

Annual Report 2017

NN Dutch Residential Mortgage Fund

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

Contents

1.	General information.....	3
2.	Key figures.....	4
2.1	Key figures Participation Class I	4
2.2	Key figures Participation Class Z.....	6
3.	Board of director's report	8
4.	Financial statements 2017	33
4.1	Balance sheet	34
4.2	Profit and loss statement	35
4.3	Cash flow statement	36
4.4	Notes.....	37
4.5	Notes to the balance sheet	40
4.6	Notes to the profit and loss statement	49
4.7	Other general notes	50
4.8	Notes for Participation Class I	53
4.9	Notes for Participation Class Z	56
5.	Other information	59

1. General information

Manager

NN Investment Partners B.V.
Schenkkade 65
2595 AS The Hague, The Netherlands
Internet: www.nnip.nl

Board members NN Investment Partners B.V.

S.S. Bapat
H.W.D.G. Borrie
M.C.M. Canisius
V. van Nieuwenhuijzen
J. Schmiedová

Custodian

The Bank of New York Mellon SA/NV, Amsterdam Branch
Strawinskylaan 337
1077 XX Amsterdam, The Netherlands

Auditor

KPMG Accountants N.V.
Papendorpseweg 83
3528 BJ Utrecht

Custodian Company

NNIP Bewaar Maatschappij III B.V.

Board members NNIP Bewaar Maatschappij III B.V.

H. Brink
T. Katgerman
N.C. Spaans

Banker

The Bank of New York Mellon SA/NV
Montoyerstraat 46
1000 B-Brussels, Belgium

Transfer Agent

The Bank of New York Mellon SA/NV, Amsterdam Branch
Strawinskylaan 337
1077 XX Amsterdam, The Netherlands

2. Key figures

2.1 Key figures Participation Class I

		2017	2016
Net asset value (x 1,000)	€	1,596,066	947,987
Units of participation outstanding (number)		14,729,595	8,975,723
Net asset value per unit of participation	€	108.36	105.62
Dividend per unit of participation	€	2.31	-
Net performance Participation Class	%	4.85	5.62

Summary of investment result

Amounts x € 1,000	2017	2016
Investment income	33,424	15,895
Operating expenses	-6,497	-3,239
Revaluation	36,663	12,831
Total investment result	63,590	25,487

Summary of investment result per unit of participation

Amounts x € 1	2017	2016
Investment income	2.76	2.81
Operating expenses	-0.54	-0.57
Revaluation	3.03	2.27
Total investment result	5.25	4.51

2.1.1 Notes to key figures Participation Class I

Reporting period

The amounts for 2017 refer to the balances at 31 December or to the period from 1 January through 31 December 2017.

The amounts for 2016 refer to the balances at 31 December or to the period from 1 December 2015 (inception of the Fund) through 31 December 2016.

Net asset value per unit of participation

The net asset value of all participation classes of the Fund will be determined by the Manager. The Manager calculates the net asset value per Participation Class once per month. The net asset value per unit of participation is determined by dividing the net asset value of the relevant participation class by the number of outstanding units of participation of that participation class at the calculation date.

Net performance

The net performance of Participation Class I of the Fund is based on the net asset value per unit of participation, taking into account any dividend distributions to holders of units of participation.

Average number of outstanding units of participation

The average number of outstanding units of participation, used for the calculation investment result per unit of participation, is based on the weighted average of the outstanding units of participation on a monthly basis. This is in line with the number of times the calculation of the net asset value takes place during the reporting period.

Key figures per unit of participation

Due to the timing and volume of subscriptions and redemptions in combination with volatility in the results during the reporting period, the calculation of the key figures per unit of participation can provide a different outcome compared to the development of the net asset value per unit of participation during the reporting period.

2.2 Key figures Participation Class Z

		2017	2016
Net asset value (x 1,000)	€	85,075	77,754
Units of participation outstanding (number)		781,391	734,391
Net asset value per unit of participation	€	108.88	105.88
Dividend per unit of participation	€	2.31	-
Net performance Participation Class	%	5.08	5.88

Summary of investments result

Amounts x € 1,000	2017	2016
Investment income	2,082	1,459
Operating expenses	-224	-165
Revaluation	2,171	1,460
Total investment result	4,029	2,754

Summary of investment result per unit of participation

Amounts x € 1	2017	2016
Investment income	2.77	2.84
Operating expenses	-0.30	-0.32
Revaluation	2.89	2.84
Total investment result	5.36	5.36

2.2.1 Toelichting op de kerncijfers Participatieklasse Z

Reporting period

The amounts for 2017 refer to the balances at 31 December or to the period from 1 January through 31 December 2017.

The amounts for 2016 refer to the balances at 31 December or to the period from 1 December 2015 (inception of the Fund) through 31 December 2016.

Net asset value per unit of participation

The net asset value of all participation classes of the Fund will be determined by the Manager. The Manager calculates the net asset value per Participation Class once per month. The net asset value per unit of participation is determined by dividing the net asset value of the relevant participation class by the number of outstanding units of participation of that participation class at the calculation date.

Net performance

The net performance of Participation Class Z of the Fund is based on the net asset value per unit of participation, taking into account any dividend distributions to holders of units of participation.

Average number of outstanding units of participation

The average number of outstanding units of participation, used for the calculation investment result per unit of participation, is based on the weighted average of the outstanding units of participation on a monthly basis. This is in line with the number of times the calculation of the net asset value takes place during the reporting period.

Key figures per unit of participation

Due to the timing and volume of subscriptions and redemptions in combination with volatility in the results during the reporting period, the calculation of the key figures per unit of participation can provide a different outcome compared to the development of the net asset value per unit of participation during the reporting period.

3. Board of director's report

3.1 General information

NN Dutch Residential Mortgage Fund ("the Fund") has no employees. The Fund is managed by NN Investment Partners B.V., which is licensed by the Dutch Authority for the financial markets (AFM) under the Dutch Financial Supervision Act ('Wet op het financieel toezicht', also referred to as 'Wft'). All shares in NN Investment Partners B.V. are held by NN Investment Partners International Holdings B.V. and both these entities are part of NN Group N.V.

NN Investment Partners B.V. is part of NN Investment Partners (NN IP), an organizational unit within NN Group N.V. NN IP performs the managerial activities for the manager and provides administrative services to the collective investment schemes managed by the Manager. A large part of the investment activities of NN Group N.V. is grouped within NN IP. This includes the management and investment activities of the investment entities under management of NN Investment Partners B.V. NN Investment Partners also performs the management and investment activities of the insurance companies that are part of NN Group N.V.

3.2 Objective

The Fund is a fund that offers participants the opportunity to invest in a managed portfolio of mortgage debt arising under mortgage loans after 1 January 2014, granted in The Netherlands by NN Bank N.V. The Fund's investment policy is to achieve the highest possible total return in the long term based on spread of investments within the framework of the set risk profile.

3.3 Investment policy

The Fund invests the equity for the account and risk of the participants mainly in Dutch mortgage debt / mortgages that are granted by NN Bank N.V. after 1 January 2014. These mortgages all comply with the Code of Conduct on Mortgage financing ("Gedragscode Hypothecaire Financieringen"), the Dutch Financial Supervision Act and the regulation for Temporary control of mortgage credit ("de Tijdelijke regeling hypothecair krediet").

In this context, NN Investment Partners B.V. and NNIP Bewaar Maatschappij III B.V. have entered into an agreement with NN Bank N.V. ('Master Mortgage Receivables Purchase Agreement') under which mortgage debt is purchased for the benefit of the Fund from time to time.

The purchased mortgage debt will be held by the Custodian Company on behalf of the Fund. The transfer of the mortgage debt is by way of silent assignment. The Fund acquires the right of action and the mortgage customers are unaware that these loans have been transferred. NN Bank N.V. remains the point of contact for mortgage customers.

Every selection of mortgage debt that the Fund acquires constitutes, in the opinion of the Manager, a representative cross-section of the total relevant production of mortgage loans of NN Bank N.V. This ensures that the mortgages that are purchased by the Fund are equivalent in terms of return and risk characteristics to the mortgages that NN Bank N.V. itself maintains on the balance sheet. This ensures that the interests between NN Bank N.V. and the Fund are in line with one another. In addition, all mortgage debt in which the Fund invests will meet the Mortgage Loan Criteria as stipulated in the Master Mortgage Receivables Purchase Agreement.

Cash and cash equivalents, ensuing from interest income or repayments on the mortgages, will also be present in the Fund. Cash and cash equivalents at 31 December 2017 are invested in NN (L) Liquid EUR-Zz Cap EUR.

3.4 Investment restrictions

The Fund will invest in mortgages that meet the Mortgage Loan Criteria as stipulated in the Master Mortgage Receivables Purchase Agreement.

The Fund will invest a maximum of 50% of its equity in mortgage debt with NHG (National Mortgage Guarantee). The Fund may contract loans up to a maximum equal to 5% of the Fund's equity. If the limits described above are exceeded, the Manager will strive to bring the Fund's equity within the limits as soon as possible. The Manager is not obliged to dispose of the Fund's assets in this case. The Fund does not make use of securities lending techniques or repurchase agreements to generate additional income for the Fund. The Fund does not make use of derivatives.

Transactions with parties affiliated with NN Group N.V. will be conducted in line with generally accepted market practices.

3.5 Target group and risk profile

The Fund is aimed exclusively at qualified investors within the meaning of the Wft. The Fund offers investors the opportunity to invest in residential mortgages granted by NN Bank N.V. after 1 January 2014. The Fund has a conservative character as it invests in new mortgages that comply with recent regulations, which are directed towards repayments being made on the mortgages. In 2014, NIBUD standards were adjusted to avoid excessive lending and a Loan to Value (LTV) limit of 104% applies to the mortgages in which the Fund invests. Due to the correction in Dutch house prices, mortgages are currently provided based on more conservative collateral valuations. This is also to the benefit of the risk profile of new mortgage production.

3.6 Benchmark

None.

3.7 Structure

The Fund is a closed mutual fund for Dutch tax purposes and thus fiscally transparent for corporation tax and dividend tax.

The Fund has an open-ended character, except that there is no maximum number of units of participation. The extent to which participants can enter or exit depends upon the mortgage production at NN Bank N.V. and the liquid assets in the Fund. Units of participation in the Fund cannot be transferred to third parties. Transfer can only take place by having the Fund purchase units of participation. The Manager is not obliged to accept any purchase request. If and as long as one or more units of participation are offered to the Fund for purchase, the Manager will make no further investments until all of these units of participation have been purchased. Admittance and purchase of units of participation generally takes place on a monthly basis.

The Fund is an investment entity as defined in Section 1:1 of the Wft and following Section 4(1)(a) of the AIFMD it is a mutual fund for joint account with an open-ended structure. NN Investment Partners B.V. acts as manager of the Fund. NN Investment Partners B.V. is licenced as defined in Wft Section 2:65(1), preamble and (a).

The Fund is a mutual fund for joint account and therefore it is not a separate legal entity.

NNIP Bewaar Maatschappij III B.V. acts as custodian company (the Custodian Company). The Custodian Company is the legal owner of all the assets of the Fund. All assets are or will be acquired by the Custodian Company in its own name for the joint account and risk of the Participants.

Obligations that are or become part of the Fund are or will be entered into in the name of the Custodian Company. The Investments belonging to the Investment Fund are held in the name of the Custodian Company for the account and risk of the Participants.

The Investment Fund has two Participation Classes. Units of participation per Participation Class give the right to a proportionate share of the net asset value of the respective Participation Class. The Participation Classes within the Fund may mutually differ in terms of cost and fee structure, the minimum amount of initial deposit and demands on the quality of the investors.

The current Participation Classes of the Fund are:

- Participation Class I is intended for qualified investors as defined in the Wft or another legal concept taking its place at any time, for which a minimum initial deposit of € 1,000,000 applies, such that the deposited amounts, excluding decreases in value, will never be less than the stated amount.
- Participation Class Z is intended for other investment institutions and UCITS managed by the Manager or professional investors which (in another manner) pay a fee to the Manager itself or to a party affiliated with the Manager for the management of their assets.

The Fund has issued the following Participation classes at 31 December 2017, also showing the main characteristics of these Participation classes:

Summary of the main characteristics per participation class as at 31-12-2017

Participation Class I	Legal name	NN Dutch Residential Mortgage Fund -I
	Commercial name	NN Dutch Residential Mortgage Fund -I
	ISIN code	NL0010937074
	Management fee*	0.225%
	Fixed Miscellaneous Fee**	0.275%
	Subscription and redemption fee***	0.00%
Participation Class Z	Legal name	NN Dutch Residential Mortgage Fund -Z
	Commercial name	NN Dutch Residential Mortgage Fund -Z
	ISIN code	NL0010937082
	Fixed Miscellaneous Fee**	0.275%
	Subscription and redemption fee***	0.00%

** Management fee*

An annual management fee is charged to the participation class which is calculated pro-rata on a monthly basis by using the total net asset value of the Fund that is attributed to each Participation Class at the end of the month.

*** Fixed Miscellaneous Fee*

In addition to the management fee, the Manager charges a Fixed Miscellaneous Fee ('Vaste Overige Kostenvergoeding') to each Participation Class. This fee is calculated pro-rata on a monthly basis using the total net asset value of the Participation Class at the end of each month.

**** Subscription and redemption fee*

This is the fee that is charged to the participation holders when they purchase or sell units of participation in the Fund. This fee, which is calculated as a percentage of the value of the total subscriptions and/or redemptions, serves to protect the existing holders of units of participation in the Fund and is beneficial to the Fund.

3.8 Subscription and redemption of Units of Participation

Future participants may gain admittance to the Fund on each Admittance Date. Admittance to the Fund is only possible by means of a completed Application Form, which must be received by or on behalf of the Manager before the 15th day of a calendar month before the Cut Off time (12.00 midday Dutch time) at the address specified by or on behalf of the Manager as stated on the registration form, in order to be processed before the next Admittance Date. By signing the Application Form, the participant seeking subscription undertakes to pay the committed amount when the Manager, whether or not represented by the Transfer Agent, requests such by means of a deposit request.

Issue of units of participation always takes place on an issue date after a Participant has complied with a deposit request on the admittance date prior to the issue date. The units of participation are deemed to be issued at the Participation Value. The order of the issue of units of participation is determined by the Manager. Units of participation that are issued in the same calendar month before the cut-off time are deemed to be simultaneously issued and there is no priority between these units of participation. Committed amounts from previous months must be requested first and units of participation must be issued and orders must be executed for all these committed amounts before units of participation can be issued at the expense of later committed amounts.

Transfer of units of participation can only take place by having the Fund purchase units of participation. The Fund may purchase units of participation through a written request by a participant. The Manager is not obliged to approve any purchase requests. A purchase request is irrevocable and must be made before the 15th day of the calendar month or on the next working day after the 15th calendar day if the 15th calendar day is not a working day. The purchase request should be received by the Manager before the cut-off time (12.00 midday Dutch time). The Manager will process the order one month after it has been received in the manner explained above.

Units of Participation are purchased at the value calculated on the valuation date following the month in which the written purchase request is made, if this request is received before the cut-off time. If at the discretion of the Manager sufficient liquid assets are available in the Fund, the Manager will proceed with the purchase and acquisition of the relevant units of participation, as much as possible, in proportion to the total number of units of participation offered for purchase for each Participation Class.

3.9 Tax aspects

The Fund is a transparent entity in The Netherlands for tax purposes and is therefore not a subject to Dutch corporate income tax and is not responsible for deductions at source of Dutch dividend tax. To guarantee the closed character of the Fund, certain conditions may be attached to the transferability of the units of participation.

3.10 Meetings of the participants

A meeting of participants takes place at least once a year. The annual meeting will be held within eight months after the end of the financial year. In addition, the Manager will convene a meeting of participants if it considers this to be in the interest of the participants or if requested by one or more participants, who severally or jointly represent at least 1/4 of the total number of votes that can be cast. The number of meetings is limited to four per year.

Participants may bring forward topics to the Manager about which further information or consultation with other participants is desired. The agenda of the annual general meeting in any case includes, for information purposes, the financial statements of the Fund.

The following decisions require the prior consent of the meeting of participants and thus can only be taken after such a meeting:

- A decision to appoint a new manager.
- A decision to amend the Fund's investment policy.
- A decision to amend the Mortgage Loan Criteria.
- Decisions that reduce the rights or security of participants.

3.11 DUFAS Code Vermogensbeheerders

NN Investment Partners is a member of the Dutch Fund and Asset Management Association ('DUFAS'), the association of the asset management industry in The Netherlands. DUFAS represents the collective interests of the investment management industry for both retail and professional investment management.

On 1 October 2014, a special members meeting of DUFAS took place. During this meeting, in cooperation with its members, the text of the DUFAS Code on asset management (hereinafter 'The Code') was approved. This Code provides an answer to the question of what investors may expect from their investment manager. The Code consists of ten general principles, with a detailed explanation being provided for each principle.

The website of the Manager, www.nnip.nl, explains how the principles of the Code have been applied in 2017.

3.12 Custodian of the Fund

The assets of the Fund are in custody at The Bank of New York Mellon SA/NV, Amsterdam branch, who is appointed as custodian of the Fund (the “custodian”). The capital position of the custodian amounts to at least EUR 730,000.

The Manager and the Custodian of the Fund have entered into a written custody agreement. The main elements of this agreement are the following:

- The Custodian ensures that the cash flows of the Fund are properly verified and in particular that all payments by or on behalf of investors for subscriptions to units of participation have been received and that all cash of the Fund has been put on cash accounts in name of the Fund or in the name of the Custodian acting on behalf of the Fund. These cash accounts have to be held at (in principle) an entity as described in Section 18(1) (a), (b) and (c) of the European Directive 2006/73/EC (a credit institution or a bank that has been granted a licence in a third country).
- The assets of the Fund, consisting of financial instruments, are trusted to the Custodian. The Custodian holds all financial instruments that can be registered on a financial instruments account in its books on separate accounts in the name of the Fund. In addition, the Custodian holds all financial instruments that can be physically delivered to the Custodian.
- The Custodian ensures that the sale, issue and cancellation of units of participation as well as their redemption, take place in accordance with Dutch law and the regulations of the Fund.
- The Custodian ensures that the value of the units of participation in the Fund is calculated in accordance with Dutch law and the regulations of the Fund.
- The Custodian carries out the instructions of the Manager, unless they conflict with Dutch law or the regulations of the Fund.
- The Custodian verifies that upon transactions involving the assets of the Fund, the equivalent value is transferred to the Fund within the agreed timeframes.
- The Custodian verifies that the income of the Fund is allocated in accordance with Dutch law and the regulations of the Fund.

When carrying out its duties, the Custodian acts in the interests of the investors in the Fund.

According to Dutch law, the Custodian is liable towards the Fund or the investors for the loss by the Custodian or by a third party to whom the custody of financial instruments is transferred. In the event of such a loss of a financial instrument held in custody, the Custodian immediately refunds a financial instrument of the same type or for an equivalent amount to the Fund. The Custodian is not liable if it can prove that the loss is the result of an external event beyond its reasonable control and the consequences of which were unavoidable despite all efforts to prevent this.

The Custodian is also liable towards the Fund or investors for any other losses they incur because the Custodian intentionally or due to negligence does not properly comply with its obligations. According to Dutch law, a custodian can only avoid liability towards the Fund or the Manager for the loss of the financial instruments if:

- A. It has complied with all requirements applicable to the delegation of custody duties;
- B. It has a written agreement with the third party that performs the outsourced activities in which liability is transferred to the third party and by virtue of which the Fund, the Manager or the custodian on their behalf, can sue the third party for damages for loss of financial instruments on the same basis as that on which the custodian could originally be sued; and
- C. It has a written agreement with the Fund or the Manager in which the Fund or the Manager on behalf of the Fund agrees with the exclusion of the liability of the Custodian, including an objective reason for this exclusion.

3.13 Principal risks and uncertainties

Investments in the Fund provide financial opportunities, but also bring financial risks. The value of investments can fluctuate and participants of the Fund may possibly experience a pay-out that is lower than their initial investment.

An overview of the risks of the Fund, categorised to 'large, medium and small' are included in the prospectus. The prospectus will be updated when new regulation on risk management is effective. The main risks which the Fund encounters are:

Repayment risk

Mortgages may be repaid early. If a mortgage is repaid early, the receipts are, in principle, reinvested according to prevailing market conditions.

A 'conditional prepayment rate' (CPR) is taken into account in the valuation of the mortgages. The CPR is an estimate of the repayment on the underlying loans. As part of their continuous monitoring, NN Bank N.V. delivers information on the actual repayments on the mortgage portfolio of the Fund. Based on the realised early repayments in the Fund and reports from brokers and rating agencies, NN IP assesses to what extent the information corresponds with the market information for Dutch Residential Mortgage Backed Securities. NN IP may adjust the CPR if this is deemed necessary and reasonable. Throughout the year 2017, the CPR remained unchanged at 6%.

Concentration risk

The Fund invests in Dutch mortgage debt. The Fund will therefore be sensitive to developments in the Dutch economy and the mortgage market in particular. Non-economic factors, such as the political climate, tax regulations and culture, also play a role.

An overview with information on the geographical distribution and the distribution of mortgages per type is included in the notes to the balance sheet under Market risk.

Liquidity risk

Mortgages and mortgage debt are considered illiquid assets. Consequently, there is a risk that the Fund is unable to release the financial resources that may be required to comply with certain obligations. For the purpose of liquidity management, the Manager is allowed to temporarily enter into loan agreements or acquire funding in another manner up to a maximum of 5% of the Fund's net asset value.

Redemption of units of participation can only take place if, at the discretion of the Manager, there is sufficient liquidity available in the Fund. When determining the available liquidity for redemptions, the Manager will disregard the liquidity that is required for operational matters and the liquidity intended for distributions. As soon as the Manager is aware of a request for redemption, the Manager will make no more reinvestments when the liquidity is insufficient to fund the redemption request. The Manager may not enter into loans in order to finance redemptions. Investors will therefore be dependent on the liquidity of the Fund when requesting for redemption. The Manager may, if he expects a significant inflow of liquidity as a result of subscription by new participants in the Fund, take these amounts into account when determining the available liquidity. Limited liquidity in the Fund can lead to a situation that redemption from the Fund is also limited and may take a longer time.

Units of participation in the Fund cannot be transferred to a third party, but can only be redeemed back to the Fund.

Interest rate risk

The valuation of mortgage debt may fluctuate due to changes in interest rates. If interest rates rise, the value of mortgage debt will generally decrease and vice versa.

The Fund buys mortgages issued by NN Bank N.V. and is dependent on the rates to be applied by NN Bank N.V. in accordance with its policy to mortgage customers. In addition, NN Bank N.V. can make (product) changes to existing and new mortgages, which may influence the (future) return on the Fund.

Information on the duration of the mortgage portfolio is included in the notes to the balance sheet under interest risk.

Credit risk

Investors must be aware that investing in fixed income securities involves credit risk. When a debtor/borrower is unable to fulfil its mortgage obligations, this will have a negative effect on the performance of the Fund. This risk of the Fund is generally unlimited.

Information on credit losses in the portfolio and/or overdue payments of 90 days or longer are included in the notes to the balance sheet under Market risk. The allocation of the mortgages to outstanding principal in relation to the market value of the collateral is included in the notes to the balance sheet under Credit risk.

Risk perception

The annual report, among other things, serves to provide insight into the prevailing risks at the end of reporting period.

Insights into relevant risks during the reporting period are obtained as follows:

- In the section “risk appetite and risk policy within the investment policy” which is part of the disclosure on the investment policy during the reporting period, the main developments, trade-offs and decisions regarding the risk policy are explained.

Additionally, in the notes to the financial statements more insights are provided into the mortgage portfolio with respect to:

- Market risk, by disclosing the number of loans and loan parts, the part that is overdue for more than 90 days, credit losses and distribution of mortgage portfolio by type and province.
- Interest rate risk, through explanatory notes on the mortgage portfolio including the remaining interest maturity and weighted average interest rate.
- Explanatory note on currency risk.
- Credit risk allocation, by comparing the mortgages relative to the market value of the collateral and the average Loan to Value.
- Explanatory note on counterparty risk.
- In the notes to the balance sheet information on the leverage is presented. Leverage is a method by which the Manager enhances the position of the Fund with borrowed money, with leverage in the form of additional mortgages.

3.14 Risk management

With regard to the design of the administrative organisation and internal control, the Manager has chosen the NN Group Internal Control Framework as a starting point. In the NN Group Internal Control Framework all core processes are recorded including key risks per process. For all of these risks the main 'controls' are defined, which are regularly monitored and tested to ensure compliance with internal and external regulations. The significant risks are determined periodically in a systematic manner. The existing system of internal controls mitigates these risks. An ISAE3402 statement is issued annually which is intended for the institutional investors.

The control framework of the Manager, as far as this applies to the activities of the investment institution, is partly aimed at managing operational risks. The section "Statement concerning the conduct of business" provides further information on the control framework of the Manager.

NN Investment Partners B.V., the Manager of the Fund, monitors, by using a system of risk control measures, that the Fund in general and the investment portfolio comply with the conditions included in the prospectus as well as the legal frameworks and the more fund specific internal guidelines. Such guidelines include the degree of portfolio diversification, the credit rating of debtors, the quality of third parties with which business is conducted and the liquidity of the investments.

For the activities for which the Fund relies on NN Bank N.V., the significant risks and control measures have been systematically determined together with NN Bank N.V. These measures are evaluated and included in a ISAE3402 report provided to NN IP which includes this in its own control framework. In the ISAE3402 report of NN Bank N.V. the following areas are included:

- Application for mortgages
- Management of mortgages
- Management of overdue amounts
- Financial transactions
- Supply chain integration (including slicing)
- IT Controls

3.15 Leverage

Leveraged financing is the method with which the Manager increases the position of the Fund by using borrowed cash to acquire extra mortgages thus creating leverage. The Fund generally does not use leverage, although leverage can arise to a limited extent when entering into loans or in situation of a negative cash balance.

The Manager may enter into loans on behalf of the Fund up to a maximum equal to 5% of the Fund's net assets, not counting undrawn home construction or improvement accounts as referred to in the Master Mortgage Receivables Purchase Agreement. The loans referred to may only be concluded on condition that the lender undertakes never to seek recourse outside the net assets of the Fund. To the extent necessary for the payment obligations arising from these loans, the Manager may pledge the net assets of the Fund as security up to a maximum equal to 5% of the Fund's net asset value. The percentages referred to will in each case be calculated on the value of the net assets of the Fund at the time that such a loan is entered into or such security is provided. All the above loans will be entered into on the basis of conditions and rates that are in line with generally accepted market practice.

3.16 MiFID II

As of 3 January 2018, MiFID II (Markets in Financial Instruments Directive) is in force in Europe. MiFID II applies to investment firms and asset managers that provide investment services. MiFID II is a revision of legislation introduced in 2007 (MiFID I). MiFID II aims to achieve multiple goals. These goals are increasing efficiency and transparency with regard to market infrastructure and arranging trading in financial instruments. In addition, an important goal of MiFID II is further investor protection.

Concrete changes as result of MiFID II include the qualification of research as provision. Research costs were previously part of the transaction costs. An investment firm may still use research after 3 January 2018 if it pays for the research or charges the research costs to its clients. NN IP has chosen to take the research costs for its own account. Other concrete changes relate to product development requirements that must ensure that products are in line with the customer's situation, sustainability requirements for investment services to professional investors and additional reporting requirements, for example if the value of the portfolio falls by more than 10% case of individual asset management. Where NN IP is in scope of MiFID II requirements, it has addressed these requirements in customer interactions, processes and organizational culture.

3.17 Developments during the year

In this paragraph the main general trends and fund specific developments are presented, including the impact on the performance of the Fund.

3.17.1 General financial and economic developments in 2017

- Global economic growth reached its most favourable state in more than a decade in 2017. Business investment picked up thanks to accelerating earnings growth and rising confidence while emerging markets joined the developed markets in the growth recovery. This created a very broad-based recovery in global economic activity. Global real GDP growth has accelerated to 3.7% in 2017 compared to 3.0% in 2016.
- Meanwhile, the nominal side of the economy continued to point to an underlying inflation rate that is below central bank targets. Especially in the United States (US), inflation remains lower than one would expect on the basis of the unemployment rate and productivity growth. Besides, a stronger-than-expected pick-up in productivity growth may mute the inflationary impact of a rise in wage growth. In the Eurozone, core inflation fell back to 0.9% year-on-year after a moderate rise earlier in the year.
- The subdued inflation picture is the main reason why the Federal Reserve (Fed) and the European Central Bank (ECB) can stay on a path of very gradual policy normalisation, despite the strong recovery in economic data. The Fed clearly telegraphed three rate hikes in March, June and December and announced in September the roll-off of its balance sheet. Meanwhile President Trump nominated Jerome Powell as the next chairman of the Fed. The ECB slowly prepared the market for its announcement in October of the tapering of its asset purchase program from EUR 60 billion per month to EUR 30 billion from January to September 2018. The program remains open-ended.
- The political picture turned out to be less dramatic than many had feared at the start of the year. In the US, the new administration had a difficult time delivering on its campaign promises but in the end succeeded in passing a major tax bill. Fears of protectionist trade measures proved to be overdone, although the US still threatens to withdraw from the North American Free Trade Agreement (NAFTA) with Mexico and Canada.
- In Europe, voters in the Netherlands and France countered the populist wave that swept the United Kingdom (UK) and the US the year before. The centrist pro-Europe candidate Emmanuel Macron became the new president of France and his party gained a majority in parliament. As expected, Angela Merkel was re-elected as German chancellor although coalition talks with the Greens and Liberals failed. Another grand coalition of CDU/CSU and the SPD may now be established. Finally, the Spanish government called elections in Catalonia after sacking the secessionist regional government, but these resulted in separatist parties winning a majority in Catalan parliament.
- UK Prime Minister Theresa May's Conservative Party lost its majority in June's snap election, clearly weakening May's position. Brexit negotiations entered a second round in December after sufficient progress had been made on issues related to the "divorce bill", the Irish border and citizens' rights. The Bank of England raised the Bank rate to 0.5%, bringing it back to the level prevailing before the Brexit vote.

- Japanese Prime Minister Shinzo Abe's Liberal Democratic Party won the snap election in October and kept its two-thirds majority in parliament. Hence, the continuation of Abenomics seems assured for the next four years while the Bank of Japan can move on with its accommodative monetary policy. Meanwhile Japanese GDP is growing by around 1.5% thanks to healthy export growth and domestic demand that is underpinned by both consumer spending and business investment.
- Emerging markets (EM) started participating in the global synchronised upturn. The external environment has become much more vibrant as trade flows accelerated because of increased trade between developed and emerging markets but also between emerging markets. EM domestic demand growth has started to catch up as a result of continuously easy financial conditions throughout the EM universe, sustained by steady capital inflows. This has been driving EM credit growth higher, underpinning the recovery in domestic consumption and investment growth.
- The policy focus of the Chinese authorities has shifted to lowering macro imbalances while limiting the negative impact on growth. Targeted credit tightening has succeeded in stabilizing the debt-to-GDP ratio and reforms are carried out to make the state-owned enterprises sector more resilient. The share of consumption in the Chinese GDP is clearly on the rise, with momentum in consumption growth being driven by improving income equality, strength in e-commerce and ongoing urbanization.
- Markets brought another year of attractive returns. Especially equity markets delivered, on the back of positive growth surprises and solid earnings growth. Fixed income markets held up much better than many feared at the start of the year. Spread products brought in healthy returns, while government bonds still offered stability rather than the negative returns that some anticipated on the back of Fed policy normalization. Meanwhile, volatility on both equity and bond markets fell to multi-year lows.
- It mattered a lot for investors from which base currency they looked at their returns though. The 8.5% fall of the US dollar index (a measure of the value of the US dollar relative to a basket of the US's main trade partners' currencies) made the return picture a bit less rosy for non-US based investors. It also made clear that currency movements are hard to predict, as most forecasters were expecting "Trumponomics" and Fed policy normalisation to result in a stronger greenback.
- Global equities rose 8.1% in euro terms and 23.1% in US dollars. Emerging markets were by far the best performing region, gaining 21% in euros, thanks to improving economic momentum and earnings growth as well as the rising share of the IT sector in the EM benchmark. Performances of the other main regions did not vary a lot and ranged between +7.1% for US equities and +10.9% for European equities. The latter were especially strong in the run-up to the French elections, but softened afterwards partly as a result of a strengthening euro.
- Cyclical sectors clearly outperformed their defensive counterparts. Information technology led by a wide margin and rose 21.9%, followed by materials (+13.7%), industrials (+10.6%) and consumer discretionary (+9.1%). The materials sector benefited from the rise in commodity prices, especially metals. As the oil price was weak in particularly the first half of the year, the energy sector was a notable underperformer, losing 7%. The oil price recovered in the second half of the year, due to steadily growing demand, stabilising US shale oil production and an extension of the deal on production cuts between OPEC and other oil producing countries.

- There was not much of a sustained upward trend in government bond yields in developed markets. Although we are still above the 2016 lows, on balance bond yields moved more or less sideways last year. That having been said, we have seen periods in which bond yields rose rapidly when the market started to worry about monetary policy normalization, which was especially the case with the German Bund yield. In the US, the 2-year bond yield increased steadily due to the rate hikes by the Fed as well as rising rate expectations.
- For spread markets, 2017 turned out to be another strong year, although a few intermittent periods of moderate spread widening occurred. Both credit yields and spreads tightened further, providing carry and capital gains. At the same time, an improving macroeconomic backdrop and the expectation that central banks, faced with subdued inflation, would remain gradual in their policy normalization kept default rates low and corporate fundamentals solid. Emerging Market Debt (EMD) in local currency was the best performer with a total return of 15.2% (in USD), followed by EMD hard currency bonds and high yield credits, both gaining over 10%.

3.17.2 Fund specific developments in 2017

Market developments

During 2017 the Dutch housing market recovered further. The Dutch house price index (source CBS) rose from 95.5 at the end of 2016 to 103.4 at the end of December 2017, an increase of 8.3%. At the same time, consumer sentiment in the housing market, as measured by the "Eigen Huis Markt indicator" (Own House Market Indicator) of the "Vereniging Eigen Huis", dropped to 111 in 2017. At the end of December 2016, this indicator peaked at a level of 121. Nonetheless, there was a considerable increase in the sum of mortgages. In 2017, € 100.97 billion (source Kadaster) was provided for new mortgages, compared to € 80.98 billion in 2016. This is an increase of almost 25%.

Compared to the low point in June 2013 (CBS house price index 84), average house prices have risen 23%, but average house prices are still more than 3% lower at the end of 2017 than at the peak in August 2008 (CBS house price index 107). Although the construction of new homes is increasing, this is not sufficient to meet the continuing demand.

During 2017, the swaps rates rose. Tender rates for mortgages fluctuated during the year and at the end of December 2017 the rates were about the same or slightly higher than previous year, depending on the segment and the term. This led to a decrease of the spread on the mortgages compared to the swap curve. At the end of 2016, this spread was 207 basis points and dropped to 149 basis points at the end of December 2017.

In the field of supervision, the AFM asked banks to pay extra attention to clients with an interest-only mortgage loan (or loan component), to ensure that repayment at the end of the term does not pose a problem. A number of parties involved are examining the possibilities for encouraging homeowners to start paying off these loan parts earlier. This mainly affects mortgage loans that have been contracted before 2013 and we therefore expect that the impact on the Fund will be relatively small.

The European Insurance and Occupational Pensions Authority (EIOPA) has issued an opinion to the European Commission to take into account the National Mortgage Guarantee (NHG) in the Solvency II framework. If this proposal is implemented, this will lead to a lower "Solvency II Capital Charge" for NHG loans compared to non-NHG loans, when using the standard model.

On a political level, the new government presented the coalition agreement in October, which also includes proposals that affect the Dutch housing market and mortgage loans. For the near future this means that interest deductibility will fall to 37%, in 3 steps of 3%, starting in 2020 (as opposed to steps from 1% to 38% in 2041). This will be compensated by a change in the "notional rental value". This can be positive for some people, negative for others. We expect these changes to have little impact on the Fund, because it will hit 'old' loans with a higher coupon. The Fund, on the other hand, invests only in recently contracted loans.

Investment policy

In the reporting period, the Fund achieved a net performance of 4.85% for the Participation Class I and 5.08% for the Participation Class Z. This net performance relates to the performance of the Fund as stated in the section on key figures after the costs made for the management of the Fund. Of this, 0.6% was attributable to market value effects as a result of the decreased NN Bank N.V. mortgage offering rates. In addition, the interest income and dividend payment jointly contributed 4.8% to the achieved return. There have been no losses on the mortgage loans of the Fund since the launch of the Fund.

The Fund has invested in mortgages issued by NN Bank N.V. after 1 January 2015 with a maximum LTV (loan-to-value, i.e. the loan in relation to the value of the collateral) of 103%. The duration of the Fund at the end of December 2017 was 6.9 years.

The Fund grew to € 1,681 million of invested capital at the end of December 2017 and is now registered in 9 countries, namely the Netherlands, the United Kingdom, Belgium, France, Denmark, Sweden, Finland, Germany and Spain.

In June 2017, the Fund paid a 2.15% dividend for both Class I and Z of the net asset value (NAV) of May 2017. On 14 June 2017, the first meeting of participants took place.

Risk appetite and risk policy within the investment policy

Investors in the NN Dutch Residential Mortgage Fund are confronted with various risks as described in the section 'Principal risks and uncertainties'. The main risks which the Fund encounters are liquidity-, redemption-, concentration-, interest-, and credit risks.

The Fund invests in a representative share of the NN Bank N.V. mortgage production, provided that the eligibility criteria of the Fund have to be met. Credit risk on new mortgages will decrease over the period of the loans because the majority of the loans are repaid over time (only 26.4% of the mortgages of the Fund did not require mandatory repayment at the end of December 2017).

Rising house prices generally have a positive effect on the creditworthiness of mortgage loans, because the current loan-to-market value (CLTMV) of existing loans is decreasing. In the Fund this is illustrated by a "Weighted Average Loan to Indexed Value" of 85.9%, compared to a 96.2% "Weighted Average Original Loan to Original Market Value". With regard to the new loans to be concluded, a LTV limit of 100% applies for 2018 and beyond. NN Bank adheres to strict criteria in its acceptance policy. Both these factors, combined with a recovering housing market and Dutch economy, strongly mitigate credit risk on the investments in mortgages.

Use of derivatives in the reporting period

The Fund does not use derivatives.

Forward looking statement

During 2017, spreads on mortgages have fallen. This is the result of increased competition on the Dutch mortgage market. We expect that the recovery of the Dutch housing market will continue at a slower pace and that capital market interest rates will remain relatively low. Economic developments support the housing market and there is still a shortage of housing.

3.17.3 Other aspects

Merger Delta Lloyd Asset Management N.V. en NN Investment Partners B.V.

On 1 January 2018, Delta Lloyd Asset Management N.V. and NN Investment Partners B.V. merged and as of that date NN Investment Partners B.V. is the manager of all Delta Lloyd investment funds and investment companies. At the time of the publication of this annual report, possible consequences for the Dutch NN IP funds are unknown. Information about future changes is published on our website www.nnip.com under “Over ons” under the link “Delta Lloyd integratie”.

Changes in the Executive Board of NN Investment Partners B.V.

The composition of the Executive Board of NN Investment Partners B.V. (“the Board”) has changed. The composition of the current members of the Executive Board on 20 April 2018 and an overview of the changes compared to the Executive Board as included in the published annual report 2016 are shown in the overview below.

Overview of Executive Board members NN Investment Partners B.V.

Appointed board members as of 20 April 2018	Date of appointment
S.S. Bapat	1 April 2017
H.W.D.G. Borrie	1 March 2017
M.C.M. Canisius	1 August 2017
V. van Nieuwenhuijzen	1 August 2017
J. Schmiedová	31 August 2017
Resigning board members	Resignation date
C.E.M. Beckers	1 April 2017
M.C.W. den Hollander	26 June 2017
M.O. Nijkamp	1 April 2017
B.G.J. van Overbeek	28 June 2017
J.W.F. Stoter	26 June 2017
M.C. Vink	26 June 2017
J.W. van der Wal	31 August 2017

3.18 Remuneration during the reporting period

This remuneration report describes NN Investment Partners remuneration philosophy and system as applicable to staff who perform activities for NN Investment Partners B.V., including its investment funds as regulated by the Alternative Investment Funds Management Directive (AIFMD) and/or the Undertakings for Collective Investments in Transferable Securities Directive (UCITS).

This report is divided into the following subsections:

- Remuneration in general;
- Remuneration governance;
- Remuneration of Identified Staff; and
- Quantitative information.

Remuneration in general

NN Group has an overall remuneration policy applicable to all staff, the NN Group Remuneration Framework, which provides for reward guidelines and principles for all country and business unit remuneration policies within NN Group. NN Group aims to apply a clear and transparent remuneration policy that is adequate to attract and retain expert leaders, senior staff and other highly qualified employees. The remuneration policy is also designed to support NN's employees to act with integrity and keep the future of our clients, our company and other stakeholders in mind.

NN Group's remuneration policy for executives and senior staff is based on a total compensation approach and is benchmarked on a regular basis (where data is available) with relevant national and international peers. Clear performance objectives are set and assessed which are aligned with the overall strategy of the company, both on the short term and the long term, to ensure that remuneration is properly linked to individual, team and company performance. Specifically for investors, the performance is directly linked to the 1-, 3- and 5- year relative performance of the Funds managed which creates alignment with our clients' interests. Furthermore, the remuneration policy supports a focus on the company's long term interests and the interests of its clients by ensuring that there is careful management of risk (among others: financial, operational and reputational risks) and that staff are not encouraged, via remuneration, to take excessive risk.

In addition to variable remuneration payable in cash, the NN Group operates an Aligned Remuneration Plan (ARP) which allows NN Investment Partners to award deferred compensation in the form of Funds managed by NN Investment Partners to create further alignment of the employees interests with those of our clients. The ARP also allows NN Group shares to be awarded under a deferral policy which is in place for all staff. The general practice for staff employed by NN Investment Partners exceeding the deferral thresholds as set out in the policy, not being Identified Staff, is to deliver 50% of the deferred variable remuneration in Funds managed by NN Investment Partners, and the remaining 50% of the deferred variable remuneration in NN Group shares. The Remuneration Framework as well as the ARP includes both holdback and claw back clauses which can be invoked in the event that performance, risk, compliance or other issues are discovered after awards have been made.

In addition to NN Group's general remuneration principles for all staff as described in the above, the following three principles apply to remuneration of control function staff (i.e. those in Risk, Compliance, Legal, Finance, HR and Audit) in particular:

- the level of fixed remuneration is sufficiently high to ensure qualified and experienced staff can be employed;
- the ratio of fixed remuneration to variable remuneration is weighted in favour of fixed remuneration; and
- the variable remuneration is predominantly based on function-specific objectives that include qualitative criteria which are not determined by the financial performance of the business unit directly monitored by the control functions.

The remuneration policies as applicable to staff who perform activities for the AIF, UCITS and/or the Management Company ensure that NN Investment Partners complies with and acts in the spirit of all the relevant (inter)national regulations on remuneration, such as the Dutch Regeling Beheerst Beloningsbeleid Wft 2014 (RBB), the Dutch Wet beloningsbeleid financiële ondernemingen (Wbfo), the Alternative Investment Fund Managers Directive (AIFMD) and the Undertakings for Collective Investments in Transferable Securities Directive (UCITS) as relevant to our business.

Remuneration governance

NN Investment Partners operates a Compensation Committee responsible for (among others) setting, monitoring and reviewing the remuneration policies, plans and overall remuneration spend globally for NN Investment Partners. The NN Investment Partners Compensation Committee comprises the CEO NN IP, the Head of Human Resources NN IP, the Chief Financial & Risk Officer NN IP, the Head of Compliance NN IP and the Head of Reward NN IP.

The Remuneration Governance of NN Investment Partners is embedded in the NN Group Governance Framework which requires certain remuneration proposals to be approved at NN Group level. This includes requirements for approvals by (i) the NN Group Compensation Committee in which the relevant control functions (Finance, Risk, HR, Legal and Compliance) and the NN Group Management Board Members are represented and (ii) the NN Group Supervisory Board to ensure an objective and independent view. Examples of events at NN Investment Partners that require approval at NN Group level include:

- the Identified Staff (i.e. those staff with a material impact on the risk profile of NN Group and staff with material impact on the AIF's, UCITS's and/or the management company NN Investment Partners B.V.) selection methodology, criteria and the annual selection of Identified Staff roles, and remuneration proposals;
- remuneration decisions for NN Investment Partners Compensation Committee members;
- the annual compensation review for selected Identified Staff members, senior management and high earners, including the potential cases for holdback of deferred compensation by way of malus and or holdback;
- the total variable remuneration spent for any performance year;
- job offers for joiners and proposals for leavers exceeding certain thresholds; and
- any deviation from the minimum standards as set in the NN Group Remuneration Framework.

The Compensation Committees and NN Group Supervisory Board are authorised to engage external remuneration advisors. In 2017 it made use of the services of Willis Towers Watson, and additionally NN Investment Partners made use of the services of McLagan and PwC with regards to remuneration related policies and practices (including benchmarking).

Further information regarding NN Group Remuneration Governance, including the roles and responsibilities of relevant committees can be found in the NN Group 2017 Annual Report (<https://www.nn-group.com> – Investors – 2017 Annual report).

Remuneration of Identified Staff

NN Investment Partners selected Identified Staff on the basis of the RBB (Identified Staff is staff whose professional activities have material impact on the risk profile of NN Group), and Identified Staff on the basis of both AIFMD and UCITS (being staff whose professional activities have a material impact on the Dutch licensed AIF(s), and/or the UCITS and/or NN Investment Partners B.V. based in The Hague). All NN Investment Partners Identified Staff selected on the basis of the Regeling Beheerst Beloningsbeleid (RBB), also qualify as AIFMD and UCITS Identified Staff.

AIFMD and UCITS Identified Staff are selected in accordance with ESMA guidelines and a selection methodology and selection criteria that were approved by the NN Group Compensation Committee.

More specifically, the assessment for material influence was done on the following basis:

- examining the potential impact on the financial, operational and reputational risks of the organisational units in scope in a way that exceeds the companies risk appetite, and/or the Performance of the AIF and/or UCITS;
- by means of the formal organisational position, including applicable governance, role and responsibilities either alone or in committees, organisational unit or as part of a department;
- in combination with the factual situation (testing actual versus theoretical), where the actual situation has been considered leading;
- taking into account controls in place, and focusing on the residual level of influence one can have, taken normal functioning of the controls into account; and
- back testing with past incidents and outcome from monitoring (ISAE3402, financial reporting risk) to establish if the controls have been working effectively or if any material influence could be exercised outside of the existing controls.

The following six groups of Identified Staff have been assessed:

- executive and non-executive members of the governing body of the AIFM and UCITS;
- senior management;
- staff in control functions;
- staff responsible for heading the portfolio management, administration, marketing and human resources;
- other risk takers; and
- staff whose remuneration in the previous year is equal to or greater than the lowest total remuneration of staff who fall within category of senior management and other risk takers.

Performance management for Identified Staff

The performance management process for Identified Staff selected on the basis of the RBB is centrally designed and coordinated by NN Group Human Resources, and resulting rules and requirements are also to be applied to AIFMD and UCITS selected Identified Staff.

The performance management principles applied to Identified Staff ensure that there is focus on financial and non-financial performance and on leadership behaviour. In addition, the company's strategy (both long and short term objectives), client interests, as well as the companies values (Care, Clear and Commit) are reinforced. The principles also create alignment with the AIF and UCITS risk profile. In addition to general performance management principles that apply to all NN Group staff, the following performance management principles apply specifically to Identified Staff in 2017:

- the performance objectives include both financial and non-financial performance objectives according to the following balance: (a) for non-control functions Identified Staff a maximum of 45% financial and a minimum of 55% non-financial performance objectives and (b) for control functions: a maximum of 15% financial (e.g. departmental budget responsibility) and a minimum of 85% non-financial performance objectives linked to their control function specific role;
- control functions will only have financial performance objectives that are not linked to the performance of the business unit they control; and
- all performance objectives are reviewed by the Risk and Compliance functions.

For each Identified Staff member a set of objectives is defined, including details on what the individual is expected to contribute to the company's business success and how this contribution is to be achieved. The individual performance objectives score is used as one of several factors that determine individual variable remuneration. The final amount of variable remuneration is also dependent on other factors such as: the overall financial affordability, the assessment of undesired risk-taking, as well as non-compliant behaviour, and the outcome of an assessment of leadership behaviour which may cause adjustments of the level of variable remuneration.

The performance assessment of Identified Staff and the consequent awarding of variable remuneration is effected as part of a multiple-year framework. As deferral periods apply to variable remuneration of Identified Staff, it is ensured that variable remuneration is “at risk” during the entire deferral period. Variable remuneration is linked to risk and non-financial performance and takes into account the company performance at group level, business line performance and individual performance. Any undesired risk taking or breaches of compliance that were not apparent at the time the variable remuneration was awarded, will be taken into account at every (deferred) vesting of variable remuneration.

Remuneration principles and policy for Identified Staff

Variable remuneration for Identified Staff is performance-based and risk-adjusted and is partly paid upfront and partly deferred. Deferred variable remuneration is subject to the assessment of undesired risk-taking, as well as non-compliant behaviour in view of past performance. If deemed necessary by the Supervisory Board, (deferred) compensation is adjusted downwards via hold back or claw back.

Different elements of remuneration for Identified Staff

The remuneration of Identified Staff has been structured in accordance with the applicable laws and regulations. The total reward of Identified Staff consists of the following elements:

- fixed remuneration;
- variable remuneration; and
- general employee benefits, such as employer pension contributions, employee discounts on financial services, disability insurance coverage (applicable to all NN Investment Partners staff).

Variable Remuneration awarded to identified Staff

At least 40% of the variable remuneration as awarded to Identified Staff is deferred, and for control function Identified Staff a stricter regime applies as a minimum of 50% is deferred.

For RBB selected Identified staff, the NN Group standards regarding the delivery of variable remuneration are followed and the variable remuneration comprises the following components:

- upfront cash;
- upfront NN Group shares (an additional retention of at least one year applies after vesting);
- deferred Investment Entitlements managed by NN Investment Partners (the minimum deferral period is three years, applying a tiered vesting schedule. Deferred variable remuneration vests annually in equal tranches. The first deferred portion of the variable remuneration vests in one year after the date of grant; and
- deferred NN Group shares (the minimum deferral period is three years, applying a tiered vesting schedule. Deferred variable remuneration vests annually in equal tranches. The first deferred portion of the variable remuneration vests in one year after the date of grant, Any vested portion of the deferred Funds is subject to an additional retention period of at least one year).

For additional AIFMD and/or UCITS selected Identified Staff the variable remuneration comprises the following components:

- upfront cash;
- upfront Investment Entitlements, managed by NN Investment Partners (an additional retention of at least one year applies after vesting);
- deferred Investment Entitlements managed by NN Investment Partners (the minimum deferral period is three years, applying a tiered vesting schedule. Deferred variable remuneration vests annually in equal tranches. The first deferred portion of the variable remuneration vests in one year after the date of grant. Any vested portion of the deferred Funds is subject to an additional retention period of at least one year); and

- deferred NN Group shares (the minimum deferral period is three years, applying a tiered vesting schedule. Deferred variable remuneration vests annually in equal tranches. The first deferred portion of the variable remuneration vests in one year after the date of grant).

For AIFMD and/or UCITS selected Identified Staff, as well as RBB selected Identified Staff, ex-post performance assessment is carried out. The performance assessment extends beyond the date of the award of variable remuneration and continues as part of a multi-year framework of at least three to five years.

NN Group has the right to apply a hold back from any (ex-)employee, i.e., not to pay variable remuneration, in the following circumstances:

- the variable remuneration does not reconcile with the financial situation of NN Group or is not justified on the basis of the performance of the relevant business unit or the relevant employee; or
- NN Group does not comply with the relevant capital requirements applicable from time to time, which includes a significant deterioration in the financial performance of the AIF/UCITS Management Company and/or AIF's/UCITS's funds or a significant downturn in the AIF/UCITS Management Company overall financial situation; or
- NN Group's capital adequacy is insufficient as determined via the capital test; or
- the relevant staff member participated in or was responsible for conduct which resulted in significant losses to NN Group or any of its subsidiaries or affiliates; or
- the relevant staff member failed to meet the appropriate standards of fitness and propriety (bekwaamheid en correctheid), such as an oath for the financial sector, a code of conduct or other internal rules and regulations that are applicable to NN Group; or
- NN Group or the business unit in which the relevant employee works suffers a significant failure of risk management; or
- if this is required or reasonable taking into account the outcome of the reassessment procedures set out in the NN Group Remuneration Framework; or
- in the event of significant negative changes in the economic and regulatory capital base; or
- in the event of specific conduct which has led to the material re-statement of NN Group's annual accounts and/or significant (reputational) harm to NN Group or any of its subsidiaries or affiliates; or
- if any other material new information arises that would have changed the original determination of the award of variable remuneration to that individual if it were known at the time of the award; such reassessment is also based on the criteria for the original award.

A claw back of paid/vested variable remuneration from any (ex-)employee can be applied in the following circumstances:

- this is required or reasonable taking into account the outcome of the (reassessment) procedures; or
- in the event of engagement in conduct or performance of acts which are considered malfeasance or fraud; or
- in the event of specific conduct which has led to the material re-statement of NN Group's annual accounts and/or significant (reputational) harm to NN Group or any of its subsidiaries or affiliates; or
- in case the relevant staff member participated in or was responsible for conduct which resulted in significant losses to NN Group or any of its subsidiaries or affiliates; or
- in case the participant failed to meet appropriate standards of fitness and propriety, such as an oath for the financial sector, a code of conduct or other internal rules and regulations that are applicable to the NN Group; or
- a significant deterioration in the financial performance of the AIF/UCITS Management Company and/or AIF's/UCITS's funds or a significant downturn in the AIF/UCITS Management Company overall financial situation; or
- in the event of significant negative changes in the economic and regulatory capital base; or

- if any other material new information arises that would have changed the original determination of the award of variable remuneration to that individual if it were known at the time of the award; such reassessment is also based on the criteria for the original award.

Quantitative information

The table below provide aggregated information on the remuneration of all staff employed on 31 December 2017 and performing activities for NN Investment Partners International Holdings B.V. during the year 2017, including all Identified Staff selected based on the AIFMD. A significant proportion of the numbers listed below can be attributed to NN Investment Partners B.V (Manager), as NN Investment Partners B.V. is the main operating entity held by NN Investment Partners International Holdings B.V. Information at the level of NN Investment Partners B.V (Manager) and/or the AIFs is not available. The 2017 variable remuneration is not charged to the AIFs.

Aggregate fixed and variable remuneration for the performance year 2017

Gross amounts x € 1,000	Identified Staff Qualified as Senior Management (including Executives)	Other Identified Staff (excluding Senior Management)	All Staff (excluding Identified Staff)
Number of employees (in numbers)	8	22	700
Fixed remuneration*	2,898	5,627	63,147
Variable remuneration**	1,324	2,826	15,649
Total fixed and variable remuneration	4,222	8,453	78,796

* Fixed remuneration per ultimo 2017 for contractual working hours. The Fixed remuneration includes collective fixed allowances, which includes elements such as holiday pay, and pension allowance and excludes benefits.

** Variable remuneration includes all conditional and unconditional awards in relation to the performance year 2017 as approved by the relevant committees and authorised per 19 March 2018. This includes all payments to be processed through payroll per March/April 2018, upfront NN Group shares and NN IP Investment Entitlements (Fund-of-Fund with a one year holding period) as awarded to Identified Staff as well as all conditional deferred NN Group shares and NN IP Investment Entitlements.

3.19 Statement on the business operations

General

As Manager of NN Dutch Residential Mortgage Fund it is, in accordance with Section 115y Paragraph 5 of the Decree on the Supervision of the Conduct of Financial Enterprises pursuant to the Act on Financial Supervision ('Besluit gedragstoezicht financiële ondernemingen' or 'Bgfo'), our responsibility to declare that for NN Dutch Residential Mortgage Fund we have a description of the control framework that complies with the Dutch Financial Supervision Act and the related regulatory requirements and that the control framework has been functioning effectively during the reporting period from 1 January 2017 until 31 December 2017 and in accordance with the description.

Below we present our view on the design of the business operations of the Manager related to the activities of the Fund. The control framework is setup in line with the size of the organization and legal requirements. The setup is unable to provide absolute certainty that deviations will never occur, but is designed to provide reasonable assurance on the effectiveness of internal controls and the risks related to the activities of the Fund. The assessment of the effectiveness of the control framework is the responsibility of the Manager.

With regard to the design of the administrative organisation and internal control environment (overall named 'control framework'), the Manager has taken the NN Group Internal Control Framework as a starting point. The significant risks are determined periodically in a systematic manner. The existing system of internal controls mitigates these risks.

The description of the control framework has been evaluated and is in line with legal requirements. This means that the significant risks and controls of the relevant processes have been reviewed and updated.

The assessment of the effectiveness and functioning of the control framework is performed in different ways in practice. Management is periodically informed by means of performance indicators, which are based on process descriptions and their control measures. In addition, there is an incidents and complaints procedure. In the reporting period, the effective functioning of the control framework is tested by means of detailed testing of the setup, existence and operation of internal controls. This concerns generic testing, which has been implemented in a process oriented manner for the different investment funds managed by NN Investment Partners. Therefore, the executed test work can be different at the level of the individual funds. The tests are carried out by the Operational Risk Management Department. In the context of this financial report, no relevant findings have emerged.

Reporting on the business operations

During the reporting period, we have reviewed the various aspects of the control framework. During our test work, we have no observations based on which it should be concluded that the description of the design of the control framework, as referred to in Section 115y Paragraph 5 of the Bgfo, does not meet the requirements as stated in the Bgfo and related regulations. We have not found internal control measures that were not effective or were operating not in accordance with their description. Based on this we, as Manager for NN Dutch Residential Mortgage Fund, declare to have a description of the control framework as referred to in Section 115y, paragraph 5 in Bgfo, which meets the requirements of the Bgfo and we declare with a reasonable degree of certainty that the business operations during the reporting period have operated effectively and in accordance with the description. For the coming year, we expect no significant changes in the setup of the control framework.

The Hague, 20 April 2018

NN Investment Partners B.V.

S.S. Bapat

H.W.D.G. Borrie

M.C.M. Canisius

V. van Nieuwenhuijzen

J. Schmiedová

4. Financial statements 2017

(For the period 1 January through 31 December 2017)

4.1 Balance sheet

Before appropriation of the result

Amounts x € 1,000	Reference	31-12-2017	31-12-2016
Investments			
Mortgages	4.5.1	1,667,053	1,021,670
Investment funds	4.5.2	124,510	125,679
		1,791,563	1,147,349
Receivables	4.5.5		
Interest receivable		3,813	2,500
Other receivables		4,034	6,888
		7,847	9,388
Other assets	4.5.6		
Cash and cash equivalents		137	142
		137	142
Short-term liabilities	4.5.7		
Construction depots		95,647	116,106
Deferred mortgage origination costs	4.5.1	21,052	13,873
Interest payable		233	310
Other liabilities		1,474	849
		118,406	131,138
Net amount for receivables and other assets minus short-term liabilities		-110,422	-121,608
Net amount for assets minus liabilities		1,681,141	1,025,741
Net assets participation holders		1,613,522	997,500
Net result		67,619	28,241
Net asset value	4.5.8	1,681,141	1,025,741

4.2 Profit and loss statement

For the period 1 January through 31 December 2017 respectively 1 December 2015 through 31 December 2016.

Amounts x € 1,000	Reference	2017	2016
OPERATING INCOME			
Investment income	4.6.1		
Interest received from mortgages		38,388	20,683
Interest paid on construction depots		-2,903	-3,406
Revaluation of investments	4.6.2	38,834	14,291
Other results	4.6.3		
Other operating income		21	77
Total operating income		74,340	31,645
OPERATING EXPENSES			
Operating costs	4.6.4		
Operating costs		6,672	3,366
Interest		49	38
Total operating expenses		6,721	3,404
Net result		67,619	28,241

4.3 Cash flow statement

For the period 1 January through 31 December 2017 respectively 1 December 2015 through 31 December 2016.

Amounts x € 1,000	2017	2016
CASHFLOW FROM INVESTMENT ACTIVITIES		
Net income	67,619	28,241
Adjustment of net income:		
Revaluation of investments	-38,834	-14,291
	28,785	13,950
Purchases of investments	-1,076,285	-1,468,153
Sales of investments	478,084	348,968
Change in receivables	1,541	-9,388
Change in short-term liabilities	-19,911	117,265
Total cash flow from investment activities	-587,786	-997,358
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of participations	627,459	997,500
Proceeds from purchase of participations	-10,744	-
Distribution to participations	-28,934	-
Total cash flow from financing activities	587,781	997,500
NET CASH FLOW	-5	142
Cash and cash equivalents opening balance	142	-
Cash and cash equivalents closing balance	137	142

4.4 Notes

4.4.1 General Notes

The Fund commenced operations on 1 December 2015. The comparative figures cover the period from 1 December 2015 through 31 December 2016.

The financial statements are prepared under going concern principles and according to the financial statements models for investment institutions as established by the legislator. The financial statements are prepared in accordance with Title 9 of Book 2 of the Dutch Civil Code, the Dutch Accounting Standards (“Richtlijnen voor de jaarverslaggeving”) and the Dutch Financial Supervision Act (“Wet op het financieel toezicht”). Wording may be used that deviates from these models to better reflect the contents of the specific items.

According to RJ 615.303, the profit and loss statement has to show the indirect result from investments specified by type of investment. According to RJ 615.306 the management fee has to be shown in the profit and loss statement as a separate line item. For the purpose of providing a better view, these amounts are detailed in the notes to the profit and loss statement (indirect result from investments) and the notes to the participation classes (management fee).

When preparing the financial statements, the Manager uses estimates and judgments that are essential for the amounts in the financial statements. If deemed necessary, the nature of these estimates and judgments, including the corresponding assumptions, are disclosed in the notes to the financial statements.

Unless stated otherwise, all amounts are presented in thousands of euros.

4.4.2 Change in presentation

The mortgages owned by the fund are to be valued at fair value. This fair value is, in accordance with the accounting principles, determined by discounting the future contractual cash flow with the mortgage offer rates applied by NN Bank N.V. for similar mortgage loans as of the date of the valuation, as long as these are arm's length rates.

In the 2016 annual report, which was the first annual report since the start of the activities on 1 December 2015, the valuation of the mortgages was presented net of the mortgage origination costs. As of 2017, the mortgages are presented for their fair value excluding this netting effect of the mortgage origination costs.

The Fund agreed with NN Bank N.V. that the origination costs are not paid up-front, but these are charged on a monthly basis together with the monthly servicing fee. To comply with the matching principle, the origination costs should be made visible separately as this is a one-time activity at the start of the mortgage and are hence already incurred by NN Bank N.V. at the time of acquisition of the mortgages by the fund. Therefore the origination costs are represented as a deferral (as part of the short-term liabilities) on the balance sheet of the Fund.

The comparative figures for 2016 have been adjusted accordingly. This presentation change has no effect on the net asset value, the result of the Fund or the ongoing charges figure.

4.4.3 Cash Management

Cash management is done through investing in NN (L) Liquid Eur. This Fund invests in all types of money market instruments denominated in euro's, such as commercial paper, certificates of deposit, floating rate notes (bonds with variable interest), asset backed securities (instruments for which the value and revenues are derived and covered by assets), short-term (sovereign) bonds. Up until the end of January 2017, cash management was done through an investment in NN Cash Facility Fund.

4.4.4 Significant accounting principles

Unless otherwise stated, assets and liabilities are stated at nominal value.

An asset is recognized in the balance sheet when it is likely that future economic benefits will be obtained by the Fund and these can be reliably valued. A liability is recognized when it is probable that its settlement will lead to an outflow of assets and this can be reliably valued.

An asset or liability is no longer included in the balance sheet when a transaction leads to a situation where virtually all rights to economic benefits or all risks related to an asset or liability have been transferred to a third party.

All financial instruments, categorized under investments in this report, are recognized in the balance sheet in the period that the economic risk is attributable to the Fund and to the extent that the instrument can be valued at fair value.

The investments in mortgages are held to maturity. These investments are not considered part of the trading portfolio.

Investments are valued at fair value, which is based on the following principles:

- Mortgages are valued by discounting the future contractual cash flows, taking into account early repayments, against the charges applied by NN Bank N.V. for similar mortgage loans per month end of the month on which the value of the Fund is determined. The market conformity of the NN Bank N.V. rates are validated on a monthly basis based on the comparison with a composite curve, which is built based on a weighted average of the rates of the largest market participants based on observed volumes in that period.
- Investments in other NN IP funds are valued at the net asset value of the respective day.

Other financial instruments that have been designated as investments are valued at market value, which is derived from third party market prices and information. If no objective market price for these financial instruments is available, the valuation will be based on the theoretical value from objective and widely accepted calculation models, taking into account the judgement of the Manager on the variables used for the calculation.

All assets and liabilities that are not considered to be investments are valued at nominal value.

Netting of an asset and a liability is done solely when there is a legal possibility to settle the asset and liability simultaneously and the Fund intends to do so.

All transactions in foreign currency are accounted for against the latest available midprice at the transaction date.

Other financial instruments that are recognized as investments are valued at fair value derived from quotes and market information obtained from third parties. If no objective market price for such instruments is available, the fair value is determined based on objective and generally accepted calculation models and taking into account the judgement of the Manager on acceptable measures for such investments.

4.4.5 Income and expense recognition

Operating income and expenses are recognised in the period to which they relate.

Realised and unrealised changes in fair value of investments, including foreign currency gains and losses, are included in the profit and loss statement.

The result of a Participation Class consists of revaluation of the investments, the interest received during the period, the declared dividends and the expenses that are attributable to the financial period. When determining the interest gains, the interest receivable on bank deposits is taken into account. Direct income and expenses are allocated to each Participation Class and attributed to the relating financial period.

Transaction costs of investments are included in the cost price or deducted from the sales proceeds of the relevant investments.

4.4.6 Cash flow statement

The cash flow statement provides insights into cash and cash equivalents originated by the Fund during the reporting period and the way this has been used. Cash flows are split into operating, investment and financing activities.

The cash flow statement is prepared according to the indirect method. In the cash flow statement, the net result is adjusted in order to convert to the generated cash flow. The adjustments are, among other items, changes in balance sheet positions, where receivables and liabilities related to participants are considered financing activities.

The change in short-term liabilities as included in the cash flow statement under the cash flow from investment activities is presented excluding the change in the deferred mortgage origination costs. The cash flows related to the mortgage origination costs are included in the cash flows from transactions in mortgages.

The cash and cash equivalents consist of freely available positions at banks.

4.5 Notes to the balance sheet

The presented movement schedules cover the period from 1 January through 31 December 2017 respectively 1 December 2015 through 31 December 2016.

4.5.1 Mortgages

Amounts x € 1,000	2017	2016
Opening balance	1,007,797	-
Purchases	667,097	1,023,076
Sales/repayments	-68,137	-29,873
Revaluation	39,244	14,594
Net position at the end of the reporting period	1,646,001	1,007,797
Deferred mortgage origination costs	21,052	13,873
Closing balance	1,667,053	1,021,670

Deferred mortgage origination costs

The deferred mortgage origination costs represent the amount (fictive) payable by the Fund for the transfer of mortgages from NN Bank N.V. These costs are charged to the Fund on a monthly basis together with the servicing fee.

4.5.2 Investment funds

Amounts x € 1,000	2017	2016
Opening balance	125,679	-
Purchases	409,188	445,077
Sales	-409,947	-319,095
Revaluation	-410	-303
Closing balance	124,510	125,679

Investments in investment funds

At 31 December 2017

Name of the fund	Number of shares/participation	Net Asset value in €	Ownership percentage	Value x € 1,000
NN (L) Liquid Eur – Zz Cap Eur	123,728	1,006.32	9.7%	124,510
Closing balance				124,510

At 31 December 2016

Name of the fund	Number of shares/participation	Net Asset value in €	Ownership percentage	Value x € 1,000
NN Cash Facility Fund – Z	126.015	997,33	5,3%	125.679
Closing balance				125.679

4.5.3 Investments by valuation method

The breakdown of the investment portfolio by valuation method is as follows:

Amounts x € 1,000	31-12-2017	31-12-2016
Discounted cash flow calculation	1,667,053	1,021,670
Other method	124,510	125,679
Balance at end of reporting period	1,791,563	1,147,349

The investments in other investment funds are included in the category 'Other method'. These investments are values at the net asset value of that (same) day.

4.5.4 Risk relating to financial instruments

Investing involves entering into transactions with financial instruments. Investing in the Fund, and therefore the use of financial instruments, means both seizing opportunities and taking risks. Managing risks that are related to investing should always be seen in conjunction with the opportunities, eventually expressed in the performance. Therefore, risk management is not solely focused on mitigating risks but to create an optimal balance between performance and risk, all within acceptable limits.

The disclosures of the risks that are included in this section relate to investments in financial instruments of the Fund. The Fund also invests in investment funds. For details risk disclosures on these investments, please refer to the annual reports of these funds.

Market risk

The risk that arises as a result of changes in market prices is limited by spreading the mortgage portfolio to products and region. The market price is influenced by the restriction in trading of the mortgages. The mortgages can only be sold to a company associated to NN IP.

Details on mortgage portfolio	2017	2016
Nominal value mortgages (x € 1.000)	1,589,723	987,830
Outstanding construction depots (x € 1.000)	95,647	116,106
Number of loans	5,409	3,102
Number of loan parts	10,836	6,465
Weighted average interest rate on mortgages	2.88%	3.04%
Payments overdue for more than 90 days	8	-
Credit losses	-	-
Loan to value ratio*	93.38%	94.81%

* The loan to value ratio (LTV) of a mortgage is calculated by dividing the total outstanding principal amount of the mortgage by the original market value of the related collateral.

Mortgage portfolio by type

The overview below provides a breakdown of the nominal values of the mortgage portfolio by type of mortgage.

(Amount x € 1,000)	31-12-2017	31-12-2016
Annuity mortgages	1,090,838	659,988
Linear mortgages	76,661	50,044
Interest only mortgages	419,759	276,378
Life mortgages	2,314	1,301
Investment mortgages	151	119
Total	1,589,723	987,830

Mortgage portfolio province

The overview below provides a breakdown of the nominal values of the mortgage portfolio by province.

(Amount x € 1,000)	31-12-2017	31-12-2016
Zuid-Holland	435,740	264,265
Noord-Holland	252,424	193,053
Noord-Brabant	220,613	129,562
Utrecht	163,982	117,148
Gelderland	191,147	117,141
Overijssel	83,354	47,366
Limburg	55,624	30,165
Flevoland	50,340	24,960
Groningen	52,336	22,441
Friesland	25,452	12,457
Zeeland	26,542	13,364
Drenthe	32,169	15,908
Total	1,589,723	987,830

Interest risk

The Fund invests in fixed income financial instruments with a long maturity and is therefore exposed to significant interest rate risk. The table below shows the breakdown of the mortgage portfolio by interest maturity.

Breakdown of the mortgage portfolio to interest maturity

Amounts x € 1,000	31-12-2017	31-12-2016
Shorter than 1 year	2%	3%
Between 1 and 5 years	1%	2%
Between 5 and 10 years	24%	29%
Between 10 and 15 years	13%	15%
Between 15 and 20 years	59%	50%
Longer than 20 years	1%	1%
Total	100%	100%

The weighted average interest rate of the mortgage portfolio is 2.88% (2016: 3.04%).

Duration at the end of the reporting period

The duration of the mortgage portfolio at the end of the reporting period is 6.9 (2016: 6.7). This is calculated according to the modified duration method. The duration measures the sensitivity of the portfolio to changes in market interest rates.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate as a result of changes in exchange rates. All the investments of the Fund are denominated in euro. The Fund is therefore not exposed to significant currency risk.

Credit risk

Credit risk is the risk that a specific counterparty is unable to fulfil its obligations under contracts for financial instruments.

At the end of the reporting period, the average nominal value of the mortgage portfolio is € 303,435 (2016: € 324,610) and the average outstanding principal amount is € 293,903 (2016: € 318,449).

The amount that best represents the maximum credit risk of the Fund at 31 December 2017 is € 1.778.495 (2016: € 1.143.006).

Allocation of mortgage portfolio outstanding principal relative to the market value of the collateral*At 31-12-2017*

	0% - 50%	50%-100%	100 – 104%	Total
NHG	0.1%	11.3%	2.5%	13.9%
Non NHG	0.7%	76.7%	8.7%	86.1%
Total	0.8%	88.0%	11.2%	100.0%

At 31-12-2016

	0% - 50%	50%-100%	100 – 104%	Total
NHG	0.1%	3.2%	2.1%	5.4%
Non NHG	0.7%	68.3%	25.6%	94.6%
Total	0.8%	71.5%	27.7%	100.0%

Counterparty risk

The Fund is exposed to counterparty risk for the amounts of the assets on the balance sheet. For the various assets with a substantial financial interest the following can be explained:

- The mortgages purchased from NN Bank N.V. will be held by the Custody Company (NNIP Bewaarmaatschappij III B.V.) for account of the Fund.
- Cash and cash equivalents are held at banks that have at least an investment grade rating.
- For counterparty risk with regard to the investments in investment funds, we refer to the financial statements of NN Cash Facility Fund.

Leverage

The table below gives information on the level of leverage at 31-12-2017.

Name Fund	NN Dutch Residential Mortgage Fund
Maximum level of net leverage	105%
Average level of net leverage ⁽¹⁾	100%
Maximum level of gross leverage	105%
Average level of gross leverage ⁽²⁾	100%

(1): The level of net leverage is determined using the commitment method taking netting and/or hedging into account.

(2): The level of gross leverage is determined based on the sum of the nominal value of the derivatives without taking into account netting and/or hedging.

4.5.5 Receivables

All receivables have a maturity shorter than one year, unless stated otherwise.

Interest receivable

This relates to earned interest on investments that has not yet been received.

Other receivables

The other receivables at 31 December 2017 mainly consist of a receivable from NN Bank N.V.

4.5.6 Other assets

Cash and cash equivalents

This concerns freely available cash at banks. Interest on the bank balances is received or paid based on market interest rates.

4.5.7 Short term liabilities

All short term liabilities have a maturity shorter than one year, unless stated otherwise.

Construction depots

The construction depots are the unused amounts of the principal mortgages, which are available for withdrawal by the mortgage customers.

Deferred mortgage origination costs

The deferred mortgage origination costs represent the amount (fictive) payable by the Fund for the transfer of mortgages from NN Bank N.V. These costs are charged to the Fund on a monthly basis together with the service fee.

Interest payable

This concerns interest payable on construction depots.

Other liabilities

Other liabilities may include interest payable on amounts due to credit institutions, expenses payable, subscriptions received in advance and other liabilities.

4.5.8 Net asset value

For the period 1 January 2017 through 31 December 2017

Amounts x € 1,000	Participation class I	Participation class Z	Total
Movement schedule net asset value			
Opening balance	947,987	77,754	1,025,741
Issue of participations	622,459	5,000	627,459
Redemption of participations	-10,744	-	-10,744
Distribution to participants	-27,226	-1,708	-28,934
Net assets participation holders	1,532,476	81,046	1,613,522
Net result	63,590	4,029	67,619
Closing balance	1,596,066	85,075	1,681,141

The Fund invests in mortgages, for which a frequent market price is not available. As a result, law and regulations prescribe forming a revaluation reserve for the amount of unrealised revaluation. However, this does not limit the distribution capacity of the Fund.

The revaluation reserve as 31 December 2017 amounts to 53,872 (2016: 14,548). This revaluation reserve relates to the part of the total fund assets related to the unrealised revaluation of investments without a frequent market price.

The revaluation reserve is determined based on the valuation of the total mortgage portfolio using an average cost price.

For the period 1 December 2015 through 31 December 2016

Amounts x € 1,000	Participation class I	Participation class Z	Total
Movement schedule net asset value			
Opening balance	-	-	-
Issue of participations	922,500	75,000	997,500
Distribution to participants	-	-	-
Net assets participation holders	922,500	75,000	997,500
Net result	25,487	2,754	28,241
Closing balance	947,987	77,754	1,025,741

Unrealized revaluation

At year end the positive and negative unrealized revaluation on the investment portfolio is as follows:

Amounts x € 1.000	Positive revaluation	Negative revaluation	Total at 31-12-2017	Total at 31-12-2016
Mortgages*	53,872	-	53,872	14,548
Investment funds	-	-218	-218	-94
Balance at end of reporting period	53,872	-218	53,654	14,454

* The mortgage portfolio is managed by NN Bank N.V. From the administrative systems of NN Bank N.V. it is not possible to split the unrealized revaluation on the mortgages into positive and negative revaluations at the level of the individual mortgages. Therefore, only the total amount of the unrealized revaluation on the mortgages is mentioned in the table.

4.5.9 Rights and obligations not included in the balance sheet

Committed amounts

The overview below includes the amounts that (potential) participants have committed for subscription to participations of the Fund at the end of the reporting period.

Amounts x € 1,000	2017	2016
Opening balance	138,000	-
Committed during the period	762,940	1,135,500
Withdrawals	-10,744	-
Amount called during the period	-610,000	-997,500
Outstanding commitments at end of reporting period	280,196	138,000

4.6 Notes to the profit and loss statement

4.6.1 Investment income

Interest received from mortgages

This is the interest income on mortgage loans (including interest for early repayment) that is attributable to the reporting period.

Interest paid on construction depots

This is the interest expense on construction depots attributable to the reporting period.

4.6.2 Revaluation of investments

Amounts x € 1.000	2017	2016
Realised gains and losses on mortgages*	-80	46
Unrealised gains and losses on mortgages *	39.324	14.548
Realised losses on investment funds	-286	-209
Unrealised losses on investment funds	-124	-94
Total revaluation of investment	38.834	14.291

* The mortgage portfolio is managed by NN Bank N.V. The administrative systems of NN Bank N.V. do not provide the possibility to split the revaluation on the mortgage portfolio to profits and losses at the level of the individual mortgages. Therefore, the table only shows the total amounts for gains and losses of the mortgage portfolio.

4.6.3 Other results

Other operating income

Other operating income represents proceeds that are not directly generated from income from investments. This also includes a fee for the allocated cost of the investment in investment funds and the fund is therefore compensated for these costs since allocated costs are already included in the Fixed Miscellaneous Fee of Participation Class I and Z of the Fund.

4.6.4 Operating expenses

Operating costs

The operating costs include the management fee and the Fixed Miscellaneous Fee ('Vaste Overige Kostenvergoeding' or 'VOK'). These costs are further explained in the notes to the Participation classes included in this report.

Interest

This is the interest due to credit institutions and the interest on the outstanding balance at NN Bank N.V.

4.7 Other general notes

4.7.1 Transaction costs

Amounts x € 1,000	2017	2016
Transaction costs charged to the Fund	-	-

There are no transaction costs on mortgage transactions.

During 2016 and 2017, there were no transaction costs for transactions in NN Cash Facility Fund and NN (L) Liquid Eur since the fee during the reporting period was 0.00%.

4.7.2 Subscription and redemption fee

The subscription and redemption fee during the reporting period was 0.00%. Therefore, no subscription and redemption fee was charged during the reporting period.

4.7.3 Portfolio Turnover Ratio

	2017	2016
Purchases of investments	1,076,285	1,468,153
Sales of investments	478,084	348,968
Total of investment transactions	1,554,369	1,817,121
Subscriptions to participations	627,459	997,500
Redemption of participations	10,744	-
Total of participation transactions	638,203	997,500
Portfolio turnover	916,166	819,621
Average net asset value	1,368,894	644,027
Portfolio turnover ratio	67	127

The portfolio turnover ratio (PTR) expresses the ratio between the total size of the portfolio transactions and the average net asset value of the Fund. The ratio is intended to provide an indication of the turnover rate of the portfolio of an investment fund and is thus a measure of both the degree of active investment management as for the resulting transaction costs. If the calculation results in a negative outcome, the PTR is nil.

The total amount of portfolio transactions is determined by the sum of purchases and sales of investments less the sum of subscriptions and redemptions. With the exception of deposits, all asset classes are included in the calculation. The average net asset value of the Fund is determined as the weighted average of the Fund net asset value on a monthly basis, based on the number of times the net asset value calculation takes place during the reporting period.

4.7.4 Affiliated parties

The investment policy of the Fund allows for the use of affiliated parties. Affiliated parties are all legal entities and other business units that are part of NN Group N.V. This concerns, among other things, the management of the Fund, acquiring and lending of cash and cash equivalents and entering into loan agreements. In addition, NN Bank N.V. is used for acquiring and servicing the mortgages of the Fund. These services take place at arm's length.

During the reporting period, the following services of NN Group N.V. and affiliated entities have been used:

- For the management activities, a management fee is charged to Participation class I. For details on the management fee percentage, we refer to the information on Participation class I included in this annual report.
- NN Bewaar Maatschappij III B.V. acts as Custody company to the Fund. The Custody company is the legal owner of or legally entitled to the assets of the Fund that are managed by the Manager. All goods that are or will become part of the Fund are or will be legally entitled to the Custody company on behalf of the participants in the Fund. Obligations that are or will become a liability of the Fund are recorded in the name of the Custody company. All assets and liabilities held by the Custody company are held on behalf of the participants. For this service, no fee is charged to the Fund.
- For the benefit of the Fund's investments, the Fund has entered into various agreements with NN Bank N.V., including the Mortgage Receivables Purchase Agreement and Servicing Agreement. The costs of this service are part of the Fixed Miscellaneous Fee.
- When executing the investment policy, the Fund purchased and sold investments in other NN IP funds as disclosed in the notes to the balance sheet.

4.7.5 Profit appropriation

On 20 June 2018 (ex-dividend date) both Participation Class I and Participation Class Z will issue a dividend of 2.15% per participation. The amount per participation will be calculated shortly before this date. The remaining amount of the net result of the Fund, which is not distributed, will be added to the Net asset attributable to participation holders of the respective participation classes.

4.7.6 Subsequent events

None.

4.8 Notes for Participation Class I

4.8.1 Result

For the period 1 January through 31 December 2017 respectively 1 December 2015 through 31 December 2016.

Amounts x € 1.000	2017	2016
INVESTMENT RESULT		
Investment result		
Interest from mortgages	36,133	18,959
Interest on construction depots	-2,729	-3,135
Revaluation of investments	36,663	12,831
Other results		
Other operating income	20	71
Total operating result	70,087	28,726
OPERATING EXPENSES		
Operating costs	6,451	3,204
Interest	46	35
Total operating expenses	6,497	3,239
Net result	63,590	25,487

4.8.2 Net asset value

	31-12-2017	31-12-2016
Fund assets (x € 1.000)	1,596,066	947,987
Number of participations issued (units)	14,729,595	8,975,723
Net asset value per participation (in €)	108.36	105.62

4.8.3 Expenses

For the period 1 January through 31 December 2017 respectively 1 December 2015 through 31 December 2016.

Amounts x € 1,000	2017	2016
Management fee	2,903	1,442
Fixed Miscellaneous Fee	3,548	1,762
Total operating costs Participation Class I	6,451	3,204

The management fee for Participation Class I of the Fund Participation amounts to 0.225% per year. The management fee is charged on a monthly basis and calculated on the total net asset value of Participation Class I at the end of each month.

The Fixed Miscellaneous Fee ("VOK") for Participation Class I of the Fund amounts to 0.275% per year. This fee is charged on a monthly basis and calculated on the total net asset value of Participation Class I at the end of each month.

These other costs include servicing and administration of mortgages of 0.245% as well as regular and/or ongoing costs of 0.03% including the costs of: the administration and reporting (including the costs of data supply and processing and calculating financial data of the Fund, the custody of the assets, the auditor, supervision, payments, publications, meetings of participants as well as external advisors and service providers such as the Transfer Agent), as far as these costs have been charged to the Fund.

The amount for audit fee 2017 attributable to Shares Class I is included in the Fixed Miscellaneous Fee. The costs related to the audit of the financial statements are 27 (2016: 19) and the costs related to other engagements are 1 (2016: 9). There are no audit fees related to consultancy and other non-assurance services.

4.8.4 Cost comparison

Based on Section 123:1j Bgfo, comparison of the normative costs and the actual costs should be included in the notes to the financial statements. The normative costs are the costs, categorised to type of costs, according to the prospectus. Since the management fee is calculated as a percentage of the net asset value, the prospectus does not provide an expected absolute amount for these costs.

Furthermore, the other costs are part of the Fixed Miscellaneous Fee which is also calculated as a percentage of the net asset value. For these reasons, the cost comparison overview is not included in these financial statements.

4.8.5 Ongoing charges figure

The Ongoing charges figure is a cost ratio that shows the costs incurred by the Fund during the reporting period as a percentage of the average net asset value of the Fund.

The Fund invests directly or indirectly in other investment entities managed by the Manager or an affiliated party of the Manager. The costs of these investment entities are taken into account when determining the total cost level of the Fund. For Participation Class I these costs are included in the Fixed Miscellaneous Fee.

When calculating the Ongoing charges figure, transaction costs for portfolio transactions are not excluded from the costs, since these costs are included in the investment purchases and sales amounts. Subscription and redemption fees are also excluded from the calculation of the Ongoing charges figure.

The average net asset value of the Fund is determined as the weighted average of the Fund net asset value on a monthly basis, based on the number of times the net asset value calculation takes place during the reporting period.

	2017	2016
Management fee	0.225%	0.225%
Other expenses	0.275%	0.275%
Total Participation Class I	0.500%	0.500%

The Other expenses consist of the Fixed Miscellaneous Fee ("VOK") as disclosed in the paragraph 'Expenses'.

4.9 Notes for Participation Class Z

4.9.1 Result

For the period 1 January through 31 December 2017 respectively 1 December 2015 through 31 December 2016.

Amounts x € 1,000	2017	2016
INVESTMENT RESULT		
Investment result		
Interest received from mortgages	2,255	1,724
Interest paid on construction depots	-174	-271
Revaluation of investments	2,171	1,460
Other results		
Other operating income	1	6
Total operating result	4,253	2,919
OPERATING EXPENSES		
Operating costs	221	162
Interest	3	3
Total operating expenses	224	165
Net result	4,029	2,754

4.9.2 Net asset value

	31-12-2017	31-12-2016
Fund assets (x € 1.000)	85,075	77,754
Number of participations issued (units)	781,391	734,391
Net asset value per participation (in €)	108.88	105.88

4.9.3 Expenses

For the period 1 January through 31 December 2017 respectively 1 December 2015 through 31 December 2016.

Amounts x € 1,000	2017	2016
Fixed Miscellaneous Fee	221	162
Total operating costs Participation Class Z	221	162

The Fixed Miscellaneous Fee ("VOK") for Participation Class I of the Fund amounts to 0.275% per year. This fee is charged on a monthly basis and calculated on the total net asset value of Participation Class Z at the end of each month.

These other costs include servicing and administration of mortgages of 0.245% as well as regular and/or ongoing costs of 0.03% including the costs of: the administration and reporting (including the costs of data supply and processing and calculating financial data of the Fund, the custody of the assets, the auditor, supervision, payments, publications, meetings of participants as well as external advisors and service providers such as the Transfer Agent), as far as these costs have been charged to the Fund.

The amount for audit fee 2017 attributable to Participation Class Z is included in the Fixed Miscellaneous Fee. The costs related to the audit of the financial statements are 2 (2016: 2) and the costs related to other engagements are <1 (2016: 1). There are no audit fees related to consultancy and other non-assurance services.

4.9.4 Cost comparison

Based on Section 123:1j Bgfo, comparison of the normative costs and the actual costs should be included in the notes to the financial statements. The normative costs are the costs, categorised to type of costs, according to the prospectus.

The other costs are part of the Fixed Miscellaneous Fee which is also calculated as a percentage of the net asset value. For these reasons, the cost comparison overview is not included in these financial statements.

4.9.5 Ongoing charges figure

The Ongoing charges figure is a cost ratio that shows the costs incurred by the Fund during the reporting period as a percentage of the average net asset value of the Fund.

The Fund invests directly or indirectly in other investment entities managed by the Manager or an affiliated party of the Manager. The costs of these investment entities are taken into account when determining the total cost level of the Fund. For Participation Class Z these costs are included in the Fixed Miscellaneous Fee.

When calculating the Ongoing charges figure, transaction costs for portfolio transactions are not excluded from the costs, since these costs are included in the investment purchases and sales amounts. Subscription and redemption fees are also excluded from the calculation of the Ongoing charges figure.

The average net asset value of the Fund is determined as the weighted average of the Fund net asset value on a monthly basis, based on the number of times the net asset value calculation takes place during the reporting period.

	2017	2016
Other expenses	0.275%	0.275%
Total Participation Class Z	0.275%	0.275%

The Other expenses consist of the Fixed Miscellaneous Fee ("VOK") as disclosed in the paragraph 'Expenses'.

The Hague, 20 April 2018

NN Investment Partners B.V.

5. Other information

5.1 Management interest

The total personal interest in number of shares and option rights or nominal value in bonds that the Board Members, as appointed on the dates mentioned, in (the investments of) the Fund (including investments in the NN IP funds in which it participated) had at 31 December 2017 and at 1 January 2017 is specified as follows:

	Type	31-12-2017	1-1-2017
NN (L) Liquid Eur A CAP EUR*	Indirect belang	4.262	-
NN Dutch Residential Mortgage Fund*	Indirect belang	2.436	-

* The aforementioned interest concerns an indirectly allocated economic interest of the Board Members, through reflection of all investment funds, which shows their participation in the performance of the investment funds.

5.2 Independent auditor's report

To: the manager of NN Dutch Residential Mortgage Fund

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2017 of NN Dutch Residential Mortgage Fund, based in The Hague.

In our opinion the accompanying financial statements give a true and fair view of the financial position of NN Dutch Residential Mortgage Fund as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2017;
- 2 the profit and loss statement for 2017; and
- 3 the notes comprising a summary of the accounting policies 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 NN Dutch Residential Mortgage Fund in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the 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 general information;
- the key figures;
- the board of director's report;
- the 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.

The manager is responsible for the preparation of the other information, including the board of director'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 the responsibilities for the financial statements

Responsibilities of the manager for the financial statements

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

As part of the preparation of the financial statements, the manager is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the manager should prepare the financial statements using the going concern basis of accounting unless the manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. The manager 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 during our audit.

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

We have exercised professional judgement and have maintained professional scepticism 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 errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the manager;

- 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 Fund'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 the company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with those charged with governance 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.

Utrecht, 20 April 2018

KPMG Accountants N.V.

G.J. Hoeve RA