

RISK MANAGEMENT AND INTERNAL CONTROL

The Management Board is responsible for the organisation, implementation and functioning of the internal risk management and control systems that are geared to NSI's business activities. NSI has an adequate risk management and internal control system in place. The Board is however aware that risk management and control systems cannot provide an absolute guarantee with respect to achieving the business objectives and preventing significant errors, losses, fraud or the violation of laws or regulations.

The scope of the Supervisory Board's supervision includes the design and operation of the internal risk management and control systems. The Audit Committee supports the Supervisory Board in the performance of this supervision. The Management Board and the Supervisory Board consider effective risk management to be a critical success factor whereby the 'tone at the top' is crucial.



Strategy

NSI has a long-term investment strategy for its real estate investments and monitors the risks associated with its investment policy. Control measures have been implemented with regard to this policy and the monitoring of the ensuing results and effects. A system safeguarding the policy, guidelines, reporting systems and segregation of duties has been set up and put into operation in order to execute these control measures. The organisational structure and corporate strategy are focused on maximising shareholder returns with a conservative risk appetite.

Risk acceptance and risk appetite

In general, the total risk appetite of NSI is low to medium, in line with the company's objective to generate consistent long-term results for its shareholders and other stakeholders such as its employees, tenants and suppliers.

NSI has a clear strategy aimed at pursuing growth within the Office and HNK segment within its target cities, with a well-defined asset strategy using clear acquisition and divestment criteria. In the past three years NSI sold most of its retail portfolio and office assets in non-core cities. In the coming years NSI plans to increase investments in the development of properties, which will lead to a change in its risk profile.

Inevitably, the implementation of the strategy involves incurring risks.

Within this framework NSI is prepared to accept risks associated with doing business in the currently changing property market environment in a responsible and well-considered way as well as in line with the interests of its stakeholders. Operational risks must be kept to a minimum, and NSI regularly reviews the effectiveness and efficiency of its operational processes for this purpose.

The risk appetite regarding financial risks is low. NSI's financial policy can be described as conservative, as evidenced by the conservative financing objectives stated in the strategy chapter. NSI's policy regarding the hedging of interest rate risk is defensive, resulting in no speculative positions. NSI has set specific hedging ratios to monitor this risk. With regard to the risks associated with its assets and cash flows, NSI aims to be insured in a conservative way and in line with market practice where possible and financially responsible.

The risk appetite in terms of compliance is zero, meaning that all laws and regulations must be adhered to. This is also a required basic principle linked to NSI's status as a Dutch REIT (fiscale beleggingsinstelling or FBI). NSI and its employees must act with integrity, honesty and in compliance with laws and regulations. NSI has also formulated clear principles for this which are laid down in various codes and regulations.

Risk and control framework

NSI has an adequate risk management and internal control system in place. An important element of the internal control system is a management structure that enables effective decision-making. Strict procedures are followed for the preparation of monthly, quarterly and annual reporting of results based on the company's accounting principles. Annual budgets and forecasts are prepared by the Management Board and approved and set by the Supervi-

sory Board. Based on an integrated ERP system combined with a data warehouse, Business Intelligence tools and Excel applications, the internal management reporting system is designed to track developments in all relevant parts of the financial and operational results, as well as monitoring company performance using key performance indicators. A backup and recovery plan is in place, making use of external data centres, to ensure that data is not lost in the event of a calamity or cyberattack.

The Audit Committee discusses the findings of the external auditor regarding the company's internal control environment with the Management Board and the external auditor, and monitors compliance with recommendations and follow-up action on comments made by the external auditor.

In the year under review all important decisions with regard to the acquisition, redevelopment and divestment of properties were discussed and assessed during regular meetings of the Real Estate Committee. Real estate acquisitions valued below € 3.5 million may be entered into by the Management Board without the prior approval of the Real Estate Committee. Approval of acquisitions valued at between € 3.5 million and € 7.5 million is delegated by the Supervisory Board to the Real Estate Committee, which consists of two members of the Supervisory Board with specific expertise in the field of real estate. Transactions valued above € 7.5 million need approval from the entire Supervisory Board after receiving the advice of the Real Estate Committee.

In the case of divestments in accordance with the asset plan and at a price no lower than 5% below the book value, these amounts are raised to € 10.0 million for the Management Board and € 20.0 million for the Real Estate Committee. For disposals above € 20.0 million approval is required from the entire Supervisory Board.

The NSI risk and control framework is based on the Enterprise Risk Management (ERM) model and the related COSO framework (developed by the Committee of Sponsoring Organizations of the Treadway Commission). The risk and control framework is assessed regularly in consultation with advisors and changes are made if required.

The full risk and control framework was reviewed in 2019. Based on this review the risks related to retail properties were removed from the framework due to the minimal risk exposure after the sale of most of the retail properties. Other risks have been redefined to better reflect the actual risk.

Risk assessment and monitoring

NSI measures and assesses risks using tools including scenario analysis models in which the impact of variables can be set. The outcome of these models results in more awareness of the sensitivity of our business model and strategy. In addition, budgets and forecasts are created several times a year based on the actual state of affairs in order to generate scenarios containing the most up-to-date information. Risks are hedged or minimised where possible. High-impact risks are risks that could have a material impact on NSI's income statement and/or the balance sheet, the company's financing covenants or its reputation. Low-impact risks have a limited impact on the company's results or financial position. Risks that have a medium impact could have a large enough impact to

require an explanation should they occur, although not large enough to have a material impact on results. The probability of a risk occurring may be low but the possible impact may be high, as may be the case in the event of a large calamity. For this reason NSI attaches equal importance to risks that are less and more likely to occur. NSI monitors the high-impact risks more frequently. By monitoring throughout the year, NSI assesses whether the estimated impact of all identified risks is still in line with the actual situation.

Improvements in risk management and control systems in 2019

Automation and improvement of internal and external reporting

In 2019 NSI completed its asset rotation programme within the scope of its new strategy. The accuracy and flexibility of available financial and operational data is crucial when executing acquisition and divestment transactions.

In the past year we further improved the quality of data and information as well as the information requirements that apply to decision-making, for example by introducing additional analyses on different business parameters to gain in-depth information on the performance of our properties. The ERP system, which deals with the entire basic administration of both operational and financial information as well as the associated reporting, was further expanded with additional functionality for this reason.

Furthermore, additional steps were taken to further automate reporting processes to reduce sensitivity to human failure and increase reporting possibilities. NSI developed various new reports based on its data warehouse and improved already existing reports to be able to have ad hoc information and instantly perform detailed analysis on specific aspects of the business, such as the performance of the different business segments or individual properties.

Part of the strategy also pertains to the commercial process which has been further supported by the introduction of a CRM system. In 2019 NSI concluded the second phase of the implementation.

Data integrity and cyber security

The digital risks associated with data integrity and data security changed significantly in the past few years. NSI has not suffered any damage to date but preventing incidents is an important area of attention for the company. Management closely monitors developments in the field of information security and adjusts internal procedures if and when necessary.

The company is aware of increasing cybersecurity and privacy risks. Accordingly, NSI's most important software suppliers must have relevant ISAE 3402 or SOC 1, 2 or 3 certification.

In 2018 NSI performed a cybersecurity self-assessment which still serves as a reference point. In addition to this self-assessment a third party performed a penetration test on the IT network and IT landscape of NSI in 2019. Based on the findings from this test, in some cases NSI sharpened or changed specific measures to further secure data integrity. This will be a continuous process going forward. Examples of the changes include an improved password policy for all users and extra security in the area of Internet ports. In addition extra email security software has been installed to stop and actively report spam and phishing emails. As part of this programme another third party performed unannounced

phishing events as a learning tool. At the end of 2019 an information security programme was launched to create awareness within the organisation. In addition NSI has started to devise a security policy focused on crucial data from a business perspective within the organisation. This policy will pursue the following steps: first determining the most crucial data and then classifying, localising and securing it.

Internal audit

The company has not appointed an internal auditor as specified in best practice provision 1.3.1, of the Dutch Corporate Governance Code.

In 2019 an internal audit plan was drawn up for the 2019-2021 period. NSI appointed a third party for a three-year period to assist (co-sourcing) in fulfilling the internal audit function.

The plan is based on a high-level risk assessment of NSI's primary and supporting processes. The applicable risk factors are based on qualitative factors such as sensitivity to fraud, manual input, nature of the process, possible impact and number of transactions. This audit plan was discussed with and approved by the Audit Committee.

During the three-year period all processes will be reviewed by the external party and the effectiveness of the internal controls will be assessed. Based on the outcome an action plan will be made to make any necessary adjustments or improvements to the internal control procedures. Follow-up audits will be performed on an annual basis to review whether management actions were indeed taken in the previous year.

In 2019 the acquisition and disposal process (full-scope audit) and the technical property management and accounts receivable processes (limited scope) were reviewed. Overall, no significant findings were found in the audit of the design and operation of the internal controls of these processes. Furthermore, a review of fraud risks in relation to the above mentioned processes was performed. Also no significant findings came out of the review. The results and findings of the audit were discussed with the Audit Committee, after which the outcome was assessed and shared with the external auditor.

Integrity code and rules

In December 2018 the existing Code of Conduct was updated. The code of conduct is based on the model Code of Conduct published by the IVBN (the Dutch Association of Institutional Property Investors in the Netherlands). All new employees receive the Code of Conduct and have to agree to adhere to it.

Also in 2019, NSI continued the program to increase awareness for fraud risks and the measures taken already by the company, based on the IVBN publication "Beheersing van fraude risico's in de institutionele vastgoedsector". Meetings have been held with the heads of staff in the course of Q4 2018 and 2019. Furthermore, in December a workshop on integrity was held by an external party for all employees.

The conclusion can be drawn that NSI is actively managing and regularly reviewing the risks inherent in its business activities and adjusting the relevant processes and procedures to the organisational and strategic changes within the company.

STRATEGIC AND BUSINESS RISK

Appetite: NSI aims to establish asset clusters near transport hubs in growth locations. NSI is prepared to take risks to achieve this goal and applies clear acquisition and divestment criteria in line with the interests of its shareholders and other stakeholders.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Macroeconomic environment Executive responsible: <i>Bernd Stahl</i>	Economic and political uncertainty could lead to a reduction in tenant demand, impacting property valuations, and could result in a reduction in activity in the transaction market, impacting our ability to acquire, sell or develop assets.	NSI invests only in the Netherlands, which historically has been politically and economically stable. And within the Netherlands NSI invests mostly in the G5 cities of Amsterdam, Utrecht, Rotterdam, The Hague and Eindhoven. These cities are perceived to be the most robust in terms of economic outlook and tenant demand, and generally have the best levels of transparency and liquidity in the transaction market.	Medium	Medium
Market value of properties / valuation Executive responsible: <i>Alianne de Jong</i>	The market value of properties is fundamental to an asset-rich business like NSI, in particular in the calculation of NAV. There is an inherent risk that the properties in the portfolio are incorrectly valued, which may result in misstated indirect results, reputational damage and the potential for claims due to false expectations being generated among stakeholders.	The NSI property portfolio is externally appraised twice a year (on 30 June and 31 December) in line with the RICS valuation standards. NSI only uses a select number of reputable valuers to appraise its assets. NSI focuses predominantly on high-quality properties in the G5, which are the most liquid markets, so that relevant and up-to-date comparable transaction information generally exists. NSI also ensures it has its internal asset information up to date so that all the relevant data is available to support the valuation process.	Medium	Medium
Structural changes in demand for office space Executive responsible: <i>Anne de Jong</i>	Businesses increasingly see the workplace environment as the key to attracting and retaining talent. Working arrangements are therefore rapidly changing, with businesses requiring more flexibility and services, driven by technological change, automation, changing lifestyles and to a lesser extent cost efficiency. Furthermore continued urbanisation will see future tenant demand structurally concentrated in fewer locations. Not being able to meet this demand may result in structurally high vacancy levels, resulting in lower financial results and lower valuations of NSI's properties.	NSI is focusing on larger, high-quality properties near transport hubs in selective economic growth locations. We believe this is where our potential clients can find the relevant talent to run their businesses and where the location and size of the properties will enable NSI to provide relevant services profitably. NSI also responds to the need for flexibility and services with its in-house HNK flex-office concept. In order to retain clients and accommodate future client demand, NSI is constantly looking to add property assets in the right locations and to improve its service levels.	Medium	Medium
Cost of capital Executive responsible: <i>Bernd Stahl</i>	Any listed company, particularly in real estate, is to a certain extent dependent on its shareholders to provide it with an attractive cost of capital. There is a risk that elements of the business are deemed structurally unattractive to potential investors, resulting in a structurally relatively high overall cost of capital, which could impair the ability of the business to operate efficiently or profitably.	NSI is concentrating its activities which allows it to operate relatively cost efficiently. NSI aims to offer a stable dividend while acquiring high-quality assets, value add opportunities and a pipeline of profitable development and redevelopment opportunities to drive internal growth and lower its cost of capital.	High	Medium
Concentration Executive responsible: <i>Anne de Jong</i>	A concentration of assets can result in a high correlation between the performance of assets and therefore have a significantly adverse impact on the business in the case of certain unforeseen events.	NSI takes the view that it is better to be good in a few things than average in many. There is, however, still room for diversification as the business is focused on multiple locations in the G5 markets, with each micro-location only making up a relatively small percentage of the total property portfolio.	Low	Low

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Competition Executive responsible: <i>Anne de Jong</i>	By focusing on selective high-demand economic growth markets there is a risk that other investors recognise the same attractiveness of these locations and that competition for assets can be fierce.	NSI has built up an extensive local network in the industry and is therefore able to identify and respond to market opportunities effectively. NSI has strict acquisition and investment criteria, allowing it to act in a disciplined way and consistent with its strategic objectives. If the right properties (in terms of location and return prospects) are not available, NSI will decide against purchasing new properties. Furthermore, NSI always aims to have timely access to (sufficient) funds to take on new investment opportunities.	Low	High

OPERATIONAL RISK

Appetite: NSI actively manages its real estate portfolio, driving returns for shareholders through income generation and the pursuit of long-term added value. This is done by combining a stable pool of income-generating assets with asset rotation and the acquisition of potential development and redevelopment opportunities that provide growth. This implies an average risk appetite.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Quality of employees Executive responsible: <i>Bernd Stahli</i>	An active real estate company relies on highly skilled employees to execute its strategic objectives. The risk is that NSI is unable to attract and retain talent due to tightness in the labour market or other shortages of qualified employees.	NSI is investing in its people and team, offering career development through training programmes, providing regular feedback on performance, and offering competitive levels of remuneration. Furthermore, NSI has a trainee programme in place to allow recently graduated high potentials to build up the skill set needed to work in a highly competitive environment.	Medium	Medium
Transaction with fraudulent parties Executive responsible: <i>Bernd Stahli</i>	The risk of NSI doing business with parties that are found to not operate in good faith, to be fraudulent or to have a bad reputation. It also concerns the risk of our employees being part of a fraudulent transaction. Both risks can have a negative impact on the results and reputation of NSI.	NSI only wishes to do business with parties of good standing and reputation. A KYC check is a fixed element in the due diligence process for acquisitions and divestments, as well as for new lease contracts. NSI has a Code of Conduct signed by each individual employee. Furthermore NSI has a whistleblower policy to enable employees to report any activity perceived to be dishonest or illegal.	High	Low
Execution Executive responsible: <i>Anne de Jong</i>	This risk relates to changes in the timeline of our development and redevelopment projects due to unexpected circumstances during execution (e.g. timing and planning, scarcity of materials, environmental issues in relation to climate change or lack of other resources) which could lead to extra costs, lower results, higher vacancy and reputational damage.	Before any development or redevelopment project is started, all potential risks are identified and assessed and - where possible - quantified in a risk budget. Projects only receive the go-ahead if the return prospects overcome this hurdle rate, taking into account all costs and the risk budget.	Medium	Medium
Maintenance Executive responsible: <i>Anne de Jong</i>	Real estate requires regular maintenance and needs to be kept up to modern standards to remain attractive for potential tenants or buyers. There is a trade-off between delaying maintenance to drive short-term profits and creating long-term value at a short-term cost to results, with the risk of necessary maintenance being delayed.	NSI runs a multi-year maintenance schedule for all assets. This is based on the input of tenants, suppliers, inspections (by third parties) and NSI's own technical department, taking into account the company's sustainability ambitions. A minimum precondition is that all properties have to comply with all prevailing laws and regulations. NSI only uses suppliers with a good reputation in order to safeguard the quality and reliability of the building works.	Low	Low

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Tenant satisfaction / occupancy Executive responsible: <i>Anne de Jong</i>	The risk that rental income is discontinued as a result of tenants not extending their contracts upon expiry, thus increasing vacancy rates.	To mitigate the risk of vacancy NSI pursues a multi-tenant strategy. A screening of prospective tenants aimed at securing long-term contracts and a staggering of lease maturities also reduces vacancy risks. NSI actively engages with its clients and anticipates maturing lease contracts in a timely manner, whilst regularly monitoring tenant satisfaction. NSI invests in its assets and services in order to attract, retain and satisfy clients.	Medium	Low
Data integrity and cyber security Executive responsible: <i>Allanne de Jong</i>	Professionally managing and controlling risks associated with safeguarding the continuity, availability, functioning and security (including compliance with prevailing privacy legislation) of the internal IT infrastructure and applications is of vital importance to NSI. The implication of not fully controlling IT risks (such as disruptions due to cybercrime) is not being able to report internally or externally in a timely or correct way, which in turn may have a negative impact on the decision-making process. This can result in systems supporting the primary business processes not being available and lead to the loss of relevant information or unauthorised access to information by third parties, with damage to reputation and image as a consequence.	NSI invests in further digitising its corporate processes, focusing extensively on transparency and the security of its data and other information, and is advised by external parties. Professionally managing and controlling the risks associated with safeguarding the continuity, availability, functioning and information security of the internal IT infrastructure and applications is of vital importance to NSI. Internal processes and procedures have been set up which are firstly aimed at preventing calamities. Regular checks of the processes and procedures by internal and external experts ensure constant improvement and reduce the probability of calamities. In the unlikely event of a calamity, there are procedures in place outlining regularly tested fall-back and recovery scenarios, thus minimising the impact.	Medium	Medium
Calamities Executive responsible: <i>Anne de Jong</i>	The risk of a calamity, e.g. risks related to climate change, that give rise to extensive damage to one or more properties or to personal injury of people in the property, resulting in the potential loss of rental income, a lower direct and indirect result, and/or claims and legal proceedings by tenants.	NSI is insured against damage to its real estate, liability and loss of rent during periods of reconstruction and rental lease terms common in the industry. Cover against terrorism, floods and earthquakes is limited due to current risk appetite of insurance companies. The cover of risks is compared to the premium cost on an annual basis. Local insurance policies on a property are covered by an overall uniform umbrella insurance policy.	Medium	Low

COMPLIANCE RISK

Appetite: NSI strives to fully comply with laws and regulations, meaning that the risk appetite is zero.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Integrity code and rules Executive responsible: <i>Bernd Stahl</i>	Unethical behaviour and breaches of applicable legislation and regulations may result in reputational damage, claims and legal proceedings, leading to higher costs and a lower result.	NSI has a general Code of Conduct and related regulations in place. NSI complies with the Dutch Corporate Governance Code and the Financial Supervision Act (or Wft). The Internal codes are updated regularly in line with new legislation or other relevant changes in the marketplace. All employees are regularly trained in the applicable rules, including the Code of Conduct, the Compliance Code, the regulations applying to the Management Board and the regulations applying to the Supervisory Board and its committees. Procedures have been set up to ensure compliance, including signing an attestation by all employees on an annual basis.	Medium	Low

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Sustainability / health & safety legislation Executive responsible: <i>Anne de Jong</i>	<p>The risk that the portfolio does not comply with prevailing laws and regulations in the field of sustainability and health & safety.</p>	<p>NSI is constantly monitoring the status of its current property portfolio with respect to new and existing codes and rules in the field of sustainability and health & safety, for example the Dutch Energy Agreement of 2016.</p>	Medium	Medium
	<p>This could result in a situation in which properties can no longer be used (occupied) and/or fines are imposed resulting in a negative impact on the value and marketability of the real estate properties. It could also result in reputational damage.</p>	<p>In the case of new acquisitions or developments, the due diligence process also includes an assessment of whether the asset complies with all the relevant codes and rules.</p> <p>NSI includes a standard provision in its lease contracts that tenants must obtain the owner's approval before embarking on renovations (for reasons including an assessment of fire safety). Lease contracts also stipulate that the tenant is responsible for any consequences of these renovation works.</p>		
Tax Executive responsible: <i>Alianne de Jong</i>	<p>NSI has the status of a Dutch REIT (known as an FBI in the Netherlands) in accordance with section 28 of the Dutch Corporate Income Tax Act 1969 (Wet op de Venootschapsbelasting 1969). This means that NSI is not subject to corporate income tax in the Netherlands, provided that certain conditions are met. Failure to meet these conditions or a material change in the FBI regime could have a significant adverse effect on NSI, its results or financial position.</p>	<p>Retaining the FBI status is an ongoing area of attention for the Management Board. NSI constantly monitors the main risks relating to its tax position, including the distribution requirement for taxable income, the composition of the shareholder base and the debt financing limits. In addition there are legal restrictions on the activities that may be undertaken by an FBI, gauged via a so-called 'activities test'.</p>	Medium / high	Low
	<p>In 2021 the Dutch Ministry of Finance will announce the results of an evaluation of the FBI regime.</p>	<p>The ability to perform real estate associated activities has been incorporated in Dutch law since 1 January 2015. As there is no Dutch case law on the subject, NSI is in regular discussions with the Dutch tax authorities to make sure it complies with the law, in particular where it relates to HNK and project development.</p> <p>NSI is responsible for internal knowledge sharing with regard to ever-changing tax regulations in order to ensure employee awareness, enabling staff to identify relevant signals and gain the necessary advice. This prevents NSI from being exposed to the risk of non-compliance with tax legislation.</p>		

FINANCIAL RISK

Appetite: NSI has a conservative financial policy, meaning that the risk appetite is low.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Reporting Executive responsible: <i>Alianne de Jong</i>	<p>Reporting risk relates to the impact of incorrect, incomplete or untimely information on internal decision-making processes or those of external parties (including shareholders, banks and regulators) which may result in reputational damage and potential claims due to misleading statements to stakeholders.</p>	<p>NSI prepares and monitors a budget, investment budget and liquidity forecast, all of which are compared and updated with actual results in quarterly reports. These reports are reviewed by management, Finance and operational teams. Systems have been devised in such a way that checks can be performed on the data to safeguard the consistency and reliability of information.</p> <p>The half-year results are assessed by an external auditor in advance. The full annual accounts are audited by the independent auditor.</p> <p>NSI employees regularly attend courses and meetings to be informed of all relevant laws and regulations so that all information produced by NSI complies with such laws and regulations.</p>	Low	Low

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
Liquidity Executive responsible: <i>Alianne de Jong</i>	Debt financing carries refinancing risks. The risk is that there is insufficient liquidity in place to meet the company's obligations at the moment of interest payment or repayment, meaning that the company suffers reputational damage or is subject to potential additional financing costs, which may lead to a lower direct result. In the worst case, such a situation may lead to defaulting on one or more loans, or bankruptcy of the company.	<p>To limit liquidity risk, NSI has a strategy to diversify its external financing in terms of the types of loan and lender, the maturity profile of loans and the repayment dates. NSI also has access to a flexible revolving credit facility (under which penalty-free redemption and drawdown of funds to agreed amounts are permitted). NSI addresses upcoming financing and refinancing maturities at a very early stage in order to decrease the associated financing risk and maintains a good and transparent working relationship with its financiers.</p> <p>NSI uses scenario analyses to closely monitor its performance and financial indicators in relation to its financial and non-financial covenants. It reports on the latter by means of compliance certificates. In extreme cases additional equity may be issued to deal with impending liquidity issues.</p>	Medium / high	Low
Interest rate volatility Executive responsible: <i>Alianne de Jong</i>	Interest rate risks result from fluctuations in market interest rates. These fluctuations could potentially affect the interest expense in NSI's financial reports and the market value of its derivative financial instruments.	As a long-term investor in real estate, NSI aims to secure debt financing on similarly long maturities. NSI uses hedging instruments to manage the interest rate risks on variable rate debt. NSI does not speculate on interest rates.	Medium	Medium
Credit/counterparty Executive responsible: <i>Alianne de Jong</i>	Credit/counterparty risk exists when parties which have a debt to NSI are unable to meet their obligations to the company.	<p>NSI performs a creditworthiness check for every tenant before entering into a lease. NSI proactively monitors its existing tenants to assess whether changing circumstances have an impact on them.</p> <p>NSI proactively manages its debtor open items relating to tenants. In the case of financial counterparties for its hedging instruments, NSI only works with reputable financial institutions.</p>	Low	Low

International Financial Reporting Standards (IFRS)

In accordance with European and Dutch laws and regulations NSI has prepared its financial statements for the 2019 financial year based on EU-IFRS. The EU-IFRS result after tax includes unrealised movements in the value of real estate as well as changes in the fair value of derivatives.

NSI has decided to continue to report both its direct and indirect investment results in addition to its EU-IFRS result as it believes that these figures provide an important distinction.

In the view of the Management Board the direct investment result is relevant information for investors and shareholders as it provides a better insight into structural, underlying results than the EU-IFRS result which also includes unrealised movements. Furthermore, NSI reports figures and indicators based on the guidelines published by the European Public Real Estate Association (EPRA). These results are included in the overview that is not a part of the EU-IFRS statements.

Statements

In Control statement

In the context of the Dutch Financial Supervision Act (*Wet op het financieel toezicht or Wft*) and the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (*Besluit gedragstoezicht financiële ondernemingen Wft*), the company declares that it has a description of its administrative organisation and internal control systems that meets the requirements of the Act and the Decree.

During 2019 NSI reviewed various aspects of its administrative organisation and internal control systems. This review did not lead to any findings that would suggest that the description of the structure of the administrative organisation and internal controls did not meet the requirements as specified in the Decree and related regulations.

Also, there have been no indications that the company's administrative organisation and internal control systems failed to operate effectively and in accordance with the description during 2019. The company declares with a reasonable degree of certainty that the conduct of business has been effective and in accordance with the description.

With a view to facilitating the change process initiated within the company in the course of 2018 and continuing in 2019, additional

investments were made in broadening the management information systems, for example through implementation projects to add a CRM system and data warehouse application.

The organisation is focused on further digitalising, automating and streamlining its processes in order to increase efficiency and scalability and further reduce operational costs in a controllable manner.

No significant changes to the structure of NSI's administrative organisation and internal controls are expected for the 2020 financial year.

Because of its nature and limited size, there are limitations inherent in the company's internal controls, including the limited possibility of segregation of duties, disproportionately high costs in relation to the benefits of internal controls, and the risk of calamity, collusion and the like. Although risk management and internal control systems reduce risks to acceptable levels, no absolute guarantees can be given due to these limitations.

The Management Board is of the opinion that the internal risk management and control systems in place for financial reporting provide a reasonable degree of certainty that the company's financial statements for 2019, as included in this Annual Report, do not contain any material errors, and the internal risk management and control systems as referred to above functioned properly during the year under review. There are no indications that this would be any different in 2020.

Declaration of the Management Board

With reference to the EU Transparency Directive and Dutch Financial Supervision Act (*Wet op het financieel toezicht or Wft*), the Management Board declares that to the best of its knowledge:

- the consolidated financial statements for the year ended 31 December 2019 fairly reflect the assets, liabilities, financial position and results of NSI and its consolidated subsidiaries;
- the additional management information provided in the annual report fairly reflect the situation on the balance sheet date and the state of affairs at NSI and its consolidated subsidiaries during the financial year;
- based on the current situation it is justified that the annual report and the consolidated financial statements for the year 2019 have been prepared based on the principles of going concern; and
- the significant risks to which NSI is exposed are described in the annual report. For a description of these risks, see the section on risk management.