,600	4,374

Subsidiaries are (in)direct group companies of Propertize BV.

17.2 COMPANY INCOME STATEMENT

Company income statement

<i>(In € millions)</i>	2016	2015
Result on subsidiaries after taxation	(149)	13
Other results after taxation	(85)	33
Net result for the period	(234)	46

17.3 PRINCIPLES FOR THE PREPARATION OF THE COMPANY FINANCIAL STATEMENTS

Propertize prepares the company financial statements in accordance with the statutory provisions of Book 2, Section 402 of the Dutch Civil Code. Based on this, the result on associated companies after taxation is the only item shown separately in the income statement. Use has been made of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code to use the same principles for valuation and the determination of the result that are used in the consolidated financial statements for the company financial statements. Reference to section 10 is made to the Accounting principles for the consolidated financial statements.

For additional information on items not explained further in the notes to the company balance sheet, reference is made to the 'Notes to the consolidated financial statements'.

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

Subsidiaries are all companies and other entities in respect of which Propertize has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by Propertize. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with Propertize accounting policies, are included in the profit and loss account. The distributable reserves of subsidiaries are included in other reserves.

Statutory reserves associates is maintained in relation to the (not yet received as dividend) share in the result (and other additions to equity) of associates accounted for using the equity method since initial recognition, and insofar Propertize is not able to execute payment without restriction(s).

18. Notes to the company financial statements

18.1 TANGIBLE FIXED ASSETS

In 2015 Propertize moved to a new building at the Daalseplein 101 Utrecht. For the new premises was invested in facilities. This is included in the line facilities.

Specification tangible fixed assets

(In € millions)

	2016	2015
IT equipment	-	0.0
Other assets	0.9	1.1
Total	0.9	1.1

Statement of changes in tangible fixed assets

(In € millions)

	2016	2015
Accumulated acquisitions costs	1.6	1.5
Accumulated amortisation and impairments	(0.7)	(0.4)
Balance as at 31 December	0.9	1.1
Balance as at 1 January	1.1	0.2
Investments	0.1	1.2
Depreciation	(0.3)	(0.2)
Balance as at 31 December	0.9	1.1

18.2 SUBSIDIARIES

Developments at subsidiaries

The major developments in the consolidation are explained in more detail below.

Belval

On 28 October 2016, the shares of Propertize and PRPZ Financiering Participaties B.V in Belval Plaza Holding S.A., the project in Luxembourg, were sold to LSREF5 Swan Finance S.à.r.l. The proceeds of this sale amounted to € 12.8 million and a profit of € 2.9 million.

The sale impacted the balance sheet items Property projects with -€ 82.9 million, Cash and cash equivalents -€ 2,8 million, Other assets and liabilities -€ 34.3. As a result of the deconsolidation and subsequent classification as joint venture the balance sheet item Loans and advances to customers increased with € 51.5 million.

Aprilvast

Due to the economic transfer of the Aprilvast loan to Lone Star, Propertize reviewed its 'in-control' position. It was concluded that Propertize was no longer 'in-control' and therefore deconsolidated this entity.

This deconsolidation results in a decrease of the balance sheet items Property projects -€ 7.5 million, and other assets and liabilities -€ 7.8 million. The cash and cash equivalents of Aprilvast at the moment of deconsolidation were € 0.3 million.

The main deconsolidations in 2015 related to:

- Überseequartier (deconsolidation).
- Procom Desarrollos Urbanos (deconsolidation).

Subsidiaries

(In € millions)

	2016	2015
BPF Onroerend Goed Lease en Financieringen B.V.	90	113
B.V. De Haarlemsche Maatschappij voor Hypothecaire Financiering	72	73
BPF Onroerend Goed Advies en Transacties B.V.	1	1
BPF Onroerend Goed Beheer B.V.	4	4
BPF Onroerend Goed Projecten B.V.	13	13
PRPZ Management B.V.	0	0
PRPZ Management II B.V.	0	0
PRPZ Interim Finance B.V.	200	218
PRPZ Participations Restructuring B.V.	21	-
Total	401	422

Statements of changes in subsidiaries

(In € millions)

	2016	2015
Balance as at 1 January	422	408
Result	(149)	40
Capital contribution	279	-
Adjustments subsidiaries with negative equity book value	(263)	26
Other movements	111	-
Balance as at 31 December	401	422

The adjustment for subsidiaries with negative equity book value is the adjustment to the carrying amount in relation to Propertize's share of losses in the subsidiary that exceeds the interest in the subsidiary. The recognition of these losses is explained in more detail in the following section.

If the losses in subsidiaries exceed the equity book value, the book value is set at zero, and a provision is taken on the loans and advances to these entities for the remaining amount of the loss, if any. If Propertize did not issue any loans to the subsidiary in question, or there is no current account with the subsidiary, a provision is recognised to the extent that Propertize is liable for the losses in the subsidiary.

18.3 RECEIVABLES FROM SUBSIDIARIES

Subsidiaries are (in)direct group companies of Propertize BV.

Receivables from subsidiaries

(In € millions)

	2016	2015
BPF Onroerend Goed Lease en Financieringen B.V.	49	103
Babylon Den Haag B.V.	-	12
Belval Plaza Holding S.A.	-	93
Woningportefeuille NL Divers B.V.	-	-
Überseequartier Project B.V.	63	64
The Wall B.V.	-	30
Interim Participaties B.V.	3	10
Orestad Development Aps	34	34
Participaties Restructuring Nederland B.V.	-	30
Other	33	44
Total	183	420

The receivables from subsidiaries concern loans and current account balances. No interest is charged or recognised by Propertize on the current account balances.

In 2016, Babylon, The Wall, Flaine and Vallorcine were refinanced. This resulted in lower receivables from subsidiaries at Propertize level. Belval Plaza Holding S.A. was sold to LSREF5 Swan Finance, a Lone Star company.

The receivables from subsidiaries include adjustments in relation to negative participations for an amount of € nil million (2015: € 24.9 million).

18.4 LOANS AND ADVANCES TO CUSTOMERS

Specification loans and advances to customers

(In € millions)

	2016	2015
Outstanding loans (gross amount)	163	4,269
Provision for impairments	(87)	(1,365)
Total loans and advances to customers (net)	76	2,905

Statement of changes in loans and advances to customers

(In € millions)

	2016	2015
Balance as at 1 January	4,269	5,428
Consolidations and Foreclosures	51	57
Addition	4	26
Redemptions	(1,627)	(1,248)
Economic transfer	(2,515)	-
Exchange rate differences	-	7
Movement in current accounts	(20)	(2)
Balance as at 31 December	163	4,269

Of the total net amount of € 76 million, an amount of € 24 million is due within one year (2015: € 583 million).

18.5 LOAN TO SHAREHOLDER

On 27 September 2016, Propertize provided a loan to LSREF5 Swan Acquisition, initially of € 873 million. At the end of 2016 this loan amounted to € 882 million. This loan can be redeemed at any time, but on 30 September 2019 at the latest. The interest rate is 3 months Euribor + 3.75% and is added to the loan (2016: € 8.7 million).

Statement of changes loan to shareholder

(In € millions)

	2016	2015
Opening balance 27 September 2016	873	-
Accrued interest	9	-
Closing balance 31 December 2016	882	-

18.6 OTHER RECEIVABLES AND OTHER ASSETS

The other receivables and other assets are all due within one year.

18.7 CASH AND CASH EQUIVALENTS

The cash position was € 33 million at the end of 2016 (2015: € 544 million). Propertize uses the available cash for its day-to-day operations. Of this amount, € 5 million is not freely available.

18.8 EQUITY

Consolidated statement of changes in equity

	Issued share capital	Share premium reserves	Other reserves	Retained earnings	Equity attributable to the owner of the parent company
<i>(In € millions)</i>					
Balance as at 1 January 2015	0	3,117	(1,891)	(49)	1,177
Transfer of net result 2014	-	-	(49)	49	-
Transfers 2014	-	-	(49)	49	-
Amounts charged directly to equity	-	-	-	-	-
Net result 2015	-	-	-	46	46
Total result 2015	-	-	-	46	46
Transactions with shareholder	-	-	-	-	-
Balance as at 31 December 2015	0	3,117	(1,940)	46	1,223
Dividend to shareholder	-	-	-	(46)	-
Net result 2016	-	-	-	(234)	-
Total result 2016	-	-	-	(234)	-
Balance as at 31 December 2016	0	3,117	(1,940)	(234)	943

Please refer to paragraph 8.3 Consolidated statement of changes in equity for more information. The line item 'other movements' concerns the movement in the statutory reserve associates.

Issued share capital

The authorised share capital is equal to the number of issued shares. All the share capital is fully paid up and comprises ordinary shares. The nominal value of the ordinary shares is € 1. The number of issued shares as at 31 December 2016 is 50,003.

On 27 September 2016, all shares were sold by NLFI to Lone Star, a global private equity firm that invests in real estate, equity, credit and other financial assets. There is only one class of ordinary shares. Propertize pursues a provision and dividend policy that is adopted and may be changed by the General Meeting of Shareholders.

18.9 PROVISION INVESTMENTS IN SUBSIDIARIES

Provisions investment in subsidiaries

<i>(In € millions)</i>	2016	2015
PRPZ Financiering Participaties B.V.	121	159
Total	121	159

This balance sheet item relates directly to the balance sheet item 'Investments in subsidiaries' regarding negative value of associates. For this refer to notes to paragraph 16.2.

For other provisions see paragraph 16.12.2 Provisions in notes to the consolidated financial statements.

18.10 DEBT CERTIFICATES

Debt certificates

<i>(In € millions)</i>	2016	2015
Medium Term Notes (MTN)	-	2,597
Total	-	2,597

On 28 June 2016, the Dutch State and Propertize entered into a notes agreement in which was agreed to transfer Propertize's MTN debt position to the Dutch State and that the Dutch State should substitute Propertize as principal debtor under these MTNs. The note holder meetings agreed with this transfer. At the date of the transfer, 27 September 2016, € 2,350 million was outstanding. Propertize paid this amount partly out of its own cash position as well as out of funding retrieved from LSREF5 Swan Finance, a Lone Star company.

18.11 LOAN PAYABLE

After the completion of the sale of Propertize to Lone Star, and the transfer of the MTN debt position to the Dutch State, Propertize was funded by LSREF5 Swan Finance for an amount of

€ 373 million. At the end of 2016 this loan amounted to € 226 million. This loan can be redeemed at any time, but on 30 September 2019 at the latest. The interest rate is 3 months Euribor + 3.64% and is added to the loan (2016: € 2.7 million).

18.12 AMOUNTS DUE TO GROUP COMPANIES

Amounts due to group companies

(In € millions)

	2016	2015
BPF Onroerend Goed Beheer B.V.	4	4
BPF Onroerend Goed Projecten B.V.	13	13
PRPZ Interim Finance B.V.	64	48
BV De Haarlemsche Mij voor Hypothecaire Financiering	71	21
PRPZ Financiering Participaties B.V.	15	-
Total	167	86

18.13 OTHER LIABILITIES

The other liabilities at the end of 2016 all have a maturity date shorter than one year. In 2015, of the other liabilities an amount of € 30.9 million had a maturity date of more than one year. Forward exchange transaction contracts (FX-contracts) of € 0.5 million have been recognised under Other liabilities (2015: € 0.5 million). These FX-contracts are used to hedge foreign currency positions. For more information about the notional amounts please refer to paragraph 12.3.5 Currency risk.

19. OFF BALANCE SHEET COMMITMENTS

19.1 GUARANTEES

Propertize has provided guarantees as referred to Book 2, section 403 of the Civil Code for:

- BV De Haarlemsche Maatschappij voor Hypothecaire Financiering
- BPF Onroerend Goed Lease en Financieringen BV
- PRPZ Financiering Participaties BV
- PRPZ Interim Finance BV

19.2 OTHER OFF BALANCE SHEET COMMITMENTS

For more information about the other off balance sheet commitments, please refer to paragraph 16.16 of the consolidated financial statements.

19.3 RELATED PARTIES

Positions and transactions between Propertize and its subsidiaries and affiliated companies

<i>(In € millions)</i>	2016	2015
Receivables from subsidiaries	180	420
Loan receivable from associate	882	-
Amounts due to group companies	(167)	(86)
Provision investments in subsidiaries	(121)	(159)
Loan payable	(226)	-
Income	15	22
Expenses	(3)	-

For more information regarding related parties, please refer to paragraph 16.18 of the consolidated annual accounts.

20. SUBSEQUENT EVENTS

For more information about the subsequent events, please refer to paragraph 16.20 of the consolidated financial statements.

21. AUDIT FEES

In the financial year, the following fees of the audit firm Ernst & Young Accountants LLP and the other EY companies were charged to the organisation, to its subsidiaries and other companies it consolidates, all this as referred to in Book 2, section 382A of the Dutch Civil Code.

(In € thousands)	Ernst & Young Accountants LLP	2016 Other EY network	Total
Statutory audit of annual financial statements, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	381		381
Other assurance services	28		28
Tax advisory services		8	8
Other non-audit services		2	2
Totaal	409	10	419

(In € thousands)	Ernst & Young Accountants LLP	2015 Other EY network	Total
Statutory audit of annual financial statements, including the audit of the financial statements and other statutory audits of subsidiaries and other consolidated entities	565	110	675
Other assurance services	10		10
Tax advisory services		-	-
Other non-audit services		-	-
Totaal	575	110	685

Utrecht, 23 March 2017

Supervisory Board

P. Couturier (Chairperson)
A. Hesse
J.L. Cason

Executive Board

Hans Copier, CEO
Jack Mondt, CFO
Eddie Byrne, CPO

22. OVERVIEW OF PRINCIPAL SUBSIDIARIES

An overview is provided below of Propertize BV's main subsidiaries. Participation in the subsidiaries is 100% unless stated otherwise.

Overview principal subsidiaries

BPF Onroerend Goed Advies en Transacties B.V.	Hoevelaken
BPF Onroerend Goed Beheer B.V.	Hoevelaken
BPF Onroerend Goed Lease en Financieringen B.V.	Hoevelaken
BPF Onroerend Goed Projecten B.V.	Hoevelaken
B.V. De Haarlemsche Maatschappij voor Hypothecaire Financieringen	Haarlem
Hoevelaken Real Estate B.V.	Hoevelaken
PRPZ Financiering Participaties B.V.	Utrecht
PRPZ Interim Finance B.V.	Utrecht
PRPZ Management B.V.	Utrecht
PRPZ Management II B.V.	Utrecht
PRPZ Participations Restructuring B.V.	Utrecht

Other participations

Koppelenweg I B.V. (33.3%)	Hoevelaken
----------------------------	------------

23. OTHER INFORMATION

23.1 PROVISIONS REGARDING PROFIT OR LOSS APPROPRIATION

Result 2016: € 234 million loss.

The loss appropriation will be determined in accordance with Propertize BV's Articles of Association applicable per 31 December 2014.

Article 23

23.1 The General Meeting has the right to appropriate the profit that was determined by adoption of the financial statements and to adopt distributions, with due observance of the adopted provision and dividend policy as referred to in Article 23.2 and the statutory limitations.

23.2 Propertize BV pursues a provision and dividend policy that is adopted and may be changed by the General Meeting. The Executive Board can make a proposal to that effect with the approval of the Supervisory Board. The adoption of, and subsequent change to the provision and the dividend policy will be dealt with and recognised as a separate item on the agenda of the General Meeting.

23.3 The power of the General Meeting to adopt distributions applies to both distributions at the expense of profit not reserved and to distributions at the expense of any reserves, and to distributions on the occasion of the adoption of the financial statements and to interim distributions.

23.4 A resolution to make distributions will not have an effect as long as the Executive Board has not granted its approval. The Executive Board will only refuse to grant its approval if it knows or should reasonably foresee that Propertize BV will not be able to continue to pay its payable debts after making the distribution.

Profit or loss appropriation

The loss for the financial year 2016 is applied to the other reserves of Propertize BV.

23.2 INDEPENDENT AUDITOR'S REPORT

To: the shareholders and the supervisory and executive boards of Propertize BV

Report on the audit of the financial statements 2016

Our opinion

We have audited the 2016 financial statements of Propertize BV, based in Utrecht. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Propertize BV as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of Propertize BV as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2016
- The following statements for 2016: the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of accounting principles and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2016
- The company income statement for 2016
- The notes comprising a summary of the accounting principles and other explanatory information

Basis for our opinion

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

We are independent of Propertize BV in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Report on other information included in the annual report

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

- The executive board's report
- The report of the supervisory board
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

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

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the executive board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

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

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

Our responsibilities for the audit of the financial statements

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

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

Misstatements can arise from fraud or error 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. We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, 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 management
- 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 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 a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

Amsterdam, 23 March 2017

Ernst & Young Accountants LLP

signed by J.C.J. Preijde RA

