

Policy			
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FIHR	Board of Directors	08.06.2021	20.12.2022

Norfund's Risk Appetite

The Norfund Act states that «*The purpose of Norfund is to assist in developing sustainable business and industry in developing countries by providing equity capital and other risk capital, loans or guarantees. The object is to establish viable, profitable undertakings that would not otherwise be initiated because of the high risk involved*».

Norfund's mission is to create jobs, improve lives and support the transition to net zero, by investing in businesses that drive sustainable development. Through this we support development and poverty reduction in developing countries. This implies taking risks both by investing in high-risk countries and in enterprises that on the time of investment are not necessarily meeting the standards required by Norfund as a professional investor. Of the capital provided from The Ministry of foreign affairs, 25% is allocated as loss provision. Norfund's license to operate can be threatened by a lack of achievement of Norfund's development goals as well as failing to act as a responsible investor. Norfund has to manage a range of different risk factors.

Certain risk factors cannot be mitigated and have to be accepted through the nature of the investments taken on. Other risk factors have to be accompanied with a clearly defined line of action in order to be reduced.

All major risks must be **understood, managed and mitigated** in a way that is fit for the purpose and scale of Norfund as an organization. This applies for the risks we are willing to take as part of Norfund's mandate as well as risks related to how we operate and run our investment and other operational processes where the risk tolerance is lower.

The risks we are **willing to take** are primarily about **where, in what and with whom we invest**. This is essential to deliver on our development mandate:

- Country & political risk based on our mandate – such as in Sub-Saharan Africa and other LDCs
- Climate risk (physical and transition) that is inherent in our markets
- Equity/financial risk to achieve sustainable development impact and positive financial return
- Currency risk including local currency exposures
- Risk in investing in greenfield projects, venture, SMEs and micro-finance
- Exit risk by investing in equity, and equity funds
- First mover in new markets and sectors where the potential for development is high

We **manage** these risks by market insight, local presence, and portfolio diversification. Norfund seeks to have a diversified portfolio of countries, instruments, currencies and sectors, thereby being able to reduce the impact of adverse events in one or more markets.

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The risks that we must **seek to minimize to an acceptable level through mitigation, and if uncovered triggers an active response**, are primarily about **how we operate and run our investment and other operational processes**. This enables us to responsibly and prudently take on the risk appetite implicit in our mandate.

- Business integrity risk, including appropriate governance structures and zero tolerance for corruption
- Risks related to environmental, social and governance (ESG) compliance, as well as climate risk at investee level
- Risks connected to the health, safety and wellbeing as well as security of our employees
- Security and integrity of our IT-systems
- Integrity and reliability of our financial controls and payment systems

We **minimize** these risks by designing and implementing appropriate systems and processes, regular training, contractual requirements, internal control and compliance.

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