

Annual Report 2016

For the period from 1 December 2015 through 31 December 2016

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.

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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. Bapat (as of 1 April 2017)
C.E.M. Beckers (until 1 April 2017)
H.W.D.G. Borrie (as of 1 March 2017)
M.C.W. den Hollander
M.O. Nijkamp (until 1 April 2017)
B.G.J. van Overbeek
J.W.F. Stoter
M.C. Vink
J.W. van der Wal

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
F.J.J. van Geel
W.A. van Woudenberg

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

Key figures

Key figures Participation Class I

		2016*
Net asset value (x 1,000)	€	947,987
Units of participation outstanding (number)		8,975,723
Net asset value per unit of participation	€	105.62
Dividend per unit of participation	€	-
Net performance Participation Class	%	5.62

Summary of investment result

Amounts x € 1,000	2016*
Investment income	15,895
Operating expenses	-3,239
Revaluation	12,831
Total investment result	25,487

Summary of investment result per unit of participation

Amounts x € 1	2016*
Investment income	2.81
Operating expenses	-0.57
Revaluation	2.27
Total investment result	4.51

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

Notes to the key figures

Reporting period

The amounts for 2016 refer 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.

Key figures Participation class Z

		2016*
Net asset value (x 1,000)	€	77,754
Units of participation outstanding (number)		734,391
Net asset value per unit of participation	€	105.88
Dividend per unit of participation	€	-
Net performance Participation Class	%	5.88

Summary of investment result

Amounts x € 1,000	2016*
Investment income	1,459
Operating expenses	-165
Revaluation	1,460
Total investment result	2,754

Summary of investment result per unit of participation

Amounts x € 1	2016*
Investment income	2.84
Operating expenses	-0.32
Revaluation	2.84
Total investment result	5.36

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

Notes to the key figures

Reporting period

The amounts for 2016 refer 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.

Board of director's report

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, an organizational unit within NN Group N.V. NN Investment Partners 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 Investment Partners. 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.

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.

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 may be invested in NN Cash Facility Fund, which is also managed by the Manager, or in another fund with a similar investment policy to be designated by the Manager.

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.

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.

Benchmark

None.

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: 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: 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 main characteristics of the Participation classes that were active during the reporting period are as follows:

Summary of the characteristics per participation class as at 31-12-2016

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.

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.

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.

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.

Responsible investment

NN Investment Partners is committed to responsible investment and providing client-oriented solutions. Our strategy for responsible investing is based on our investment guidelines and consists of four pillars:

- we use the principles for responsible investment of the United Nations (UN PRI).
- we do not invest in controversial weapons.
- we exercise voting rights on shares in accordance with the interests of our customers.
- we offer specialized sustainable investment funds and tailor made solutions for responsible investment.

NN Investment Partners is actively involved in international initiatives, in which the importance of a responsible investment approach is essential.

Committed to UN PRI – integration of ESG

NN Investment Partners has endorsed the principles for responsible investment of the United Nations (UN PRI). This collection of global best practices helps investors and asset managers to integrate environmental, social and good corporate governance related issues into the investment practice.

We are convinced that by integrating ESG factors into the investment process we take account of factors that often fall outside the traditional financial analysis, but that these can be of great influence on the long-term performance. This way, our analysts can create potential value by identifying opportunities and/or risks from an ESG perspective. Our fund managers take this potential value into consideration in their investment decisions. For us, the important ESG factors include environmental impact and climate change, corruption, human rights, health and safety and good corporate governance. These factors are integrated into the investment process for both company assets and investor assets, and they apply to both equities and corporate bonds. A similar procedure applies to government bonds.

Controversial weapons and arms trade

NN Group N.V. ('NN Group') opposes controversial arms trade, such as the provision of weapons to countries under embargo of the UN, EU or USA. In addition, NN Group considers anti-personnel landmines, cluster munitions, depleted uranium ammunition and biological or chemical weapons to be controversial weapons. NN Group will not invest in companies that distribute weapons to UN, EU, US weapon embargo countries, or companies that produce, maintain or trade in the controversial weapons mentioned above. Except for index-trackers and explicit orders from customers, NN Investment Partners will, where legally possible and unilaterally enforceable, ensure that client money is not invested in such companies through the funds managed by NN Investment Partners.

NN Group also considers nuclear weapons to be controversial. Nuclear weapons, however, have a different character because their production, use and proliferation is strongly regulated by the international community. Many technical companies are involved in the nuclear weapons programs of their respective Governments. To balance our position on nuclear weapons with the great involvement of the private sector, we refrain from investing in companies that are involved in nuclear weapons trade or companies with a clear focus on the defence industry. With regard to these companies, we apply the same restrictions as used for companies involved in controversial arms trade and other controversial weapons.

Active voting rights in the interest of our clients

The funds managed by NN Investment Partners aim to achieve optimal returns for our investors, in accordance with the law and regulations and the investment policy of each individual fund. We are convinced that organisations that are well managed and are transparent to their shareholders and stakeholders ('good corporate governance'), are expected to achieve better in the long term. We consider it our responsibility to promote good governance at the companies in which we invest. One of the ways to achieve this is to actively use the voting rights on the shares owned. By voting during shareholder meetings, we act in the best interest of the beneficiary owners of the shares.

We offer specialized sustainable investment funds and customized solutions

NN Investment Partners strives to meet the growing demand for products that provide not only good financial results, but also achieve social and environmental objectives. We do this by continuously developing new products and services that satisfy these demands from the market.

We support international initiatives

By endorsing international initiatives, NN Investment Partners confirms its ambition and approach in the area of responsible investing. Some examples of this are:

- Since 2008, NN Investment Partners has endorsed the Principles for Responsible Investment of the United Nations (UN PRI). This collection of global best practices helps security holders and asset managers in integrating ESG issues in the investment practice.
- NN Investment Partners has signed the European SRI Transparency Code of Eurosif. Eurosif (European Sustainable Investment Forum) promotes transparency through the use of qualitative investment criteria.
- NN Investment Partners supports the Carbon Disclosure Project (CDP), a program that encourages companies to be more transparent on their greenhouse gas emission.

DUFAS Code on Asset Management

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 2016.

Custodian of the Fund

The assets of the Fund are in custody at The Bank of New York Mellon SA/NV, Amsterdam branch, as the 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.

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 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, NNIP assesses to what extent the information corresponds with the market information for Dutch Residential Mortgage Backed Securities. NNIP may adjust the CPR if this is deemed necessary and reasonable. Throughout the year, the CPR was adjusted from 5% to 6% as a result of the increase in repayments on mortgages in particular due to the recovering housing market and the increase in transactions.

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.

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.

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.

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 NNIP 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

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.

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.

General financial and economic developments in 2016

2016 had a rough start but ended on a positive note. January and the first weeks of February were characterised by fears of a global recession, induced by a slump in crude oil price and large capital outflows from China and other emerging markets, causing a sharp increase in risk aversion around the globe. The last few months of the year were characterised by hopes of a reflation of the global economy as the anticipation of a better balance between monetary and fiscal policy resulted in an increase in bond yields and commodity prices. This reflation trade was spurred by the surprise election of Donald Trump as the 45th president of the United States.

- Fear of a sharp slowdown of the Chinese economy and a fall in Brent crude oil prices to USD 28 caused a sharp increase in risk aversion and major volatility in financial markets at the beginning of the year. Turmoil spread to the energy and financial sectors as their profitability came under severe pressure from low oil prices and low interest rates respectively. The turmoil subsided from mid-February onwards as macroeconomic data bottomed, oil prices rebounded and central banks calmed investors' fears.
- Central banks again played an important role in restoring investor confidence. Both the Bank of Japan and the ECB cut interest rates while the latter also increased its monthly asset purchases to EUR 80 billion and included non-financial corporate bonds. The Federal Reserve, which had hiked rates in December, made a significant dovish shift and reduced its rate hike projections for 2016.
- Risk appetite increased from late February onwards, leading to a recovery in risky assets, a stabilisation in government bond yields and a sharp rebound in oil prices. To a large extent because of the latter, investors started to move capital to emerging markets (EM) again. Due to the improved capital flows – and lower inflation – EM central banks were able to cut interest rates which contributed to a self-sustained improvement in EM growth momentum.
- As of May investors turned more cautious again. Macro and earnings data sent mixed signals and investors also started to anticipate a possible negative outcome of the referendum on 23 June in which the British could vote on whether they wanted to leave or stay in the European Union (EU). This led to a sell-off in risky assets and a flight to safety causing a further decline in government bond yields. On June 14, the yield on the German Bunds dipped below 0% for the first time in history.
- On 23 June, the UK voted to leave the EU. The Brexit vote sent a shockwave through financial markets. The correction was short-lived, however, and it was just a matter of weeks that risky assets traded at the levels from before the referendum. Markets expected that central banks would step up their measures to stem the possible negative consequences of the vote. Moreover, global economic data was more positive than expected, especially in July and August. Data from the UK were often better than expected.
- The monetary policy stance remained dovish, but – to a large extent because of economic data remaining resilient – not as much as many had expected post-Brexit. The Bank of England intervened by cutting rates and increasing its asset purchases, but the ECB and Bank of Japan left their policy rates and QE programmes unchanged. The Federal Reserve signalled that a rate hike was still on the cards for 2016.
- Next to a shift in monetary policy expectations, the tone with regard to fiscal policy changed as well. The Brexit vote triggered suggestions of fiscal stimulus by UK government officials and the Japanese government announced a huge fiscal package. In the Eurozone more lenience was visible regarding peripheral countries' budget deficits and in the US both presidential candidates advocated fiscal stimulus.

- The anticipation of a more balanced policy approach, combined with an improvement in economic data, higher commodity prices and signs of a further normalisation of the Federal Reserve's monetary policy, caused government bond yields in developed markets to bottom in the summer and gradually rise thereafter. In equity markets, a shift occurred from defensive, yield-providing sectors towards cyclical sectors.
- Next to the Brexit vote in June, the other main political event of 2016 was of course the US elections on 8 November. To the surprise of many, Donald Trump was elected president. Due to his controversial campaign, the general consensus was that a Trump victory would lead to a sell-off in risky assets and a flight to safety pushing bond yields lower. In reality, these moves did occur but by the time the US market opened, they were already reversed. Once the uncertainty about the election outcome disappeared and despite it being replaced by other sorts of uncertainty, investors started to focus on the potential for change under a Trump presidency.
- Trump has vowed to increase economic growth through large infrastructure investments, cutting corporate taxes and less regulation. As a result, equities surged and bond yields rose, with the US in the lead. The outperformance of cyclical sectors strengthened and especially the financial sector fared well as higher bond yields, steeper yield curves and the prospect of less regulation all bode well for profitability.
- In December, the ECB decided to extend its bond purchasing programme through 2017 but at a slower pace of EUR 60 billion per month from April onwards. The Federal Reserve hiked rates by 25 basis points and signalled three hikes in 2017, which is one more than the market expected.
- The oil price was quite volatile through the year, moving between a low of USD 28 in January and a high of USD 56 in December. Prices started to increase in August on mounting speculation that oil producers would cut production, followed by a provisional OPEC deal in September and a final agreement on 30 November, with non-OPEC members joining the production cuts. The deal brings the rebalancing of the oil market forward and decreases downside oil price risks.
- Currencies were quite volatile as well. After the dovish shift of the Federal Reserve the US dollar weakened substantially from February to April, bringing relief to EM currencies which had depreciated a lot in the past few years. The Brexit vote caused a sharp depreciation of the pound sterling. From the second half of the year, the rise in bond yields and emerging reflation trade led to a strengthening of the dollar, a move which was enhanced by the election of Trump. In addition to many EM currencies, the euro and yen also depreciated substantially versus the dollar in November and December.
- The Japanese equity market particularly profited from the weaker yen due to its export sensitivity and cyclical exposure. In the last quarter of the year, the yen reversed almost all of its appreciation of the first half of the year. In euro terms, the US was the best performing region in 2016, thanks to its return to earnings growth in the third quarter and the Trump-induced rally. Emerging markets equalled the US, thanks to the improved capital flows and an improvement in economic momentum. In the past months they suffered somewhat from rising bond yields though, as well as the looming prospect of US protectionist measures.
- In the riskier fixed income markets, High Yield and EMD performed well. Both suffered from the fall in oil and commodity prices at the end of 2015 and start of 2016, but rebounded strongly. The rise in bond yields in developed markets caused capital flows to emerging markets to slow down, impacting the performance of EMD from the second half of the year.

Fund-specific developments in 2016

Market developments

The Dutch housing market recovered strongly during 2016. The Dutch house price index (source CBS) increased from 89.5 by the end of 2015 to 95.5 by the end of December 2016, an increase of 6.70%. The consumer sentiment rose steadily throughout the year and reached in December the highest level of 121, measured by the Property Market Indicator of the 'vereniging eigen huis'.

The recovery of the Dutch housing market was coupled with a significant increase in the amount of provided mortgages. In 2016, an amount of € 80.98 million (source Kadaster) was provided to new mortgages in 2016, compared to € 63.47 billion in 2015. This is an increase of 27.6%. Compared to the low point in June 2013 (CBS house price indicator 84) the average house prices are 9,8% higher, but the Dutch house prices are still on average 10.7% lower than the level of the peak of August 2008 (CBS house price indicator 107).

During 2016 the interest for Dutch government bonds decreased and the swap curve flattened (longer maturities responded heavily to the change in interest rates). The quote rates for mortgages followed this decline of swap rates. By the end of 2015 the spread in relation to the swap curve on mortgages in the Fund was 208 basis points. By the end of 2016, the spread was almost unchanged at 207 basis points.

Investment policy

The assessment of the investment policy is based on the net performance of the Fund for the period 1 December 2015 to 31 December 2016. This net performance concerns the performance of the Fund as presented in the key figures after deduction of the management fee.

During the reporting period from 1 December 2015 through 31 December 2016, the Fund achieved a net performance of 5.62% on Participation Class I and 5.88% on Participation Class Z. This net performance is the performance, which is also included in the key figures, after the deduction of all costs incurred for managing the Fund. Over the full year period from 1 January 2016 through 31 December 2016, the net performance amounts to 5.36% for Participation Class I and 5.60% for Participation Class Z. Of this net performance, 3.40% can be attributed to fair value effects resulting from decreased mortgage offering rates at NN Bank N.V. Interest income contributed 2.48% to the net performance. The Fund suffered no losses on mortgages since the start.

The Fund has invested in mortgages issued by NN Bank N.V. after 1 January 2015 that have a maximum LTV (loan-to-value, or loan against the value of the collateral) of 103%. The duration of the Fund at 31 December 2016 was 6.7 years.

The value of the Fund increased to € 1,025.7 million in invested assets and the Fund is now registered in eight countries, namely the Netherlands, the UK, Belgium, France, Denmark, Sweden, Finland and Germany.

NN Bank N.V. introduced "interest averaging" in September, in line with other providers. Given the interest rate developments in the recent year makes this option especially interesting for interest-only mortgages, mortgages which have a fixed interest period of 2 to 5 years and loans that run for more than two years. We therefore expect that the impact on the Fund will be negligible.

Risk appetite and risk policy within the investment policy

Investors in the NN Dutch Residential Mortgage Fund are confronted with various risks, which are 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 28% of the mortgages of the Fund did not require mandatory repayment at the end of 2016). In addition, the weighted average affordability (measured as the monthly instalments divided by net income as per the end of June 2016) is 18.7% which is considerable. This means that mortgage clients pay only 18.7% of their monthly net income for their mortgage. 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

We expect that the recovery of the Dutch housing market will continue in a slower pace and that the market interest rates will remain low. Economic developments support the Dutch housing market and there is still a shortage of houses. In addition, Dutch banks are preparing for the proposed changes of Basel IV in terms of the capital requirements but there are still some unclear points. However, the latest BIS consultation from December 2015 requires that for Risk Weighted Assets (RWA), mortgages should be linked, inter alia, to the LTV with higher LTV's having a higher risk weighting. The RWA is the basis for determining the capital requirements of banks.

If this proposal is approved, it will have a relatively high impact on the capital position of Dutch banks, because mortgages in the Netherlands often have a higher LTV compared with LTV's in other European countries. We expect that spreads above the swap curve on Dutch mortgages in the medium long term will remain high. This leaves mortgages an attractive asset class.

Remuneration during the reporting period

This remuneration report describes NN Investment Partners remuneration philosophy and system as applicable to staff who perform activities for the Alternative Investment Funds (AIF).

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, 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 favor 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 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), and the Alternative Investment Fund Managers Directive (AIFMD) 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 & Internal Communication NN IP, the Chief Financial & Risk Officer NN IP, the Head of Legal & 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 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 2016 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 2016 Annual Report (<https://www.nn-group.com> – Investors – Annual report)

Remuneration of Identified Staff

NN Investment Partners selected Identified Staff based on the RBB (Identified Staff is staff whose professional activities have material impact on the risk profile of NN Group), and Identified Staff based on the AIFMD (being staff whose professional activities have a material impact on the Dutch licensed AIF(s) and/or NN Investment Partners B.V. based in The Hague). All NN Investment Partners Identified Staff selected based on the RBB, also qualify as AIFMD Identified Staff. More information in relation to the selection and remuneration of RBB selected Identified Staff can be found in the Remuneration disclosures based on art. 25 RBB, that can be found on the NN Group website: <https://www.nn-group.com> – Who we are – Remuneration). The insights presented are based on applicable (European) legislation as incorporated into the remuneration policies and principles that were applicable throughout 2016. For Identified Staff that exclusively qualify as AIFMD selected Identified Staff, the rules regarding

Remuneration are applied since performance year 2015 (i.e. variable remuneration as awarded in 2016) in line with the ESMA guidelines.

AIFMD 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;
- 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;
- 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 based on the RBB is centrally designed and coordinated by NN Group Human Resources, and resulting rules and requirements are also to be applied to AIFMD 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 company's values (Care, Clear and Commit) are reinforced. The principles also create alignment with the AIF 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 2016:

- 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 behavior, and the outcome of an assessment of leadership behavior 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 behavior 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 (as outlined in the NN Group 2016 Annual report and Art. 25 RBB disclosures, that can both be found on the NN Group website: <https://www.nn-group.com> – Who we are – Remuneration) are followed and for additional AIFMD selected Identified Staff the variable remuneration comprises the following components:

- up front 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 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 based on 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 AIFM and/or AIF's or a significant downturn in the AIFM's 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
- in case of a significant deterioration in the financial performance of the AIFM and/or AIF's or a significant downturn in the AIFM's 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 2016 and performing activities for NN Investment Partners International Holdings B.V. during the year 2016, 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 2016 variable remuneration is not charged to the AIFs.

Aggregate fixed and variable remuneration for the performance year 2016

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)	10	15	769
Fixed remuneration *	4,237	3,083	67,260
Variable remuneration **	2,319	1,565	16,053
Total fixed and variable remuneration	6,556	4,648	83,313

* Fixed remuneration per year end 2016 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 2016 as approved by the relevant committees and authorised per 20 March 2017. This includes all payments to be processed through payroll per March/April 2017, 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.

Other aspects

Change in the management composition of NN Investment Partners B.V.

On 1 August 2016, the composition of the Executive Board of NN Investment Partners B.V. ("the Board") has changed: Mr. D.G. Keiller resigned from the Executive Board.

After the reporting period, as per 1 March, 2017, Mrs. H.W.D.G. Borrie joined the board. As per 1 April, 2017, Mr. C.E.M. Beckers and Mr M. O. Nijkamp resigned from the board and at the same date, Mr S. Bapat has joined the board.

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 December 2015 until 31 December 2016 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 2017

NN Investment Partners B.V.

S. Bapat

H.W.D.G. Borrie

M.C.W. den Hollander

B.G.J. van Overbeek

J.W.F. Stoter

M.C. Vink

J.W. van der Wal

Financial statements 2016

(For the period 1 December 2015 through 31 December 2016)

Balance sheet

Before appropriation of the result

Amounts x € 1,000	Reference	31-12-2016
Investments		
Mortgages	1	1,007,797
Investment funds	2	125,679
		1,133,476
Receivables	3	
Interest receivable		2,500
Other receivables		6,888
		9,388
Other assets	4	
Cash and cash equivalents		142
		142
Short-term liabilities	5	
Construction depots		116,106
Interest payable		310
Other liabilities		849
		117,265
Net amount for receivables and other assets minus short-term liabilities		-107,735
Net amount for assets minus liabilities		1,025,741
Net assets participation holders		997,500
Net result		28,241
Net asset value	6	1,025,741

Profit and loss statement

Over the period 1 December 2015 until and including 31 December 2016

Amounts x € 1,000	Reference	2016
OPERATING INCOME		
Investment income	8	
Interest received from mortgages		20,683
Interest paid on construction depots		-3,406
Revaluation of investments	9	
Revaluation of investments		14,291
Other results	10	
Other operating income		77
Total operating income		31,645
OPERATING EXPENSES		
Operating costs	11	
Operating costs		3,366
Interest		38
Total operating expenses		3,404
Net result		28,241

Cash flow statement

Over the period 1 December 2015 until and including 31 December 2016

Amounts x € 1,000	2016
CASHFLOW FROM INVESTMENT ACTIVITIES	
Net income	28,241
Adjustment of net income	
Revaluation of investments	-14,291
	13,950
Purchases of investments	-1,468,153
Sales of investments	348,968
Change in receivables	-9,388
Change in short-term liabilities	117,265
Total cash flow from investment activities	-997,358
CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from issue of participations	997,500
Total cash flow from financing activities	997,500
NET CASH FLOW	142
Cash and cash equivalents opening balance	-
Cash and cash equivalents closing balance	142

Notes

General Notes

The Fund commenced operations on 1 December 2015. The reporting period of the Fund is 1 December 2015 through 31 December 2016.

The financial statements are prepared in accordance with Title 9 of Book 2 of the Dutch Civil Code and the Dutch Financial Supervision Act ("Wet op het financieel toezicht"). The financial statements are prepared according to the financial statements models for investment institutions as established by the legislator. 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).

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

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 judgements, including the corresponding assumptions, are disclosed in the notes to the financial statements.

Cash Management

In the reporting period cash management is done through investing in NN Cash Facility Fund. This Fund invests (both directly and indirectly through investments in other investment funds) mainly in interest-bearing or non-interest bearing debts denominated in euros such as deposits, short-term bonds and money market paper, including certificates of deposit and commercial paper. This investment is included in the balance sheet under 'investment funds'.

Significant accounting principles

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 NNIP funds are valued at the net asset value of the respective day.

Investments that are not listed on any stock- or other exchange or when the pricing is not considered to be representative (which may occur, for example, in times of great volatility on the financial markets), are priced by the Manager. Pricing by the Manager is done using objective and current market information and/or using generally accepted calculation models.

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.

All transactions in foreign currencies are accounted for against the last known midprice on the transaction date.

Income and expense recognition

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

Realised and unrealised changes in fair value, including foreign currency gains and losses, of investments 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.

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

Notes to the balance sheet

The movement schedules cover the period from 1 December 2015 through 31 December 2016.

Amounts x € 1,000	2016
1. Mortgages	
Opening balance	-
Purchases	1,023,076
Sales/repayments	-29,873
Revaluation	14,594
Closing balance	1,007,797
2. Investment funds	
Opening balance	-
Purchases	445,077
Sales	-319,095
Revaluation	-303
Closing balance	125,679

Investments in investment funds

At 31 December 2016

Name of the fund	Number of shares/participations	Net Asset value in €	Ownership percentage	Value x € 1.000
NN Cash Facility Fund – Z	126,015	997.33	5.3 %	125,679
Balance at end of the reporting period				125,679

Unrealised result investment portfolio

At the end of the reporting period the positive and negative unrealised revaluation on the investment portfolio is as follows:

Amounts x € 1,000	Positive revaluation	Negative revaluation	Total at 31-12-2016
Mortgages*	14,548	-	14,548
Investment funds	-	-94	-94
Balance unrealised revaluation at end of reporting period	14,548	-94	14,454

* 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 unrealised revaluation on the mortgages to positives and negatives at the level of individual mortgages. Therefore, the table only shows the total amount of unrealised revaluation of the mortgage portfolio.

Investments by valuation method

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

Amounts x € 1,000	31-12-2016
Discounted cash flow calculation	1,007,797
Other method	125,679
Balance at end of reporting period	1,133,476

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.

Risks 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 accounts 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 NNIP.

Details on mortgage portfolio	31-12-2016
Nominal value mortgages (x € 1.000)	987,830
Outstanding construction depots (x € 1.000)	116,106
Number of loans	3,102
Number of loan parts	6,465
Weighted average interest rate on mortgages	3.04%
Payments overdue for more than 90 days	-
Credit losses	-
Loan to value ratio*	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)	31-12-2016
Annuity mortgages	659,988
Linear mortgages	50,044
Interest only mortgages	276,378
Life mortgages	1,301
Investment mortgages	119
Other	-
Total	987,830

Mortgage portfolio by province

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

(amount x € 1.000)	31-12-2016
Zuid-Holland	264,265
Noord-Holland	193,053
Noord-Brabant	129,562
Utrecht	117,148
Gelderland	117,141
Overijssel	47,366
Limburg	30,165
Flevoland	24,960
Groningen	22,441
Friesland	12,457
Zeeland	13,364
Drenthe	15,908
Total	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	31-12-2016
Shorter than 1 year	3%
Between 1 and 5 years	2%
Between 5 and 10 years	29%
Between 10 and 15 years	15%
Between 15 and 20 years	50%
Longer than 20 years	1%
Total	100%

The weighted average interest rate of the mortgage portfolio is 3.04%.

Duration at the end of the reporting period

The duration of the mortgage portfolio at the end of the reporting period is 6.7. 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 € 324.610 and the average outstanding principal amount is € 318.449.

The amount that best represents the maximum credit risk of the Fund at 31 December 2016 is € 1.143.006.

Allocation of mortgage portfolio outstanding principal relative to the market value of the collateral 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 31-12-2016:

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.

3. 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 2016 mainly consist of a receivable from NN Bank N.V.

4. 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.

5. 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.

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.

6. Net asset value

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

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 2016 amounts to 14,454. 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.

7. 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 2016.

Amounts x € 1,000	2016
Opening balance	-
Committed during the period	1,135,500
Amount called during the period	-997,500
Outstanding commitments at balance sheet date	138,000

Notes to the profit and loss statement

8. 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.

9. Revaluation of investments

Amounts x € 1,000	2016
Revaluation mortgages*	14,594
Realised losses investment funds	-209
Unrealised losses investment funds	-94
Total revaluation of investments	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 unrealised revaluation on the mortgages to positives and negatives at the level of individual mortgages. Therefore, the table only shows the total amount of unrealised revaluation of the mortgage portfolio.

10. 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 the Fund.

11. 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.

Other general notes

Transaction costs

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

There are no transaction costs on mortgage transactions.

During the reporting period, there were no transaction costs for transactions in NN Cash Facility Fund since the fee during the reporting period was 0.00%. The purpose of this fee, which is calculated as a percentage of the subscription- or redemption value, is to cover transaction costs of investment transactions resulting from subscriptions or redemptions.

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.

Portfolio Turnover Ratio

	2016
	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.

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 arms 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.

Profit appropriation

In June 2017, the Fund will distribute a dividend of 2.15% per participation of both Participation Class I and Participation Class Z. The amount per participation will be calculated shortly before the distribution. The remaining result for the period, which will not be distributed, will be added to the net asset value of the respective Participation Class.

Subsequent events

None.

Notes for Participation Class I

Result

For the period 1 December 2015 through 31 December 2016

Amounts x € 1,000	2016
INVESTMENT RESULT	
Investment result	
Interest from mortgages	18,959
Interest on construction depots	-3,135
Revaluation of investments	
Revaluation of investments	12,831
Other results	
Other operating income	71
Total operating result	28,726
Operating expenses	
Operating costs	3,204
Interest	35
Total operating expenses	3,239
Net result	25,487

Net asset value

	31-12-2016
Fund assets (x € 1.000)	947,987
Number of participations issued (units)	8.975,723
Net asset value per participation (in €)	105.62

Expenses

For the period 1 December 2015 through 31 December 2016

Amounts x € 1,000	2016
Management fee	1,442
Fixed Miscellaneous Fee	1,762
Total operating costs Participation Class I	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 2016 attributable to Shares Class I is included in the Fixed Miscellaneous Fee. The costs related to the audit of the financial statements are 19 and the costs related to other engagements are 9. There are no audit fees related to consultancy and other non-assurance services.

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.

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.

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.

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

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

Notes for Participation Class Z

Result

For the period 1 December 2015 through 31 December 2016

Amounts x € 1,000	2016
INVESTMENT RESULT	
Investment result	
Interest received from mortgages	1,724
Interest paid on construction depots	-271
Revaluation of investments	
Revaluation of investments	1,460
Other results	
Other operating income	6
Total operating result	2,919
Operating expenses	
Operating costs	162
Interest	3
Total operating expenses	165
Net result	2,754

Net asset value

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

Expenses

For the period 1 December 2015 through 31 December 2016

Amounts x € 1,000	2016
Fixed Miscellaneous Fee	162
Total operating costs Participation Class Z	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 2016 attributable to Shares Class Z is included in the Fixed Miscellaneous Fee. The costs related to the audit of the financial statements are 2 and the costs related to other engagements are 1. There are no audit fees related to consultancy and other non-assurance services.

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.

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.

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.

	2016
Other expenses	0.275%
Total Participation Class Z	0.275%

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

The Hague, 20 April 2017

NN Investment Partners B.V.

Other information

Management interests

At 31 December 2016, the Board members of the Fund had no personal interest in (an investment of) the Fund.

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 2016 of NN Dutch Residential Mortgage Fund (hereafter 'the Fund'), based in The Hague (hereafter 'the financial statements').

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 2016, and of its result for the period 1 December 2015 up to and including 31 December 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act.

The financial statements comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account for the period 1 December 2015 up to and including 31 December 2016; and
- 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 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:

- Board of director's report;
- the key figures; and
- other information pursuant to Part 9 of Book 2 of the Netherlands 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 Netherlands 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 Netherlands 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 management board's report in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other information pursuant to Part 9 of Book 2 of the Netherlands 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 Netherlands Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act. 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 frameworks 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 fund'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.

We communicate with the manager 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 2017
KPMG Accountants N.V.

G.J. Hoeve RA