# SUMMARY ANNUAL REPORT

# 2018

ing cdc pensioenfonds

Financial year
**1-1-2018** incl. **31-12-2018**

# 1. Key figures

All amounts are rounded to thousands of euros, unless otherwise stated.

| | 31-12-2018 | 31-12-17 | 31-12-16 | 31-12-15 | 31-12-14 |
|---|---|---|---|---|---|
| **Numbers** | | | | | |
| Participants | **14,086** | 14,060 | 14,572 | 15,083 | 15,902 |
| Former participants | **6,708** | 5,608 | 4,019 | 2,422 | 931 |
| Pension beneficiaries | **359** | 234 | 140 | 87 | 36 |
| **Total** | **21,153** | **19,902** | **18,731** | **17,592** | **16,869** |
| **Financial data** | | | | | |
| **Investments at pension fund's risk** | | | | | |
| Invested assets | **1,570,700** | 1,287,064 | 915,170 | 566,911 | 302,037 |
| Investment result | **252** | 58,064 | 71,861 | -4,984 | 37,408 |
| Return on investments* | **0.3%** | 4.9% | 11.7% | 1.5% | 20.8% |
| **Technical provisions** | | | | | |
| Provision for pension liabilities own account | **1,416,764** | 1,098,757 | 866,427 | 520,197 | 243,003 |
| Provision for pension liabilities reinsurance | **2,796** | 1,953 | 2,742 | 4,061 | 6,906 |
| **Total technical provisions** | **1,419,560** | **1,100,710** | **869,169** | **524,258** | **249,909** |
| **Reserves** | | | | | |
| General reserve | **160,288** | 194,009 | 57,207 | 51,191 | 55,920 |
| **Funding ratio** | | | | | |
| Present | **111.3%** | 117.6% | 106.6% | 109.8% | 122.4% |
| Required (strategic, 2014: real) | **119.9%** | 120.4% | 120.8% | 118.4% | 116.3% |
| Minimum required | **104.4%** | 104.4% | 104.4% | 104.4% | 104.4% |
| Policy | **117.9%** | 114.3% | 103.7% | 112.9% | |
| Real | **93.8%** | 90.1% | 82.6% | 88.6% | |

*The return on investment is the arithmetic average of the year's monthly returns. Total return on investment was negative due to the large loss in December. However, as the return on investment was positive in most months, the arithmetic average for 2018 turned out positive.

| Contributions by employers and employees | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Pension plan contributions | **277,758** | 303,980 | 275,214 | 268,118 | 256,198 |
| Other contributions | **4,276** | 4,140 | 3,585 | 3,536 | 13,684 |
| **Total** | **282,034** | **308,120** | **278,799** | **271,654** | **269,882** |
| | | | | | |
| **Pension benefits** | **1,276** | 738 | 442 | 241 | 34 |
| **Costs** | | | | | |
| Operating and administration costs | **3,189** | 3,250 | 2,800 | 2,935 | 2,435 |
| Pension administration (in euros per participant and pension beneficiary) | **221** | 227 | 190 | 193 | 153 |
| Asset management (as % of invested assets) | **0.19%** | 0.20% | 0.26% | 0.32% | 0.54% |
| **Indexation** | | | | | |
| 1-1-2019 / 1-1-2018 / 1-1-2017 / 1-1-2016 / 1-1-2015 | **0.87%** | **0.07%** | **0.00%** | **0.19%** | **0.00%** |

# 2. Highlights of 2018

**2018 was a busy year for ING CDC Pensioenfonds. Alongside all the effort that went into day-to-day pension administration, asset management and communicating with our participants, a great deal of energy went into the route towards the new pension plan that was scheduled to take effect on 1 January 2019.**

Throughout 2018, ING CDC Pensioenfonds had multiple meetings with the social partners to discuss the administrative, communicative, financial and legal aspects of the new pension plan envisaged by the social partners, while the board itself did not take part in the negotiations. ING CDC Pensioenfonds then assessed whether the negotiated result reached by the social partners would be financially feasible, justifiable and suitable for administration and, based on the outcome, it accepted the task of executing the new pension plan. One of the most important changes under the new pension plan is that the employer's share of the pension contribution will no longer be determined on an annual basis, but will instead be fixed for several years in advance. In 2019, 2020 and 2021, the company's annual pension contribution will be 31.5% and in 2022 and 2023 it will be 30.5%. Every year, ING CDC Pensioenfonds will assess whether the contribution that had been fixed for that year is sufficient to cover the pension accrual rate targeted for the following year. If it isn't, the accrual rate will be adjusted downward.

The pension fund's financial position is largely determined by developments in the financial markets and interest rates. As in every year, this meant the pension fund's investment policy had to be monitored closely throughout 2018. The board met at least once every month to discuss changes in interest rates and in the pension fund's funding ratio, investment policy and interest rate hedging as well as other relevant factors, such as macro-economic trends, central banks' monetary policies and geopolitical aspects (particularly Brexit and the trade war between the USA and China). Although the phasing-in procedure that had been agreed when the pension fund was incorporated was completed in 2017, the board so no reason to modify the strategic allocation of the pension fund's investments during 2018. However, given the growing volume of assets managed, there will be a need for further diversification going forward. Following the conclusions of an asset & liability management (ALM) review, it was decided to modify the strategic investment policy and gradually implement these changes in 2019 and 2020. Implementation is dependent on multiple factors, including the pension fund's level of statutory capital required by law. Relevant in this context is that ING CDC Pensioenfonds has had a reserve deficit since the end of September 2015 and has had to produce a recovery plan. As long as the pension fund has a reserve deficit, it is not allowed to increase its risk profile.

In light of the discussions on modification of the pension fund's strategic investment policy, a survey was conducted to find out how much risk and uncertainty the participants would be willing to accept. The survey revealed that all participants, regardless of their age, consider certainty and return on investment an important factor. On the other hand, the participants are aware that a certain degree of risk is unavoidable in order to acquire more pension. The outcome of the survey was taken into account when the pension fund's investment policy was modified. The survey also showed that, in terms of trust, the participants rate the pension fund 7.4 on a 10-point scale. ING CDC Pensioenfonds is very pleased with this outcome. Over the past year, we put a lot of energy into comprehensive and transparent communications on the pension fund's policies, financial position, results and consequences for the participants, as well as on the roles of the social partners and the pension fund in the 'pension triangle'. Our aim was always to raise pension awareness among the participants.

The survey showed that the average level of awareness and knowledge of pensions and investments among our participants is higher than in the market as a whole.

Nevertheless, we have noticed gaps and we will continue to focus our efforts on improving their knowledge and awareness. The key theme of socially responsible investments (SRI) was on the agenda quite frequently. As early as in 2017, we took measures to update and refine our SRI policy, which we continued to implement in 2018. The board consulted external experts and aligned the pension fund's policies with those of both employers (ING and NN Group).

The turbulent developments on the financial markets, particularly in the last months of 2018 when factors including geopolitical tensions mounted, had a large impact on the pension fund's funding ratio. At year-end 2018, the pension fund's current funding ratio was 111.3%. The policy funding ratio (the average current funding ratios for the preceding twelve months) was 117.9% at year-end 2018.

Under the provisions of the new Financial Assessment Framework and the pension fund's internal regulations, the pension fund is allowed to increase pensions if its policy funding ratio as at 30 September 2018 was higher than 110%. On that reference date, it was 118.7%. Taking into account the rules for increasing pensions and future-proof indexation, it was decided that pensions would be increased by 0.87% with effect from 1 January 2019. This is significantly higher than the increase granted with effect from 1 January 2018 (0.07%).

Over the past year, we saw the impact of European regulations grow in multiple areas. For example, by the entry into force of the General Data Protection Regulation (GDPR) regarding data storage and privacy. The board members and all board bureau staff were given a detailed presentation on the contents and requirements of the GDPR and in-depth consultations were held with the pension fund's outsourcing partners. Within the board bureau, a data protection officer was appointed to monitor compliance with the GDPR.

The pension fund is also being affected by new regulations under the EU directive regarding Institutions for Occupational Retirement Provision (IORP). In anticipation of the debate on the implementation of IORP II in the Dutch upper house of parliament, ING CDC Pensioenfonds has already taken action to meet the requirements of the directive, including the introduction of key positions.

The organisation and staffing of the board bureau was changed drastically by the appointment of a new director in January 2018, modification of the management structure, appointment of a new (temporary) head of investments and a new (temporary) integral risk manager via internal promotions and by enhancement of the AML team. This has clearly led to improved support for the board. The board bureau performed excellently in its contacts with the social partners regarding the new pension plan and in liaising with and maintaining sustainable relationships with other stakeholders such as the accountability board, the supervisory committee, the Dutch central bank (DNB) and the Netherlands Authority for the Financial Markets (AFM). We now have in place a productive working relationship through which the pension fund and its stakeholders can find one another when necessary.

The pension fund worked together with Pensioenfonds ING on a number of topics. Particularly noteworthy were the efforts made in collaboration with NN CDC Pensioenfonds and the employers ING and NN Group with regard to the Pension Fund Academy. This initiative demonstrates that these pension funds are making innovative efforts to stimulate diversity. The Pension Fund Academy initiative won the 2018 Pension Pro Innovation Award.

The board and the supervisory committee regularly had meetings and constructive liaisons with one another. Not only do discuss regular topics, but also regarding specific themes such as the investment policy and developments regarding the new pension plan. The supervisory committee was also involved in the procedure for recruiting and selecting new board members in 2018.

Based on the resignation schedule, which was introduced as part of the new management structure in order to lower the average age of the board and raise its diversity, two vacancies arose. Candidates have been nominated for both board positions, and they have already been assessed by the supervisory committee. Appointment of these candidates is now waiting for approval by the Dutch central bank (DNB). We hope to be able to confirm their appointment in the second quarter of 2019.

As said in the introduction above, a great deal of energy went into preparing for the situation in 2019 and the years after that. For example, we already know the social partners intend to have more fundamental discussions on pension as an employment condition, based on the outcome of the national debate on revising the pension system and on changes within the company. ING CDC Pensioenfonds also specifically reviewed the potential impact of a new national pension agreement and looked into alternative ways for organising the administration of ING's pension plan and its collaboration with NN CDC Pensioenfonds. Given that little progress has been made towards a new national pension agreement, we have not drawn any conclusions or taken immediate action. However, we will continue to monitor these developments next year in order to prevent the pension fund from being caught by surprises that could be detrimental to our participants.

# 3. Balance sheet

All amounts are rounded to thousands of euros, unless otherwise stated.

## Balance

(after appropriation of results)

| Assets | 31-12-2018 | | 31-12-2017 | |
|---|---|---|---|---|
| **Investments at pension fund's risk** | | | | |
| Real estate investments | 170,812 | | 131,421 | |
| Equities | 429,983 | | 388,973 | |
| Fixed income investments | 975,078 | | 763,117 | |
| Derivatives | 540 | | 3,607 | |
| | | 1,576,413 | | 1,287,118 |
| **Receivables and prepayments** | | 1,727 | | 2,275 |
| **Cash and cash equivalents** | | 10,533 | | 6,685 |
| **Total assets** | | 1,588,673 | | 1,296,078 |

| Liabilities | 31-12-2018 | | 31-12-2017 | |
|---|---|---|---|---|
| **Reserves** | | | | |
| Fund's capital | 160.288 | | 194.009 | |
| | | 160.288 | | 194.009 |
| **Technical provisions for pension fund's risks** | | | | |
| Provision for pension liabilities | 1.416.764 | | 1.098.757 | |
| Provision for occupational disability risk | 2.796 | | 1.953 | |
| | | 1.419.560 | | 1.100.710 |
| **Current liabilities and accrued liabilities** | | 8.825 | | 1.359 |
| **Total liabilities** | | 1.588.673 | | 1.296.078 |

# 4. Cash flow statement

| Pension activities | | 2018 | | 2017 |
|---|---|---|---|---|
| **Income** | | | | |
| Contributions by employers and employees | 282,416 | | 306,269 | |
| Benefits from reinsurance | 0 | | 0 | |
| Incoming value transfers of pension rights | 9,655 | | 7,074 | |
| Other | 1 | | 0 | |
| | **292,072** | | **313,343** | |
| **Expenditure** | | | | |
| Pension benefits | -1,539 | | -967 | |
| Premium for reinsurance | -1,965 | | -884 | |
| Outgoing value transfers of pension rights | -81 | | -78 | |
| Operating and administration costs | -3,038 | | -3.218 | |
| Other | | | 0 | |
| | **-6,623** | | **-5,147** | |
| **Total pension activities** | | **285,449** | | **308,196** |
| | | | | |
| **Investment activities** | | | | |
| **Income** | | | | |
| Sale and redemption of investments | 983,707 | | 527,051 | |
| Direct investment results | 30,121 | | 26,324 | |
| | **1,013,828** | | **553,375** | |
| | | | | |
| **Expenditure** | | | | |
| Acquisition of investments | -1,295,749 | | -859.404 | |
| Asset management expenditures | 320 | | -893 | |
| | **-1,295,429** | | **-860,297** | |
| | | **-281,601** | | **-306,922** |
| **Movement in cash and cash equivalents** | | **3,848** | | **1,274** |
| **Cash and cash equivalents at 1 January** | | **6,685** | | **5,411** |
| **Cash and cash equivalents at 31 December** | | **10,533** | | **6,685** |

## Colofon

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