

2018 Annual Report

NN Investment Partners B.V.



Annual Report contents

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Board of Directors' report

Company profile

NN Investment Partners B.V. ("NNIP") is a Dutch legal entity primarily engaged in collective and individual portfolio management activities. NNIP acts as manager of all Dutch NN investment funds, as board member of certain NN investment companies (NN Paraplufondsen) and as investment manager/advisor for proprietary assets (NN Group assets) and the assets of third parties (institutional clients). NNIP is engaged in rendering investment management services abroad, including the management of the assets of Luxembourg domiciled NNIP investment funds. NNIP has been appointed as Global Distributor by the management company of the Luxembourg based NN SICAVs. Also, NNIP's distribution platform 'Fitvermogen' enables retail clients to invest in NN Funds.

NNIP's business objective is to meet clients' needs by responsibly managing their assets through actively managed income-driven products and advice-embedded solutions, creating value for all stakeholders and society.

NNIP is under regulation of the AFM (and DNB with regards to the prudential supervision) and a prior reliability and suitability assessment of its Board Members is required for their appointment in the Board of Directors.

NNIP is through a number of group companies a wholly-owned subsidiary of NN Group N.V. (its immediate parent is NN Investment Partners International Holdings B.V.). NNIP has established branch offices in Germany, France, Spain, the United Kingdom and Romania ("Branches").

Governance

NNIP's Board of Directors consist of: S.S. Bapat (Chairman, Chief Executive Officer), V. van Nieuwenhuijzen (Chief Investment Officer), M.C.M. Canisius (Chief Finance and Risk Officer), J. Schmiedová (Chief Human Resources Officer) and H.W.D.G. Borrie (Chief Client Officer).

NNIP's staff of 706 employees (2017: 748) are employed by NNIP Personeel B.V. (the latter merged per 1 January 2019 with NN Insurance Personeel B.V.). The parent company of NNIP, NN Investment Partners International Holdings B.V. is charged for the staff expenses by NNIP Personeel B.V. under a service level agreement and accordingly NNIP is charged by NN Investment Partners International Holdings B.V. via a cost allocation charge. For NNIP's remuneration policy we also refer to NNIP's website.

NN Group and the shareholder of NNIP aim to have an adequate and balanced composition of the Management Board of NNIP. Thereto, they aim to achieve a gender balance by having at least 30% men and at least 30% women amongst the members of the Board. The composition of the Board met the mentioned gender balance during 2018. NN Group and the shareholder of NNIP will continue to strive for an adequate and balanced composition of the Board in future appointments, by taking into account all relevant selection criteria including, but not limited to, gender balance.

Dutch law requires that fund management companies take care of independent supervision of the execution of its policies and the procedures and systems of the management company. The Dutch asset management industry and its branch organization Dufas (Dutch Fund and Asset Management Association) are dedicated to self-regulation in this area. Together with its members, Dufas drafted a 'Code' for asset management companies, including ten important principles members need to comply with as of 1 October 2014.

Strategy

NNIP's investment strategy focusses on four groups of distinctive capabilities: Multi-Assets, Alternative Credit, Spread Fixed Income, and Distinctive Equity. This is supported by a solutions-based ecosystem, with integrated investment teams including analysts, client portfolio managers and next-generation researchers.

Significant investments in data, technology and people aim to strengthen NNIP's current top-performing strategies and fund research and development, which centers around new sources of data, enhanced use of technology in the investment process and decision making (e.g. artificial intelligence and behavioral analyses). In 2018, NNIP has invested in an innovation platform, data scientists, Big and Alternative data, and Automated Intelligence (AI) techniques to further explore new sources of return. Its investment philosophy will continue to be underpinned by NNIP's commitment to responsible investing. NNIP actively integrates Environmental, Social and Governance (ESG) criteria into its decision-making processes and active ownership activities, as well as offers a variety of dedicated sustainable and impact investing products.

During 2018, a number of organizational changes were implemented in the departments Investments, CGI, Technology and Operations and supporting functions, to ensure better alignment of these functions with the strategy.

In 2018, NNIP further strengthened its Responsible Investment policy by including norms-based criteria and has decided to exclude tobacco from all its investments, while placing restrictions on companies involved in oil sands and controversial pipelines.

In April 2018, a memorandum of understanding (MoU) was signed with China's leading asset manager, China Asset Management Co., Ltd. (China AMC). The MoU provides a platform for NNIP and China AMC to explore joint product development opportunities and consequently leverage each other's capabilities in European and Chinese capital markets. NNIP was selected for its expertise in responsible investing and EMD.

The collaboration between NNIP and FMO Investment Management is an example of a partnership in the responsible investing area. This partnership aims to support companies in developing countries to achieve sustainable growth and entered a new phase, whereby the joint NN-FMO Emerging Markets Loans Fund saw strong Dutch and international institutional demand with a first close of USD 250 million.

Also, NNIP focused efforts on becoming a more efficient and adaptable asset manager. One key milestone was the completion of the legal merger and integration of Delta Lloyd Asset Management ("DLAM"), which shows NNIP's ability to scale. All DLAM portfolios were onboarded onto NNIP's operating model and systems, the majority of the former DLAM systems have been decommissioned, and investment teams have been integrated.

Board of Directors' report – continued

In November 2018, NNIP announced its intention to consolidate its Luxembourg office. After the required transition period and regulatory approvals, the Luxembourg management company (NNIP Luxembourg S.A.), will cease to exist and the local operational activities will be redesigned and consolidated into NNIP, which will simultaneously start acting as the management company for the Luxembourg domiciled fund range. This aims to simplify the organization, align roles and responsibilities across locations and harmonize processes and procedures. The service to clients, as well as NNIP's product range, will not be affected by this decision, as the investment processes will remain the same and the Luxembourg domiciled fund range will remain in place.

The associated costs with the aforementioned restructurings, are included in the 2018 other operating expenses of NNIP.

Financial situation and result 2018

In 2017 NN Group finalized the acquisition of Delta Lloyd Group. Delta Lloyd Group fully owned DLAM, their investment management business. In the second half of 2017 NNIP started integrating the two asset management businesses, which led to a legal merger of the two companies as of 1 January 2018. NNIP onboarded approximately € 50 billion of assets on their core systems and integrated the operational and risk management processes of the two companies. The full operational integration was finalized in the fourth quarter of 2018. With this merger NNIP created efficiencies of scale, as NNIP integrated the business at low incremental cost to its current cost base.

NNIP's financial position as at 31 December 2018 can be described as solvent. NNIP's cash balance as of 31 December 2018 is € 7.7 million (31 December 2017: € 9.2 million). The cash and cash equivalents are at the free disposal of NNIP. NNIP's financing requirements in 2018 were met by means of financing through NN Group companies. NNIP's Finance department manages the risk associated with NNIP's business activities through the management, planning and allocation of capital within NNIP. The Finance department manages NNIP's capital on a pro-active basis and ensures that sufficient capital is available by setting targets and limits.

Gross income from operations increased to € 360.7 million (2017: € 304.4 million), mainly as a result of the merger between NNIP and DLAM. The fee and commission expenses for the year increased to € 71.8 million (2017: € 58.5 million).

As mentioned before, during 2018 a number of organizational changes were announced and/or implemented in several departments, to ensure better alignment of these functions with the future and strategic direction of NNIP. Mainly as a result of this, the other operating expenses increased to € 261.7 million (2017: 221.0 million). For 2018 the positive result after tax amounts to € 20.6 million (2017: € 22.1 million).

Assets Under Management

The assets under management comprise the total assets managed by NNIP and its foreign sister companies. The vast majority of these asset are managed by NNIP. After the legal merger between NNIP and DLAM, the total assets under management at the beginning of 2018 amounted to € 246 billion. Assets under management (AuM) remained stable compared with the start of 2018, mainly as a result of changes in the composition of the group (positive € 7 billion), net outflows (negative € 6 billion) and negative market performance (€ 1 billion). During 2018, third party AuM decreased with € 6 billion to € 81 billion.

Risk Management

Methodology

NNIP's organization presents several "In Control" statements (e.g. ISAE3402) to clients, shareholders, regulators and other stakeholders. For that purpose, NNIP uses an integrated approach and governance. The "In Control" statements and the work performed for these statements (risk assessments, control testing and evaluating testing results) form largely also the basis for this risk paragraph. NNIP is internally governed by a management board. The management board is responsible for maintaining a governance framework that encourages a strong control environment and contributes to integrity, ethical values and operational excellence.

The most significant risks and control measures

For NNIP the risk appetite is defined as the acceptable and authorised maximum level of risk in each of the risk areas in order to achieve its business objectives within approved budgets. The risk areas are categorised in the following areas:

- Strategy
- Operating activities
- Financial position
- Laws, rules and regulations

Strategy

The strategic risk is included implicitly as part of business risk. NNIP constantly monitors outflows in its fund ranges, as challenging market conditions can potentially cause investors to retrieve investments from our fund range.

Operating activities

In this section we take into account several stress tests to see what the operational impact will be and relate these scenarios to the impact of our capital.

- Fraud

The risk of internal fraud inherently is within each business unit with employees. The usual mitigating measures within NNIP, such as segregation of duties between portfolio management, trading desk and back office, limit the actual risk of internal fraud. There is however always the risk of internal fraud from overriding or bypassing the internal controls. NNIP regards this as a limited risk. Important to note is the segregation of assets: no physical assets can be stolen, as these are held by the custodians who only act upon instructions following the process with the segregation of duties.

Board of Directors' report – continued

- Conflicts of interest

A possible scenario could be to have a conflict of interest enacted through the transfer of securities between two funds, where the purpose is to have the interest of one client more at heart than another client. This may result in claims from clients, reputation damage or fines from the regulator. Controls within NNIP to prevent this from happening are the involvement of Compliance and Risk in fund restructuring processes, Compliance involvement in the required cross-trade process as described in the cross-trade procedure of the Trading Manual, and periodic monitoring on cross-trades by Compliance.

- Supplier Failure

A critical third-party supplier failing to provide the level of service desired and contracted for, can cause operational disruptions, potential litigation costs and severe declines in the quality of customer service. Potential impact could be the loss of reputation, higher cost of a new service provider or cost of external staff when taking the activity back on a temporary basis. NNIP has controls in place that mitigate the risks, such as a pre-contract partner due diligence investigation, monitoring the services provided, including potential breaches of mandates and the outsourcing contract, regular Service Level Management and internal review of the control reports from the service suppliers.

- Partnership Failure

Default of a major partnership provider of critical services may result in disturbance of critical activities until exit/contingency strategies can be enacted. In order to mitigate this risk a number of measures are in place including the monitoring of credit worthiness of partners, a clearly documented exit and contingency strategy and limits on counterparty exposures, including independent monitoring of these limits.

- Pandemic

An outbreak of a global pandemic of influenza can affect a large fraction of critical staff at NNIP and/or business partners and consequently impact the business' operations. Essential to reducing the impact of the pandemic is to prevent viruses spreading across critical staff by preventing them from having physical contact with staff that have been infected. Such measures include the spreading of staff of critical departments across independent sections of the office, working from several offices and having critical staff work from home. The last measure has already become common practice within NNIP.

- Marketing of products

Deficiencies in the development, design or approval of investment products can lead to loss of new business, financial losses or a liability gap for NNIP. This affects all elements of the product including marketing material. Complicating factors are the varying local requirements for products and services. This may result in reputational damage or regulatory fines.

Measures to seriously reduce the impact of this scenario are twofold. Firstly, NNIP has implemented a solid product approval process covering all new or amended products involving control functions like Risk and Compliance. Secondly, Compliance is involved in the review of all marketing materials.

Financial position

The financial position risk relates to the balance sheet of NNIP, as well as to the revenue streams.

- Credit and counterparty risk

The credit and counterparty risk exposures that NNIP has on its own balance sheet are largely related to receivables and deposits. Trade receivables consist mainly of client invoices. Client profiles (asset management clients usually have asset surpluses) historically have shown that defaults of counterparties, as well as the loss given defaults, are very rare.

- Earnings at risk

NNIP's most important financial risks involve losing clients due to poor performance, non-compliance with laws and regulations and operational risks in the investment processes, administrative processes and IT. Other risks relate to worsening markets and thus decreasing assets under management and related income (for example as a result of rising interest rates), while the cost base is largely fixed. On the other hand, as NNIP only manages third party and related party assets, the credit, liquidity and cash flow risks are borne by the clients. NNIP accepts the risks of market impact on its assets under management and the related income derived.

Laws, rules and regulations

Both the board of NNIP and the Management Board of NN Group are committed to preserving its integrity and reputation. Therefore, NN Group requires all its businesses to have a good understanding of, and adherence with applicable laws, regulations and standards in each of the markets and jurisdictions in which it operates. NNIP has adopted the NN Group Compliance Charter and Framework to help businesses effectively manage their compliance risks. An overview of relevant local laws and regulations are covered in NNIP local Compliance Charts. The Compliance Charts describe the compliance risks which are material and relevant to NNIP.

Complaints are also an important element of event identification. A complaint handling and response procedure is available, and the process has been implemented. Our Client Servicing team is aware of the procedures surrounding the receiving of complaints. Complaints handling is dealt with in employee training and communicated by management to employees. Also, a Whistle-blower procedure is available and reporting of Whistle-blower cases is implemented. Whistle-blowing reporting officers have been appointed and instructed. There is a documented methodology for investigation that protects all parties involved during the process. To allow the compliance function to perform its duties, it has direct reporting lines to both the board and Corporate Legal & Compliance of NN Group.

Board of Directors' report – continued

Impact on the financial position and result in case significant risks would materialize

As a result of various financial crises, dynamics of the investment market changed significantly, and market circumstances have become more volatile and unpredictable. We however feel that, considering also our losses from incidents related to the market circumstances in the last 7 years, the current capital is sufficient to cover for potential future losses from operational incidents. Besides these operational losses, we also used stress scenarios on our gross revenues and operating results from adverse market conditions. These stress tests also led to the conclusion that our current capital is sufficient to absorb market shocks.

- Risk and uncertainties that had a significant impact during the year

During 2018 the financial markets demonstrated a mixed picture. In the first half year the financial markets were strong, with major indices reaching multiple year highs or all-time new highs. The second half year was dominated by increasing geo political trade tensions and increasing interest rates. The overall market impact on the Assets under Management of NNIP has not been significant.

- Improvements to the risk management systems

During 2018 the risk management systems have undergone updates and small improvements. No significant changes to the risk management systems were undertaken, as NNIP believes to be in control of the applicable risks.

Remuneration Policy

General

NNIP is an indirect subsidiary of NN Group. NN Group has an overall remuneration policy applicable to all staff, the NN Group Remuneration Framework, which provides the reward guidelines and principles for all country and business unit remuneration policies within NN Group. This framework 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 NNIP's employees to act with integrity and keep the future of our clients, NN Group 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 NN Group, both on the short term and the long term, to ensure that remuneration is properly linked to individual, team and NNIP's performance. The remuneration policy supports a focus on NNIP'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.

Governance

NNIP operates a compensation committee responsible for (among others) setting, monitoring and reviewing the remuneration policies, plans and overall remuneration spent globally for NNIP.

The remuneration governance of NNIP 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. The compensation committees and NN Group Supervisory Board are authorised to engage external remuneration advisors.

Remuneration of identified staff

NNIP selected identified staff whose professional activities have material impact on the risk profile of NNIP or the funds managed by NNIP.

The performance management principles applied to identified staff ensure that there is focus on financial and non-financial performance and on leadership behavior. In addition, NNIP's strategy (both long and short-term objectives), client interests, as well as the companies values (Care, Clear and Commit) are reinforced. The principles also create alignment with the AIF and UCITS risk profile. For each identified staff member a set of objectives is defined, including details on what the individual is expected to contribute to NNIP'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 NNIP's 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. 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, the (deferred) compensation is adjusted downwards via hold back or claw back.

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:

Board of Directors' report – continued

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

At least 40% of the variable remuneration awarded to identified staff is deferred, and for selected identified staff, the variable remuneration comprises the following components:

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

Quantitative information

The table below provides aggregated information on the remuneration of all staff employed on 31 December 2018 and performing activities for NN Investment Partners International Holdings B.V. in The Netherlands during the year 2018, including all Identified Staff selected on the basis of AIFMD and/or UCITS. A significant portion of the numbers listed below can be attributed to NNIP (Management Company), as NNIP is the main operating entity held by NN Investment Partners International Holdings B.V.

Aggregated fixed remuneration and variable remuneration for the performance year 2018

None of the employees received remuneration in excess of € 1 million.

Amounts in € 1,000 and gross	Fixed and variable remuneration awarded in relation to the performance year 2018		
	Identified Staff qualified as Senior Management (including Executives)	Other Identified Staff (excluding Senior Management)	All staff – excluding Identified Staff
Number of employees (#)	8	16	667
Fixed remuneration (1)	2.996	3.922	61.966
Variable remuneration (2)	1.175	1.603	13.690
Aggregate of fixed and variable remuneration	4.171	5.525	75.656

Note 1) Fixed remuneration per ultimo 2018 for contractual working hours. The fixed remuneration includes collective fixed allowances, which includes elements such as holiday pay and pension allowance, and excludes benefits.

Note 2) Variable remuneration includes all conditional and unconditional awards in relation to the performance year 2018 as approved by the relevant committees and authorized per 19 March 2019. This includes all payments to be processed through payroll per March/April 2019, upfront NN Group shares and NNIP 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 NNIP Investment Entitlements.

Social aspects of operating the business

At NNIP, we are committed to improving people's financial well-being, and to responsibly managing the assets entrusted to us by our customers. We aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of the wider society and supporting the communities in which we operate. NNIP's values guide us in fulfilling our role as a good corporate citizen. NNIP's Code of Conduct contains the core values to ensure that we never lose sight of the essence of what we do: adding value to our customers and society. The Code of Conduct is available via 'Code of Conduct' community on the intranet of NNIP.

Outlook 2019

The integration of DLAM added scale to our business, as well as additional skills in certain areas. It also allowed us to look more closely at our business efficiencies and strengths, particularly in relation to our scalable platform. Our ambition is to further strengthen our business by continuing to make clear choices, streamline our organization, and focus on distinctive capabilities, while embedding ESG throughout the entire investment process. We aim to develop the right skills, use the combination of man and machine as well as behavioral analysis to make a difference, and improve our decision-making processes. We have growth ambitions to add more scale to our business. This can be achieved by attracting third party mandates based and can be supplemented through new distribution partnerships and bolt-on acquisitions provided that these support our strategic direction and meet strict financial and non-financial criteria. In 2019, we will continue to focus on delivering top performance and servicing our clients. We are committed to help our clients secure their financial futures.

Significant investments in data, technology and people aim to strengthen NNIP's current top-performing strategies and fund research and development, which centers around new sources of data, enhanced use of technology in the investment process and decision making (e.g. artificial intelligence and behavioral analyses). For 2019, NNIP has the ambition to show growth of its annual result from operations. The growth in

Board of Directors' report – continued

revenues will be partially offset by pricing pressure in the asset management industry. Furthermore, the envisioned operational cost savings will be (partly) reallocated to build capabilities in line with NNIP's strategy.

As at 1 January 2019, NNIP Luxembourg S.A. merged into NNIP (both subsidiaries of NN Investment Partners International Holdings B.V.) under universal legal title. As a result of the merger, NNIP Luxembourg S.A. ceased to exist.

The Hague, 9 April 2019

The Board of Directors

S.S. Bapat
(Chairman, Chief Executive Officer)

V. van Nieuwenhuijzen
(Chief Investment Officer)

M.C.M. Canisius
(Chief Finance and Risk Officer)

J. Schmiedová
(Chief Human Resources Officer)

H.W.D.G. Borrie
(Chief Client Officer)

Balance Sheet

After appropriation of the result

As at 31 December

Amounts in EUR

	notes	2018	2017
Fixed assets			
Intangible fixed assets	1		
Tangible fixed assets	2	231,405	188,674
Financial fixed assets	3	77	3,649,270
Total fixed assets		231,482	3,837,944
Current assets			
Trade receivables	4	4,480,183	5,867,781
Receivables from Group companies	5	55,162,785	75,548,449
Deferred tax asset		521,568	
Other receivables, prepayments and accrued income	6	90,547,070	94,216,120
Cash and cash equivalents		7,732,810	9,153,261
Total current assets		158,444,416	184,785,611
Total assets		158,675,898	188,623,555
Equity			
Issued and paid-up capital	7	193,385	193,385
Other reserves	8	75,067,555	103,792,179
Total equity		75,260,940	103,985,564
Current liabilities			
Trade creditors	9	1,731,403	1,331,241
Taxes and social securities	10	854,676	647,505
Other liabilities, accruals and deferred income	11	80,828,879	82,659,245
Total current liabilities		83,414,958	84,637,991
Total equity and liabilities		158,675,898	188,623,555

Profit and loss account

For the year ended 31 December
Amounts in EUR

	notes	2018	2017
Gross management fee and commission income	12	360,749,177	304,422,348
Fee and commission expenses	13	-71,822,167	-58,473,425
Gross fee income		288,927,010	245,948,923
Other operating expenses	14	-261,733,674	-220,955,153
Operating result		27,193,336	24,993,770
Finance income and expenses	15	-552,795	-149,039
Finance income and expenses		-552,795	-149,039
Result from operations before tax		26,640,541	24,844,731
Share in result from associates	3	631,478	3,433,426
Income tax	16	-6,710,007	-6,190,961
Result from operations after tax		20,562,012	22,087,196

Principles of valuation and determination of results

General

NNIP is through a number of group companies, a wholly-owned subsidiary of NN Group N.V., (its immediate parent is NN Investment Partners International Holdings B.V.) all of which are located at Schenkade 65, 2595 AS, The Hague and is listed under number 27132220 in the Trade Register.

As at 1 January 2018, DLAM merged into NNIP (both subsidiaries of NN Investment Partners International Holdings B.V.) under universal legal title. As a result of the merger, DLAM ceased to exist. As allowed under Dutch GAAP, the comparative figures have not been adjusted.

NN Investment Partners International Holdings B.V. declared to assume joint and several co-liability for the debts arising from legal acts of NNIP, in accordance with article 403, Part 9 Book 2 of the Dutch Civil Code ('403'-declaration).

The annual accounts are presented in euro, which is NNIP's functional and presentation currency.

Principles of valuation of assets and liabilities and the determination of results

The 2018 financial statements of NNIP are prepared in accordance with generally accepted accounting principles included in Part 9, Book 2 of the Dutch Civil Code. These financial statements cover the year 2018, which ended at the balance sheet date of 31 December 2018 and have been prepared on the basis of the going concern assumption.

The financial statements of NNIP are included in the consolidated financial statements of NN Group N.V. The consolidated financial statements are available via the web-site of NN Group (www.nn-group.com). The term 'group companies' used in the disclosures, refers to NN Group N.V. and its subsidiaries.

The principles used for valuing assets and liabilities and determining the result are unchanged compared with the previous reporting year. To provide more insight, certain figures within the financial statements are presented differently in comparison with the previous year. Starting 2018, the fixed service fee expenses are presented as part of fee and commission expenses (instead of other operating expenses), to provide better information about NNIP's performance and to better align with the current market practice. The comparative figures have been adjusted accordingly with approx. € 7.3 million.

General accounting principle

Assets and liabilities are stated at nominal value, unless otherwise stated.

An asset is recognized in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognized in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle the obligation can be measured reliably. An asset or liability that is recognized in the balance sheet, remains on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability.

Assets or liabilities that are not recognized in the balance sheet are considered as off-balance sheet assets or liabilities.

Income is recognized in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognized when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

Revenues and expenses are allocated to the period to which they relate.

Use of estimates

The preparation of the financial statements requires management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. The actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognized in the period in which the estimate is revised and in future periods for which the revision has consequences.

Intangible fixed assets

Intangible fixed assets are stated at acquisition or construction cost, less accumulated amortization and impairment losses, if any.

Expenditures made after the initial recognition of an acquired or constructed intangible fixed asset are included in the acquisition or construction cost if it is probable that the expenditures will lead to an increase in the expected future economic benefits, and the expenditures and the allocation to the asset can be measured reliably. If expenditures do not meet these conditions, they are recognized as an expense in the profit and loss account.

The capitalized amount is amortized on a straight-line basis over a three-year term.

Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation and impairment losses, if any.

Principles of valuation and determination of results - continued

The cost consists of the price of acquisition, plus other costs that are necessary to get the assets to their location and condition for their intended use. Expenditure is only capitalized when it extends the useful life of the asset.

Depreciation is calculated on a straight-line basis over the estimated useful lives of each item of the tangible fixed assets, taking into account the estimated residual value of the individual assets. Depreciation starts as soon as the asset is available for its intended use, and ends at decommissioning or divestment of the asset.

The following rates of depreciation are applied:

- Office equipment: 20-50%

Impairment of fixed assets

Tangible and intangible fixed assets are assessed at each reporting date, whether there is any indication of an impairment. If such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the higher of value in use and net realizable value. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Subsequently, at each reporting date, the entity assesses whether there is any indication that an impairment loss that was recorded in previous years has decreased. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated.

Reversal of a previously recognized impairment loss only takes place when there is a change in the assessment used to determine the recoverable amount since the recognition of the last impairment loss. In such case, the carrying amount of the asset (or cash-generating unit) is increased to its recoverable amount, but not higher than the carrying amount that would have applied (net of depreciation) if no impairment loss had been recognized in previous years for the asset (or cash-generating unit).

The determination of impairments is an inherently uncertain process involving various assumptions and factors. Estimates and assumptions are based on management's judgement and other information available.

Financial fixed assets

Participating interests with significant influence

Participating interests where significant influence is exercised over the business and financial policies, are valued according to the equity method on the basis of net asset value. The net asset value is calculated on the basis of NNIP's accounting policies. Any loss that results from the transfer of current assets or an impairment of fixed assets is fully recognized. Results on transactions involving transfer of assets and liabilities between NNIP and its participating interests and mutually between participating interests are eliminated to the extent that these cannot be regarded as having been realized.

Participating interests with a negative net asset value are valued at nil.

Participating interests with no significant influence

Participating interests where no significant influence is exercised are stated at the lower of cost or realizable value. In case of a firm intention to sell, the participating interest is stated at the lower expected sales value. If NNIP transfers an asset or a liability to a participating interest that is measured at cost or current value, the gain or loss resulting from this transfer is recognized directly and in full in the profit and loss account, unless the gain in substance not realized.

Dividends are accounted for in the period in which they are declared. Dividends from participating interests that are carried at cost, are recognized as income from participating interests in the period in which the dividends become payable.

Impairment of financial assets

A financial asset that is not stated at (1) fair value with value changes reflected in the profit and loss account, or at (2) amortized cost or lower market value, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with negative impact on the estimated future cash flows of that asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, indications that a debtor or issuer is approaching bankruptcy, or the disappearance of an active market for a security.

The entity considers evidence of impairment for financial assets measured at amortized cost (loans and receivables and financial assets that are held to maturity) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those individually significant assets found not to be specifically impaired and assets that are not individually significant are then collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, NNIP uses historical trends of the probability of default, the timing of collections and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

Principles of valuation and determination of results - continued

An impairment loss in respect of a financial asset stated at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in the profit and loss account and reflected in an allowance account against loans and receivables or investment securities held to maturity. Interest on the impaired asset continues to be recognized by using the asset's original effective interest rate. When, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss (up to the amount of the original cost).

The determination of impairments is an inherently uncertain process involving various assumptions and factors. Estimates and assumptions are based on management's judgement and other information available.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in the measurement and disclosed separately. Cash and cash equivalents denominated in foreign currencies are translated at the balance sheet date in the functional currency at the exchange rate ruling at that date. Reference is made to the accounting policies for foreign currencies.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount is reported in the balance sheet, when NNIP has a current legally enforceable right to set off the recognized amounts and intends to either settle on a net basis or to realize the assets and settle the liability at the same time.

If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

Foreign currency translation

Transactions and balances

At initial recognition, transactions denominated in a foreign currency are translated into the functional currency of the company at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Exchange differences resulting from the settlement of monetary items or resulting from the translation of monetary items denominated in foreign currency, are recognized in the profit and loss account in the period in which they arise.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost, are translated into euros at the exchange rates applying on the transaction date.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at current value, are converted into euros at the exchange rate at the time when the current value was determined. Exchange rate differences arising from the translation are directly recognized in equity as part of the revaluation reserve.

Foreign operations

The assets and liabilities that are part of the net investment in a foreign operation are translated into euros at the exchange rate prevailing at the balance sheet date. The revenues and expenses of such a foreign operation are translated into euros at the exchange rate on the transaction date.

Equity

Equity consists of paid-up capital and other reserves. Other reserves comprise the cumulative results of previous years, the result of the year under review, activity related to share based payments and less any dividend paid.

Corporate income tax

NNIP is part of a Dutch fiscal unity with its indirect parent NN Group N.V. for both corporate income tax and VAT, along with other Dutch subsidiaries of NN Group N.V.

NN Group N.V. and its subsidiaries, that form part of the Dutch fiscal unity are jointly and severally liable for taxation payable by the Dutch fiscal unity. The calculation of NNIP's corporate income tax is made as if NNIP is an independent taxpayer. The corporate income tax payable is settled on a quarterly basis, through NN Investment Partners International Holdings B.V., with NN Group N.V. via the current account under the heading 'receivables from group companies'.

NNIP's foreign offices (Branches) are considered to be permanent establishments. The Branches are therefore subject to corporate income tax in the country they operate and file their own corporate income tax returns.

Corporate income tax comprises the current and deferred corporate income tax payable and receivable for the reporting period. Corporate income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly to equity.

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

If the carrying amount of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences. For taxable temporary differences, a deferred tax liability is recognized.

Principles of valuation and determination of results - continued

For deductible temporary differences, available tax losses and unused tax credits, a deferred tax asset is recognized, but only to the extent that it is probable that future taxable profits will be available for set-off or compensation. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

For taxable temporary differences related to group companies and foreign Branches, a deferred tax liability is recognized, unless NNIP is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

For deductible temporary differences regarding group companies and foreign Branches, a deferred tax asset is recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The measurement of deferred tax liabilities and deferred tax assets is based on the tax consequences following from the manner in which NNIP expects, at the balance sheet date, to realise or settle its assets, provisions, debts and accrued liabilities. Deferred tax assets and liabilities are measured at nominal value and calculated using tax rates enacted or substantively enacted at the reporting date.

Management fees and commission income

Management fees and commission income are generally recognized as the service is provided by NNIP and are based on the applicable service contracts.

Management fees and commission expenses

Management fees and commission expenses are generally recognized as the service is provided to NNIP and are based on the applicable service contracts.

Other operating expenses

Expenses are allocated to the period to which they relate.

Employee Benefits- Share-based payments

Share-based payments are recognized as staff expenses over the vesting period. A corresponding increase in equity is recognized for equity-settled share-based payment transactions. The fair value of equity settled share-based payment transactions is measured at the grant date.

Pension accounting policies for Branch employees

NNIP's Branches have contribution pension plans in place for its employees. In accordance with the pension plans the Branches pay a premium which will result in the pay out of the insured pension capital at the retirement age, or before upon death of the employees. The contributions are expensed in the period to which they relate.

Operating Lease

NNIP's Branches have entered into several operating lease contracts. Operating lease payments are recognized by the Branches as an expense in the income statement on a straight-line basis over the lease term.

Financial income and expenses

This item comprises interest received and paid on bank accounts, deposits, interest on receivables and payables and exchange differences resulting from the settlement of monetary items or resulting from the translation of monetary items denominated in foreign currency and which are recognized in the profit and loss account in the period in which they arise, taking into account the effective interest of the related asset.

Share in result of participating interests

This item comprises NNIP's share in the results of participating interests, determined on the basis of NNIP's accounting principles. The results of the participating interests acquired or sold during the financial year are measured in the result, from the date of acquisition or until the date of the sale respectively.

Exchange rate against euro as at 31 December

		2018	2017
US Dollar	(USD)	1.14	1.20
British Pound	(GBP)	0.90	0.89
Czech Crown	(CZK)	25.74	25.53
Danish Crown	(DKK)	7.46	7.45
Hungarian Forint	(HUF)	320.80	310.21
Japanese Yen	(JPY)	125.42	135.27
Romania Leu	(RON)	4.66	4.67
Swedish Crown	(SEK)	10.14	9.81
Thai Baht	(THB)	37.22	39.13
United Arab Emirates Dirham	(AED)	4.20	4.41

Notes to the balance sheet

1 Intangible fixed assets

Intangible fixed assets

	2018	2017
Cumulative cost value as of 1 January	14,972	14,972
Cumulative depreciation as of 1 January	-14,972	-11,163
Book value as of 1 January	0	3,809
Depreciation		-3,809
Book value as of 31 December	0	0
Cumulative cost value as of 31 December	14,972	14,972
Cumulative depreciation as of 31 December	-14,972	-14,972
Total intangible fixed assets	0	0

Intangible fixed assets relate to the development of a software application for mobile phones to be used by external clients. The depreciation method used is based on a straight-line basis over a three-year term.

2 Tangible fixed assets

Tangible fixed assets

	2018	2017
Cumulative cost value as of 1 January	494,666	451,662
Cumulative depreciation as of 1 January	-305,992	-232,799
Book value as of 1 January	188,674	218,863
Investments	134,741	43,004
Depreciation	-92,010	-73,193
Book value as of 31 December	231,405	188,674
Cumulative cost value as of 31 December	629,407	494,666
Cumulative depreciation as of 31 December	-398,002	-305,992
Total tangible fixed assets	231,405	188,674

Tangible fixed assets relate to office equipment and the depreciation method used is based on a straight-line basis over a period of three to ten years.

3 Financial fixed assets

Financial fixed assets

	2018	2017
NN Investment Partners Belgium S.A.	77	77
NN Investment Partners Luxembourg S.A.		3,649,193
Total financial fixed assets	77	3,649,270

NN Investment Partners Belgium S.A.

	2018	2017
Balance as of 1 January	77	77
Balance as of 31 December	77	77

NNIP holds one share of NN Investment Partners Belgium S.A., located in Brussels, Belgium, which represents 0.0001% of NN Investment Partners Belgium S.A.

NN Investment Partners Luxembourg S.A.

	2018	2017
Balance as of 1 January	3,649,193	2,571,867
Result current year	631,478	3,433,426
(Decrease) / increase in participation	-4,280,671	281,650
Dividend received		-2,637,750
Balance as of 31 December	0	3,649,193

On 28 February 2018, NNIP sold its shares in NN Investment Partners Luxembourg S.A. to NN Investment Partners International Holdings B.V. at book value.

4 Trade receivables

Trade receivables

	2018	2017
Management fees to be received	4,480,183	5,867,781
Total trade receivables	4,480,183	5,867,781

Notes to the balance sheet - continued

An amount of € 2,165,871 (2017: € 633,233) relates to receivables from group companies. All management fees to be received are due within one year. No provision for bad debt or doubtful debts has been recorded as at 31 December 2018 (2017: nil)

5 Receivables from Group companies

Receivables from Group companies

	2018	2017
Intercompany account NN Investment Partners International Holdings B.V.	53,134,143	70,908,485
Intercompany account NNIP Beleggersgiro B.V.	2,028,642	4,639,964
Total receivables from Group companies	55,162,785	75,548,449

The receivables from group companies relate to current accounts that are used for the NN Group overall cash pooling policy and for settlements with group companies. For further information regarding transactions with related parties reference is made to the section 'Related parties'.

During the financial year ended 31 December 2018, an amount of € 87,574,625 has been distributed out of the other reserves as dividend to NN Investment Partners International Holdings B.V., which has been settled via the current account.

6 Other receivables, prepayments and accrued income

Other receivables, prepayments and accrued income

	2018	2017
Other receivables and prepayments	898,944	1,428,550
Contract costs	18,619,688	22,420,698
Tax receivable	808,045	1,113,209
Accrued income	70,220,393	69,253,663
Total other receivables, prepayments and accrued income	90,547,070	94,216,120

The contract costs relate to the upfront commissions paid to distributors for the sale of a certain share class relating to specific fund ranges. The upfront commissions paid by NNIP are capitalized at the time of the payment and amortized based on a straight-line calculation throughout the period the fee relates to (36 months period). An amount of around € 5 million has a remaining tenor of more than one year.

The tax receivable relates to corporate income tax amounts to be received by the Branches.

Within accrued income an amount of € 39,607,122 (2017: € 40,586,641) relates to receivables from group companies and mainly refers to (sub) management fees and distribution fees.

7 Issued and paid-up capital

Issued and paid-up capital

	2018	2017
38,677 shares of € 5.00 each	193,385	193,385

NN Investment Partners International Holdings B.V. owns all issued shares.

8 Other reserves

Other reserves

	2018	2017
Balance as of 1 January	103,792,179	294,924,557
Legal merger DLAM	37,969,514	
Dividend paid	-87,574,625	-213,722,500
Share-based payment Branches	291,964	196,914
Other	26,511	306,012
Appropriation of result	20,562,012	22,087,196
Balance as of 31 December	75,067,555	103,792,179

NNIP proposes to add the financial year's result of € 20,562,012 to the other reserves.

For further information regarding the share-based payments Branches reference is made to the section 'Share-Based Compensation'.

9 Trade Creditors

Trade creditors

	2018	2017
Creditors	1,731,403	1,331,241
Total trade creditors	1,731,403	1,331,241

Within creditors an amount of € 391,391 (2017: € 895,280) relates to fees payable to group companies.

Notes to the balance sheet - continued

10 Taxes and social securities

The taxes and social security payable relate to corporate income tax and social security premiums regarding Branches.

11 Other liabilities, accruals and deferred income

Other liabilities, accruals and deferred income

	2018	2017
Other liabilities	14,326,853	4,651,657
Management fees payable	4,227,029	5,100,149
Sub management fees payable	7,028,097	7,051,463
Sales fees payable	5,794,930	9,057,513
Trailer fees payable	49,451,970	56,798,463
Total other liabilities, accruals and deferred income	80,828,879	82,659,245

Within total other liabilities an amount of € 28,718,117 (2017: € 16,371,547) relates to group companies, and mainly refers to management fees, sub-management fees and sales fees payable to group companies.

Risk area: Financial position

During the normal course of business, NNIP uses various financial instruments that expose it to market, currency, credit and liquidity risks. To control these risks, NNIP developed a policy including a code of conduct and procedures that are intended to limit the risks of unpredictable adverse developments in the financial markets and thus for the financial performance of NNIP.

Market risks

The market risks relate to worsening markets and thus decreasing assets under management and related income (for example as a result of rising interest rates), while the cost base is largely fixed. On the other hand, as NNIP only manages third party and related party assets, the credit, liquidity and cash flow risks are borne by the clients. NNIP accepts the risks of market impact on its assets under management and the related income derived.

Currency risks

NNIP is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro. The currencies in which these transactions primarily are denominated are Euro and USD. However due to the size of the Euro versus the USD, with the majority of its business in the Eurozone, the impact is minimal.

Credit risks

Credit risk arises principally from NNIP's current assets. However, the majority of these balances are due from group companies and hence the credit risk is minimal and rare.

Liquidity risks

NNIP is part of the NN Group and hence funding is provided by the immediate parent when and if required, hence the liquidity risk is limited within NNIP.

Off balance sheet commitments

Tax commitments

NNIP is in a Dutch fiscal unity with its indirect parent NN Group N.V. for both corporate income tax and VAT, along with other Dutch subsidiaries of NN Group N.V.

NN Group N.V. and its subsidiaries, that form part of the Dutch fiscal unity are jointly and severally liable for taxation payable by the Dutch fiscal unity.

Operational Lease

Operational leases include office rent and car leases

	EUR
2019	547,784
2020 up to and including 2023	1,749,779
After 2023	667,096

In 2018 an amount of € 0.7 million is included in the income statement for office rent and car leases (2017: € 0.8 million).

Other

NNIP acts as guarantor for fulfilling the obligations of NNIP Beleggersgiro B.V. (hereafter 'Giro') towards Giro's accountholders.

Notes to the profit and loss account

12 Gross management fee and commission income

Gross management fee and commission income

	2018	2017
Management fees	246,188,734	204,339,865
Sub management fees	80,425,050	70,165,630
Performance fees	122,495	32,707
Sales fees	31,400,923	27,303,924
Security lending fees	729,725	565,883
Advisory fees	1,116,355	1,175,778
Other income	765,895	838,561
Total gross management fee and commission income	360,749,177	304,422,348

	2018	2017
Europe	344,365,342	288,112,439
Asia	12,527,775	11,924,877
USA	3,856,060	4,385,032
Total gross management fee and commission income breakdown by geographical region	360,749,177	304,422,348

Management fees

The management fees relate to fees received for managing the assets of both institutional and retail clients throughout the year. Within management fees an amount of € 103,629,959 (2017: € 74,444,601) relates to group companies.

Sub management fees

The sub management fees relate to fees received for co-managing the assets of the clients with other managers, either internal or external throughout the year. Within sub management fees an amount of € 72,254,502 (2017: € 68,934,915) relates to group companies.

Sales fees

The sales fees relate to fees received for selling the funds managed on behalf of the clients throughout the year. Within sales fees an amount of € 27,817,876 (2017: € 24,057,733) relates to group companies.

13 Fee and commission expenses

Fee and commission expenses

	2018	2017
Management fees	-19,021,722	-15,107,076
Sub management fees	-25,270,733	-24,548,779
Advisory fees	-733,353	-640,267
Sales fees	-5,944,998	-3,397,075
Fixed service fees	-12,136,331	-7,305,076
Trailer fees	-8,715,030	-7,475,152
Total fee and commission expenses	-71,822,167	-58,473,425

Management fees

The management fees relate to fees paid to internal and external managers for managing the assets of the clients throughout the year. Within management fees an amount of € 18,434,558 (2017: € 15,107,076) relates to group companies.

Sub management fees

The sub management fees relate to fees paid to internal and external managers for co-managing the assets of the clients throughout the year. Within sub management fees an amount of € 23,518,945 (2017: € 22,155,105) relates to group companies.

Advisory fees

Within advisory fees an amount of € 687,903 (2017: € 619,226) relates to group companies.

Sales fees

Within sales fees an amount of € 5,928,451 (2017: € 3,387,809) relates to group companies.

Trailer fees

The trailer fees relate to fees paid to external distributors for selling the funds managed on behalf of the clients throughout the year.

14 Other operating expenses

Other operating expenses

	2018	2017
Salary expenses	-5,211,298	-5,997,625
Social securities	-1,118,721	-1,089,707
Pension expenses	-424,233	-484,379
Expenses share-based compensation	-291,964	-34,925
Other expenses Branches	-3,673,635	-4,853,708
Other expenses	-251,013,823	-208,494,809
Total other operating expenses	-261,733,674	-220,955,153

Notes to the profit and loss account - continued

The salary expenses, social securities, pension expenses and expenses for share-based compensation relate to the employees employed by the Branches of NNIP. NNIP reports 31 Branch employees in 2018 (2017: 31 Branch employees).

Other expenses

Other expenses mainly relate to a cost charge of € 248,944,364 from NN Investment Partners International Holdings B.V. The cost allocation charge includes indirect organizational costs and direct business related costs, which includes, amongst others, costs for (temporary) staff, professional services, information technology, marketing and market data services.

NNIP's staff (excluding the Branches) are employed by NNIP Personeel B.V. NN Investment Partners International Holdings B.V. is charged for these expenses under a service level agreement and accordingly, NNIP is charged by NN Investment Partners International Holdings B.V. via a cost allocation charge.

Besides the above mentioned cost charge, other expenses also include fixed service fee costs, which relate to the Dutch fund costs for certain share classes in the Dutch fund range. These costs are paid by NNIP and a fixed service fee revenue item allocated as additional management fees are received to offset these costs.

Number of employees per branch as of 31 December 2018

Spanish Branch	2
French Branch	8
UK Branch	9
Romanian Branch	3
German Branch	9
Total	31

Fees of auditors

Fees of auditors

	2018	2017
Audit fees	119,000	62,500
Audit related fees	124,000	124,000
Total fees of auditors	243,000	186,500

Fees as disclosed above are the amounts related to the respective years, i.e. on an accrual basis (excluding VAT).

Share-Based Compensation

Included in the salary expenses are the expenses for Share-Based Compensation for staff in the Branches of NNIP. The shares are granted to a number of senior executives and to a considerable number of employees. The purpose of the share schemes is to attract, retain and motivate senior executives and staff.

The expenses related to the share-based payments of the Branches are booked directly into equity in accordance with NN Group policy on share-based compensation.

Share awards comprise deferred shares, granted under the NN Group Aligned Remuneration Plan ("ARP") and (until March 2014) performance shares that were granted under the NN Group Long-Term Sustainable Performance Plan ("LSPP"). The entitlement to deferred shares and performance shares is granted conditionally. If the participant remains employed for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. Under the old performance shares plan, performance conditions were determined based on Total Shareholder Return ("TSR") performance against a predefined group of peer companies. Deferred shares under the new plan are awarded with reference to both financial and non-financial performance targets.

Following the initial public offering (the "IPO") of NN Group N.V. ("NN Group") in 2014, all outstanding share awards on ING Group were converted into similar awards on NN Group shares by multiplying by a fraction:

- The numerator of the fraction is the average of the closing price on the Euronext Amsterdam of one bearer depositary receipt representing one ordinary share of ING Group for each of the five trading days immediately preceding the date of the settlement of the IPO (i.e. 30 June – 4 July);
- The denominator of the fraction is the price per ordinary share of NN Group offered in the IPO. This price was specified in the pricing statement deposited with the AFM and published in a press release on NN Groups' website and on the website of Euronext.

NN Group, as the new ultimate holding company, granted share awards under NN Group's ARP. Performance shares are no longer awarded under the ARP. For deferred shares awarded, the shares will vest one third respectively on the first, second and third anniversary of the award date, provided the participants are still employed by NNIP.

The table below shows the movement of performance shares and deferred shares during the financial year:

Notes to the profit and loss account - continued

Changes in Share awards outstanding

	Number of performance shares		Number of deferred shares		Weighted average grant date fair value
	2018	2017	2018	2017	2018
Outstanding at 1 January		4,598	14,663	13,200	29.71
Transferred out/vested		-4,598	-7,560	-6,448	28.89
Granted			9,999	7,911	36.00
Share awards outstanding - closing balance		0	17,102	14,663	33.74

As at 31 December 2018, the total unrecognized compensation costs related to share awards amount to € 227,433. These costs are expected to be recognized over a weighted average period of 1.4 years. NNIP's share based compensation and the expenses associated with, are recorded in its parent entity NN Investment Partners International Holdings B.V.

Remuneration of managing directors

The emoluments as referred to in Section 2:238 sub 1 of the Netherlands Civil Code, charged in the financial year to NNIP amounted to € 3,158,010 for managing directors and former managing directors.

15 Finance income and expenses

Finance income and expenses

	2018	2017
Interest and similar expenses	-11,317	-5,641
Exchange rate differences	-541,478	-143,398
Total finance income and expenses	-552,795	-149,039
Exchange rate differences		
Foreign currency gains	986,200	260,741
Foreign currency losses	-1,527,678	-404,139
Exchange rate differences	-541,478	-143,398

The movement in exchange rate differences is mainly related to the movement of the USD rate as compared to the EUR rate.

16 Income Tax

The Dutch statutory tax rate in 2018 was 25% (2017: 25%). The current tax is settled on a quarterly basis, through NN Investment Partners International Holdings B.V., with NN Group N.V., the head of the Dutch fiscal unity.

The income tax expense in 2018 was € 6.7 million (2017: € 6.2 million). In 2018 the effective tax rate was 25.2% (2017: 24.9%). The 2018 effective tax rate is slightly higher than the statutory rate. This is mainly due to a prior year tax adjustment regarding one of the Branches.

Related parties

Transactions with related parties are assumed when a relationship exists between NNIP and a natural person or entity that is affiliated with NNIP. This includes, amongst others, the relationship between NNIP and its Branches, shareholders, directors and key management personnel. Transactions are transfers of resources, services or obligations, regardless whether anything has been charged. All transactions with related parties are conducted based on the arm's length principle.

NNIP's Transfer Pricing Model

In 2016 and 2017, NNIP reviewed and updated its transfer pricing model and documentation to comply with the new Dutch TP documentation requirements and updated OECD transfer pricing guidelines. In 2018, no further changes have been executed.

Within NNIP's value chain the following four main categories of material intra-group transactions were identified to be reviewed and documented:

- o Management Company;
- o Portfolio Management;
- o Sales and distribution;
- o Central Management.

As part of the review, some transfer pricing methods and benchmark studies for these intra-group activities have been updated. More specific (local) documentation has been prepared to support these intra-group charges (amongst others to comply with any master and local file requirements). As a result, the transfer pricing of the intra-group charges are well documented and in line with the functions performed, assets used and the assumption and control of risks within NNIP.

Significant events after balance sheet date

As at 1 January 2019, NNIP Luxembourg S.A. merged into NNIP (both subsidiaries of NN Investment Partners International Holdings B.V.) under universal legal title. As a result of the merger, NNIP Luxembourg S.A. ceased to exist. The merger will be accounted for using the carry-over method. As a result of this transaction, NNIP's equity is expected to increase with approximately € 30 million. NNIP's operational result before tax is expected to increase with approximately € 35 to 40 million annually.

There are no other significant events after balance sheet date.

Signing by the Board of Directors

The 2018 financial statements of NNIP with a balance sheet total of € 158,675,898 and a profit after tax of € 20,562,012 as well as the notes to these accounts, are signed according to the articles of association of NNIP and the applicable laws and regulations.

The Hague, 9 April 2019

The Board of Directors

S.S. Bapat
(Chairman, Chief Executive Officer)

V. van Nieuwenhuijzen
(Chief Investment Officer)

M.C.M. Canisius
(Chief Finance and Risk Officer)

J. Schmiedová
(Chief Human Resources Officer)

H.W.D.G. Borrie
(Chief Client Officer)

Other information

Statutory regulations concerning the appropriation of the result.

The result, according to the approved financial statements, is at the disposal of the shareholders' meeting. Profits may only be distributed after adoption of the financial statements which evidence that NNIP's equity exceeds the reserves to be maintained pursuant to the law and articles of association and after the Board of Management has approved the distribution.

Other

In accordance with the Spanish Order ECO/734/2004, the management of the Spanish Branch confirms that no complaints or claims were received during 2018 by their customer service department.

Branches

NNIP has branch offices in France, Germany, Romania, Spain and the United Kingdom that operate under the name NNIP.

Auditor's report

The auditor's report is included on the next page.

Other information-continued

Independent Auditor's report

To: the Board of Directors of NN Investment Partners B.V.

Report on the accompanying annual accounts

Our opinion

We have audited the financial statements 2018 of NN Investment Partners B.V., based in The Hague.

In our opinion the accompanying financial statements give a true and fair view of the financial position of NN Investment Partners B.V. as at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2018;
- 2 the profit and loss account for 2018; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of NN Investment Partners B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe 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 Directors' report;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.
- Based on the following procedures performed, we conclude that the other information:
 - is consistent with the financial statements and does not contain material misstatements;
 - contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors are responsible for the preparation of the other information, including the director's report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors are responsible for such internal control as the Board of Directors determine 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 Board of Directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Other information-continued

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 Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- 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 Company'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 Board of Directors 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.

Amstelveen, 9 April 2019

KPMG Accountants N.V.

M. Frikkee RA