SUMMARY ANNUAL REPORT 2017

Financial year
1-1-2017 incl **31-12-2017**

NN CDC pensioenfonds

1. Key figures

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

	31-12-17	31-12-16	31-12-15	31-12-14
Numbers				
Participants	5,273	5,697	5,779	6,032
Former participants	2,219	1,579	1,375	711
Pension beneficiaries	141	84	39	9
Total	**7,633**	**7,360**	**7,193**	**6,752**
Financial data				
Investments at pension fund's risk				
Invested assets	434,512	309,973	191,627	100,535
Investment result	19,126	24,156	-2,032	12,237
Return on investments*	4.9%	11.7%	1.2%	20.2%
Technical provisions				
Provision for pension liabilities own account	369,669	292,799	176,048	80,865
Provision for pension liabilities reinsurance	415	680	701	1,564
Total technical provisions	**370,084**	**293,479**	**176,749**	**82,429**
Reserves				
General reserve	66,193	19,564	17,051	19,296
Funding ratio				
Present	117.9%	106.7%	109.6%	123.4%
Required (strategic, 2014: real)	120.4%	120.8%	118.4%	116.3%
Minimum required	104.3%	104.4%	104.5%	105.1%
Policy	114.6%	103.7%	113.2%	
Real	90.3%	82.6%	88.8%	

*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 2015 turned out positive.

	2017	2016	2015	2014
Contributions by employers and employees				
Pension plan contributions	103,150	93,948	92,794	85,704
Other contributions	2,646	2,325	2,275	5,146
Total	**105,796**	**96,273**	**95,069**	**90,850**
Pension benefits	361	183	63	25
Costs				
Operating and administration costs	1,937	1,794	1,845	1,570
Pension administration (in euros per participant and pension beneficiary)	358	310	317	260
Asset management (as % of invested assets)	0.30%	0.37%	0.47%	0.90%
Indexation				
1-1-2018 / 1-1-2017 / 1-1-2016 / 1-1-2015	0.09%	0.00%	0.20%	0.00%

2. Highlights of 2017

NN CDC Pensioenfonds started 2017 with the implementation of a final governance model and a new governance structure. The managing board was enlarged by one additional position, all board members having equal voting rights, and the audit committee was replaced by a supervisory committee. These changes marked the end of the transitional period that had been in place since the pension fund was incorporated in the second half of 2013. While all parties involved had to get used to the new structure, the managing board, the supervisory committee and the supervisory board were able to agree quickly and smoothly on everyone's roles and responsibilities.

Overall developments in the financial markets and particularly with regard to capital market interest rates took up a lot of the managing board's time and attention in 2017. The pension fund's investment and interest hedging policies not only take into account the pension fund's commitments, which are very long-term on average, but also focus on current short-term risks. This means the pension fund needs to review its investment and hedging policies on a continuous basis. These reviews revealed that there was no reason to deviate from the phasing-in policy that had been agreed when the pension fund was incorporated. The phasing-in policy entails that as the pension fund grows, the proportion of assets it allocates to investments in equity and property grows as compared with investments in fixed-interest securities such as bonds.

While the pension fund sets targets for its return on investment, it is aware that these must be in balance with the fund's social responsibility. It has therefore had a strong focus on the principles of socially responsible investments. The managing board wants the pension fund's investments to have no involvement in human rights abuses, use of (serious cases of) child labour, fraud or corruption, certain types of environmental pollution or controversial weapons, and subscribes to the United Nations' Principles for Responsible Investment. In consideration of these principles, specific policies were developed, including lists of exclusions and inclusions and voting guidelines.

The pension fund's funding ratio (based on the calculation method prescribed by the Dutch central bank) was 117.9% at year-end 2017. The policy funding ratio (the average current funding ratios for the preceding twelve months) was 114.6% at year-end 2017. Under the regulatory requirements of the new Financial Assessment Framework, pension funds are allowed to increase pensions if they have a policy funding ratio in excess of 110%.
ING CDC Pensioenfonds therefore decided to increase pensions, albeit a very small increase (0.09%) due to the rules for future-proof indexation.

The decision to increase pensions is complicated and, alongside developments regarding funding ratios and recovery plans, illustrates the importance of communicating continuously with the pension fund's participants as well as the company's former employees and pensioners through direct, frank and clear messages about the pension fund's core policies and results, and their consequences for participants. Making participants more aware of their pension situation is an important aspect of the pension fund's communications. The Pension Planner plays an important role in this process. In 2017 the pension fund started digitalising its legally required pension communications in order to cut costs.

In addition to current topics, forecasts for the future were almost always on the managing board's agenda. The main issue in 2017 was whether or not to raise the actuarial retirement age from 67 to 68 years. After intensive consultations on this topic, the social partners decided to use their legal right to maintain the actuarial retirement age for ING's employees at 67 years instead of raising it. As a consequence of this decision, the annual pension accrual rate for 2018 will be lowered from 1.875% to 1.738%.

The managing board also considered the future in view of the expiry of the current pension agreement on 1 January 2019. In the second half of 2017, the parties to the collective labour agreement started negotiations aimed at implementing a new pension agreement with effect from 1 January 2019. NN CDC Pensioenfonds provides technical support in this process when needed or requested, although the managing board itself does not take part in the negotiations. After all, this the task of the social partners, while the pension fund's role consists primarily of assessing whether the negotiated result will be feasible in terms of administration, finances and communications. Nevertheless, the managing board also has a responsibility of its own when it comes to assessing which scenario would best safeguard the interests of the participants and the future of the pension fund. These deliberations will be continued in 2018 and a final decision is expected by mid-2018.

Given that the operations and activities of NN CDC Pensioenfonds and ING CDC Pensioen-fonds will remain highly similar for the time being, shared support by a joint board bureau will continue to be the most efficient solution in terms of costs and staffing. In order to facilitate collaboration with the board bureau of Pensioenfonds ING, it was decided to locate both board bureaus in the same building.

In 2017 the managing board decided to modify the board bureau's management structure. As a result, some positions were either vacant or partly filled in 2017. Vacancies were filled on a temporary basis by internal or external staff. A new director was recruited, who started in early 2018. The board bureau's staff members managed to deliver continuous support to the managing board in 2017 and adequately fulfilled the bureau's tasks. The managing board is ready to face whatever challenges 2018 will bring.

3. Balance sheet

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

Balance

(after appropriation of results)

Assets

	31-12-2017		31-12-2016	
Investments at pension fund's risk				
Real estate investments	44,472		24,830	
Equities	131,111		96,024	
Fixed income investments	257,701		193,638	
Derivatives	1,246		642	
		434,530		315,134
Receivables and prepayments		484		572
Cash and cash equivalents		2,601		2,273
Total assets		437,615		317,979

Liabilities

	31-12-2017		31-12-2016	
Reserves				
Fund's capital	66,193		19,564	
		66,193		19,564
Technical provisions for pension fund's risks				
Provision for pension liabilities	369,669		292,799	
Provision for occupational disability risk	415		680	
		370,084		293,479
Current liabilities and accrued liabilities		1,338		4,936
Total liabilities		437,615		317,979

4. Cash flow statement

Pension activities	2017		2016	
Income				
Contributions by employers and employees	105,425		96,607	
Benefits from reinsurance	0		0	
Incoming value transfers of pension rights	1,756		1,837	
Other	0		0	
	107,181		**98,444**	
Expenditure				
Pension benefits	-568		-889	
Premium for reinsurance	-62		-157	
Outgoing value transfers of pension rights	-1,352		-62	
Operating and administration costs	-1,963		-1,511	
Other	0		0	
	-3,945		**-2,619**	
Total pension activities		**103,236**		**95,825**
Investment activities				
Income				
Sale and redemption of investments	180,844		72,561	
Direct investment results	8,811		6,424	
	189,655		**78,985**	
Expenditure				
Acquisition of investments	-291,875		-173,009	
Asset management expenditures	-688		-616	
	-292,563		**-173.625**	
		-102,908		**-94,640**
Movement in cash and cash equivalents		**328**		**1,185**
Cash and cash equivalents at 1 January		**2,273**		**1,088**
Cash and cash equivalents at 31 December		**2,601**		**2,273**

Colofon

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