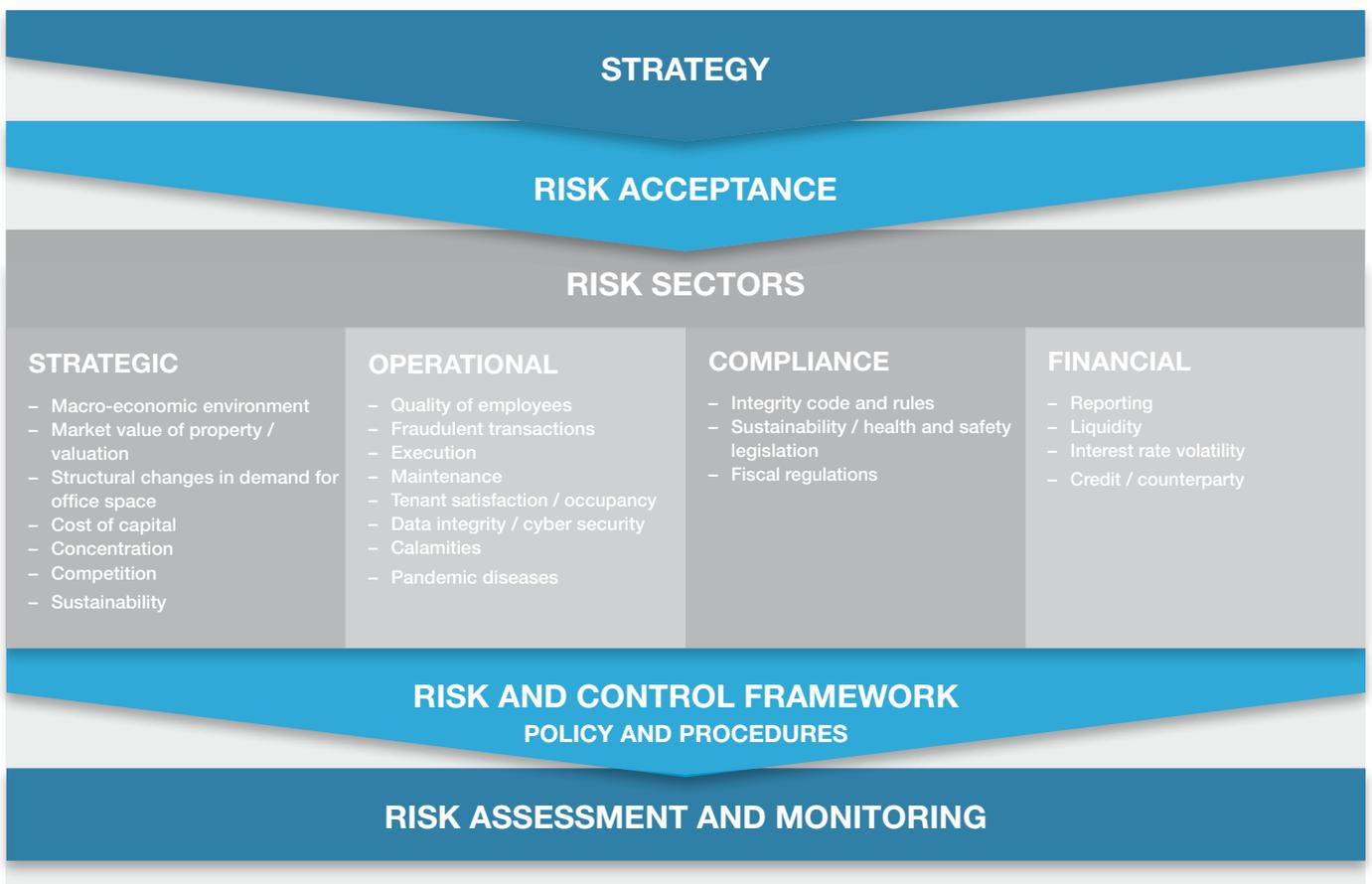


# RISK MANAGEMENT AND INTERNAL CONTROL

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. During the past years, NSI has sold most of its retail portfolio and its office assets in non-core cities. As from 2020, NSI started to increase investments in development of properties, which leads to a change in its risk profile. Inevitably, the implementation of the strategy involves incurring risk.

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 under control as well as possible, 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 and does not allow speculative positions. NSI 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 and quarterly budgets and forecasts are prepared by the Management Board and approved and set by the Supervisory 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 back-up 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 transactions valued below € 5.0m may be entered into by the Management Board without the prior approval of the Real Estate Committee. Approval of transactions valued at between € 5.0m and € 20.0m 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 € 20.0m need approval from the entire Supervisory Board after receiving the advice of the Real Estate Committee.

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; changes are made if required.

In 2020 the full risk and control framework was reviewed. NSI has added "Sustainability" as a separate risk, as part of strategic and business risks. This is based on the fact that sustainability is more and more important and as such is considered as preconditional for our business model and so it becomes one of the main pillars of our business. Furthermore, the risk of "Pandemic diseases" is added to operational

risks in view of the current outbreak of COVID-19. Other risks have been reformulated to better reflect the actual risk.

Also, the criteria to determine possible impact and likelihood have been reviewed and improved in 2020.

### 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 the periodically updated forecasts are 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 an average 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 likelihood 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 frequent. By monitoring throughout the year, NSI assesses whether the estimated impact of all identified risks is still in line with the actual situation.

### Risk management and control in 2020

#### Covid-19

The onset of coronavirus in The Netherlands necessitated immediate action to secure the safety and well-being of our team, our tenants and all the people in our buildings.

We rapidly established a detailed program (communication, signage, demarcations, hand sanitisers etc.) to allow for the safe usage of our buildings, and we pro-actively increased our engagement with tenants to discuss their needs.

Also our technical management team performed an analysis of the quality and capacity of the climate control systems for each individual building. Based on these results additional measures have been taken (if required) to comply with the adjusted EU-climate (REHVA) criteria, e.g. by adjusting the operating times of installations.

We fully appreciated the impact the coronavirus pandemic had on our tenants in the course of 2020 and as such have been willing to accommodate reasonable requests on temporary leniency, like monthly payment instead of quarterly payment. NSI has also selectively given rent reliefs. At the same time, we increased our focus on rent collection by increasing the frequency of monitoring the actual rent collection situation and assessing (changed) credit ratings of our tenants - resulting in a 98% rent collection percentage as per end of 2020.

At the beginning of March 2020, in order to be well prepared for the foreseen government requirements (e.g. stimulating working from home), NSI ran a pilot test to test our working-from-home facilities. As from the first lockdown, NSI encouraged its staff to work from home as much as possible to minimize the risk of spreading the virus. To optimize employees' home office, we provided our staff the opportunity to order office equipment.

During 2020, Management closely monitored the wellbeing of its employees, including the work-life balance, to take proper action if needed.

No major outbreaks of Covid-19 have been detected in any of our office buildings and the fact that staff has been working from home for most of 2020 did not have an impact on the administrative organization and internal controls.

#### 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 for the period 2019-2021. The plan is based on a high-level risk assessment of NSI's primary and supporting processes. The risk factors applied are based on qualitative factors like 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. NSI appointed a third party for a three-year period to assist (co-sourcing) in fulfilling the internal audit function.

During the three-year period all processes will be reviewed by the external party and the effectiveness of the internal controls are assessed. For high-risk processes, this will be a full scope review, aimed at the effectiveness of the design of the process as well as the effectiveness of the control measures. For a full scope processes, extensive testing of control measures and transactions takes place. For medium or low risk processes a limited scope review will be done, with a focus on reviewing the design of the control measures with limited testing of these measures. Based on the outcome, an action plan is made to make adjustments or improvements to the internal control procedures. Follow-up audits will be performed on an annual basis to review whether prior year management actions were indeed taken.

In 2020, the real estate rental process and the IT processes (full scope audit) as well as the valuation of investment property, financing and liquidity management and development processes (limited scope) were reviewed. Overall, no significant findings were found in the audit of the design, implementation and operational effectiveness of the internal controls of the respective processes. Furthermore, a review of fraud risks in relation to the above-mentioned processes were performed. Also, no significant findings came out of the review process.

A follow-up audit on the processes which were reviewed in 2019 was also performed, being the acquisition and disposal process (full scope audit) and the technical property management and accounts receivable processes (limited scope). The progress with respect to the follow-up was: 47% of the recommendations were completed in 2020, 40% is in progress, whereas for 13% follow-up is still to be started. None of the recommendations that are still pending are considered significant.

The results and findings of the audit were discussed with the Audit Committee, after which the outcome was assessed by and shared with the external auditor.

#### Sustainability, health and safety

Sustainability is an integral part of NSI's long term value creation strategy. Our business model is geared towards minimising our carbon footprint, offering and developing future-proof buildings and create healthy, inspiring and flexible working environments for our clients and employees

For all objects acquired in the past years, due diligence has shown that the respective buildings comply with applicable laws and regulations. This also applies to all transformation and renovation projects.

As part of each acquisition or investment proposal the level of sustainability of the specific asset has been assessed, including the identification of further required or desired improvements (including the financial impact) in line with our ambition.

NSI evaluated the financial impact of complying to energy label C for all properties by 1 January 2023, as stipulated by the European Energy Directive. NSI's strategic portfolio is expected to be effectively compliant with the required level, or above, by the end of 2021 (excluding monuments and assets with development plans). Total costs in 2021 are expected to be around € 1.0m.

Further detailed information on sustainability can be found on pages 53 to 67 on environmental, social and governance performance.

During 2020, 15 of NSI's properties were checked on safety by the insurance company. No major issues were detected during those visits. The minor issues identified will be solved in the first quarter of 2021.

In July 2020, a new software system for technical management was implemented. This software system enables NSI to register the availability of required certificates for our buildings. As from 2021, our external property managers will start using this system to register the certificates, which will give us more insight in certificates which may be overdue to take proper action to obtain the certificates

#### Information security and cyber threat

During 2020, NSI has developed an Information Security Policy geared to protecting data internally determined as business critical. Based on an analysis of the business processes, a selection of data was deemed to be business critical. Each system or application involved in processing business critical data will be scored with a CIA (Confidentiality, Integrity, Availability) score. This CIA score is internally developed and it stipulates a set of standard security measures that the application has to comply with.

At the end of 2020, the analyses of some applications still need to be finalised. The next steps will be performing the GAP analyses on the applications in order to set up a roadmap to resolve eventual GAPS with the different software suppliers. These steps are planned for the first half of 2021 and will lead to further improvements.

Another measure taken was the implementation of a Vulnerability management tool, which scans the cloud hosting environment of our IT Partner and some of our website and SaaS applications. Next step in this process is setting up a formal procedure to solve the reported vulnerabilities.

#### Integrity code and rules

The existing Code of Conduct was updated in December 2018, based on the Code of Conduct published by the IVBN. All new employees receive the Code of Conduct, for which they have to sign-off. In December 2020, some small clarifications have been added to the existing Code of Conduct. On an annual basis, all employees need to (re-)confirm these integrity code and rules.

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 pursues focus and growth (in defined locations) with a well-defined portfolio strategy by applying clear acquisition and divestment criteria. Within the framework, NSI is prepared to take risk inherent in the chosen strategy in a responsible way and in line with the interests of its stakeholders.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
<b>Macro-economic environment</b>  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 seen as most robust in terms in economic outlook and tenant demand and generally have the best levels of transparency and liquidity in the transaction market.	Below average	High
<b>Market value of properties / valuation</b>  Executive responsible: <i>Alianne de Jong</i>	The market value of properties is fundamental to an asset rich business as 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 uses only a select number of reputable valuers to appraise its assets.  NSI is focusing predominantly on high-quality properties in the G5, which are the most liquid markets, so that relevant and up to date comparable transaction evidence generally exists. NSI also ensures it has its internal asset data information up to date so that all the relevant data is available to support the valuation process.	Below average	Above average
<b>Structural changes in demand for office space</b>  Executive responsible: <i>Bernd Stahl</i>	Businesses are increasingly seeing the workplace environment as key to attracting and retaining talent. Working arrangements are therefore changing rapidly, with businesses requiring more flexibly and more services, driven by technological change, automation, changing lifestyles, and to a lesser extent cost efficiency. Furthermore, continued urbanisation will see future tenant demand structurally concentrate in fewer locations. Not being able to meet future tenant demand may result in structurally high vacancy levels, resulting in lower financial results and lower valuations of NSI's properties.	NSI is constantly evaluating whether its properties meet the need of (potential) tenants and whether changes in tenants requirements are foreseen, so that it can effectively respond to market changes and add value to its office buildings.  Currently, NSI is focusing on high-quality, larger properties near transport hubs in selective economic growth locations. We believe this is where our potential customers can find the relevant talent to run their businesses and where NSI, because of the location and size of the properties is able to provide relevant services on a profitable basis.  NSI also responds to the need for flexibility and services with its in-house HNK flex-office concept. In order to retain customers and accommodate future customer demand, NSI is constantly looking to add property assets in the right locations and to improve its service levels.	Above average	Above average
<b>Cost of capital</b>  Executive responsible: <i>Bernd Stahl</i>	Any listed company 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 high overall cost of capital, which could impair the ability of the business to operate efficiently, competitively or profitably.	NSI is transparent in its communication over the state and future direction of the business. Furthermore, NSI is running a relatively cost efficient operation, benefiting from the size and complexity of the company. NSI aims to offer a stable dividend and, in combination with acquiring high quality assets, value add opportunities and a pipeline of profitable (re-) development opportunities to drive internal growth. The intention is to lower the cost of capital.	Above average	Below average
<b>Concentration</b>  Executive responsible: <i>Bernd Stahl</i>	A concentration of assets may result in a high correlation in the performance of assets and so have a significantly adverse impact on the business in certain unforeseen events.	NSI takes the view that it is better to be good in a few things than being average in lots of areas. There is still room for diversification though as the business is focussing on multiple locations in the G5 markets, with each micro location only making up a relatively small percentage of the total property portfolio.  NSI also pursues a multi-tenant strategy in its portfolio to spread its tenant risk and increase diversification in the portfolio.	Low	Low

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
<b>Competition</b>  Executive responsible: <i>Bernd Stahl</i>	By focussing on selective high-demand economic growth markets there is a risk that other investors see 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 to be 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.	Below average	High
<b>Sustainability</b>  Executive responsible: <i>Bernd Stahl</i>	A focus on sustainability is increasingly seen as a "licence to operate, a precondition for our business model. As an organisation we need to be able to anticipate and respond to changing needs of our customers, communities, partners and employees with regard to sustainability.  The risk of not being able to respond to these changing needs may affect attractiveness of our properties to tenants, as well as the ability to attract new employees and the attractiveness of NSI's shares to (potential) shareholders and could result in reputational damage.	Sustainability is an integral part of NSI's long term value creation strategy. Our business model is geared towards minimising our carbon footprint, offering and developing future-proof buildings and create healthy, inspiring and flexible working environments for our clients and our employees.  NSI is continuously checking the status of its current property portfolio with respect to (new) codes and rules in the field of sustainability. Also in 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.	Below average	Below average

## OPERATIONAL RISK

**Appetite:** NSI is actively managing its real estate portfolio, driving returns for shareholders through income generation and the pursuit of long term value-add. This comes in a mix of a stable pool of income-generating assets, in combination with asset rotation and the acquisition of potential (re-)development opportunities to provide potential growth. This implies an average risk appetite.

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
<b>Quality of employees</b>  Executive responsible: <i>Bernd Stahl</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 of the labour market or other shortages of qualified employees.	NSI management recognises that recruiting and retaining the right employees is of the utmost importance.  The organisation constantly evaluates whether the current staff enables the desired growth and takes action if / when needed. NSI encourages its employees to develop themselves, offering career development through training programmes, providing regular feedback on performance, and offering competitive levels of remuneration.  On a regular basis, NSI performs an employee satisfaction survey to obtain insight on how our employees experience the working environment and culture. Based on the outcomes, actions for improvement are identified and rolled-out.	Below average	Below average
<b>Fraudulent transactions</b>  Executive responsible: <i>Bernd Stahl</i>	The risk of NSI doing business with parties that are found not to operate in good faith, are fraudulent or have a bad reputation. It also concerns the risk of our employees being part of a fraudulent transaction.  Both 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 standard element of the due diligence process for acquisitions and divestments, as well as for new lease contracts, new suppliers or for entering into new partnerships.  NSI has a Code of Conduct, which is to signed by each individual employee. This Code of Conduct is also signed by suppliers who act on behalf of NSI.  Furthermore NSI has a whistle-blowers' policy to enable employees to report any activity that he / she considers dishonest or illegal.	High	Low

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
<b>Execution</b>  Executive responsible: <i>Alianne de Jong</i>	This risk relates to changes in the timeline of our (re-) development 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 result in extra costs, lower results, higher vacancy and reputational damage.	Before any (re-)development project is started, all potential project risks are identified and assessed and - where possible - quantified in a risk budget. This risk assessment is regularly updated at least at the start of each phase of the project. Only when the return prospects of a project meets the internal hurdle, taking into account all costs and the risk budget, a project will receive the go-ahead.	Below average	Below average
<b>Maintenance</b>  Executive responsible: <i>Bernd Stahl</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 long term value creation at a short term cost to results, with the risk that necessary maintenance is delayed.	NSI prepares a multi-year maintenance planning 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 sustainability ambitions.  A minimum requirement is that all properties have to comply with all prevailing laws and regulations. NSI is using suppliers with a good reputation in order to safeguard the quality and reliability of the building works.	Below average	Below average
<b>Tenant satisfaction / occupancy</b>  Executive responsible: <i>Bernd Stahl</i>	The risk that rental income is discontinued as a result of tenants not extending their contracts upon expiry, increasing the vacancy ratios.	To mitigate vacancy risk, NSI pursues a multi-tenant strategy. A screening of prospective tenants, aiming for long term contracts and a staggering of lease maturities also reduces vacancy risk.  NSI is actively engaging with its customers and timely anticipates maturing lease contracts, whilst regularly monitoring tenant satisfaction. NSI is investing in its assets and its services in order to attract, retain and satisfy clients.  When tenants are leaving, NSI aims to have exit interviews to get more insights into the reasons why tenants are leaving.	Below average	Below average
<b>Information security / cyber threat</b>  Executive responsible: <i>Alianne 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. This in turn may have a negative impact on the decision-making process and can result in systems that support 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 in this.  Professionally managing and controlling 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 by NSI 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 fallback and recovery scenarios, minimising the impact.	Below average	Below average
<b>Calamities</b>  Executive responsible: <i>Bernd Stahl</i>	The risk of a calamity giving 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 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. Coverage against terrorism, floods and earthquakes is limited due to current market conditions.  The cover of risks is compared against the premium cost on an annual basis. Local insurance policies on a property are covered by an overall uniform umbrella insurance policy.	Below average	Low
<b>Pandemic diseases</b>  Executive responsible: <i>Bernd Stahl</i>	Our business exposes us to risks of pandemic diseases, such as the Covid-19 outbreak, which could affect both people and assets.  The above risk can threaten the safe operation of properties, cause disruption to operational activities and impact the well-being of our tenants as well as our staff. This risk can as such have a material adverse effect on our earnings, cash flows and financial condition.	We seek to obtain the best possible information to enable us to assess the impact of such threats and risks. We conduct assessments for all our properties and activities, and implement appropriate measures to avoid, detect and respond to such risks.	Above average	High

## COMPLIANCE RISK

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

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
<b>Integrity code and rules</b>  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 (Wet op het financieel toezicht).  The Internal codes are updated regularly in line with new legislation or other relevant changes in the market place. 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.	Below average	Low
<b>Sustainability / health and safety legislation</b>  Executive responsible: <i>Bernd Stahl</i>	The risk that the portfolio does not comply with prevailing laws and regulations in the field of sustainability and health and safety.  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 properties. It could also result in reputational damage.	NSI is continuously checking the status of its current property portfolio with respect to (new) codes and rules in the field of sustainability and health and safety, for example the Dutch energy agreement of 2016.  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.  NSI includes a standard provision in its lease contracts that tenants must obtain 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 as a result of these renovation works.	Below average	Below average
<b>Fiscal regulations</b>  Executive responsible: <i>Alianne de Jong</i>	NSI has the status of a Dutch REIT (known in The Netherlands as an FBI) in accordance with section 28 of the Dutch Corporate Income Tax Act 1969 (Wet op de Vennootschapsbelasting 1969). This means that NSI is not subject to pay corporate income tax, provided that certain conditions are met. Failure to meet these requirements or a material change in the FBI regime could have a significant adverse effect on NSI, its results or financial position.	Retaining the FBI status is a continuous area of focus 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, the so-called 'activities test'.  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 NSI complies with the law, in particular as it relates to HNK and project development.  NSI is responsible for internal knowledge sharing with regard to (changing) tax regulations in order to ensure employee awareness, enabling them to identify relevant signals and gain the necessary advice. Twice a year NSI and the external auditor determine whether the FBI requirements have been met. This prevents NSI from being exposed to the risk of non-compliance with tax legislation.	Above average	Low

## FINANCIAL RISK

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

Risk category	Description of risk	Mitigating measure	Assessment	
			Impact	Probability
<b>Reporting</b>  Executive responsible: <i>Alianne de Jong</i>	The reporting risk relates to the impact of incorrect, incomplete or untimely available 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.	NSI prepares and monitors a budget, investment budget and liquidity forecast, all of which are compared and updated with actual results on a quarterly basis. Reports are reviewed by management, as well as by 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.  The half-year results are assessed by an external auditor prior to publication. The full annual accounts are audited by the independent auditor.  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 prevailing laws and regulations.	Low	Low
<b>Liquidity</b>  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 the default of one or more loans, or bankruptcy of the company.	To limit liquidity risk, NSI has a strategy to diversify its external financing in terms of loan types, types of lenders, the maturity profile of its loans and repayment dates. NSI also has access to a flexible revolving credit facilities (under which penalty-free redemption and drawdown of funds to agreed amounts are permitted). NSI addresses upcoming (re)financing maturities at a very early stage in order to decrease the risk associated with (re)financing and maintains a good and transparent working relationship with its financiers.  NSI prepares a liquidity forecast on a quarterly basis, or more frequently when necessary, in which it performs stress tests and uses scenario analyses to closely monitor its performance and financial indicators in relation to its financial and non-financial covenants and reports on this by means of compliance certificates. In extreme cases additional equity may be issued to deal with impending liquidity issues.	Above average	Low
<b>Interest rate volatility</b>  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 its financial reports and the market value of its derivative financial instruments.	NSI, as a long term investor in real estate, is aiming to secure debt financing on similarly long maturities. NSI is using hedging instruments to manage the interest rate risks on variable rate debt. NSI does not intend to speculate on interest rates.	Below average	Below average
<b>Credit / counterparty</b>  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.	For every tenant NSI performs a creditworthiness check before entering into a lease. NSI is pro-actively monitoring its current tenants based on external information to assess whether changing circumstances have an impact on the tenant.  For tenants NSI is pro-actively managing its debtor open items. In the case of financial counterparties for its hedging instruments NSI only works with reputable financial institutions.	Low	High

### International financial reporting standards (IFRS)

In accordance with European and Dutch laws and regulations NSI has prepared its financial statements for the 2020 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 which 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 Listed Real Estate Association (EPRA). These results are included in the overview that is not a part of the EU-IFRS statements.

### Management statement

The effectiveness and functioning of the internal risk management and control systems are discussed each year with the Audit Committee and the Supervisory Board. Taking into account the aforementioned risks and the measures designed to manage them, and in accordance with the best practice provision I.4.3.

of the Dutch Corporate Governance Code, the Executive Board declares that to the best of its knowledge:

- the report provides sufficient insights in the effectiveness of the internal risk management and control systems and into any failings thereof;
- the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- the section on risk management in the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.”

With reference to Section 5.25c(2c) of the Financial Supervision Act (Wft), the Management Board declares that to the best of its knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit of NSI and the companies included in the consolidation;
- the management report gives a true and fair view of the situation on 31 December 2020, the state of affairs at NSI and its affiliated companies during 2020, the details of which are presented in the financial statements, and that the management report describes the fundamental risks facing the company.