Policy	Norfund		
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Norfund's Risk Appetite

Norfund's mission is to create jobs, improve lives, and support the transition to net zero by investing in businesses that drive sustainable development. This implies taking risks both by investing in high-risk countries, and in enterprises that do not necessarily meet the standards required by Norfund as a professional investor at the time of investment. Our Risk Appetite Statement outlines the levels of risk we are willing to accept to achieve our strategic objectives while ensuring responsible and prudent management of our investments and operations.

The risks are structured into three categories: Strategic Risks, External Risks, and Operational Risks.

By clearly defining our risk appetite across these three dimensions, we aim to maintain a positive and risk-reflecting internal rate of return (IRR) over time, thereby strengthening our ability to continue making impactful investments while safeguarding our organizational integrity and performance.

This document constitutes the highest level of the Norfund Enterprise Risk Management Framework and defines overall risk acceptance levels through appetite statements for key risks related to the three risk categories. The risk appetite statements shall provide guidance for risk management in our daily operations, indicating the level to which risks must be managed. The acceptance levels conveyed in the risk appetite statements are always defined within the limits set by risk tolerance.

Risk Categories:

Strategic Risks are risks we face in pursuit of achieving our strategic objectives. These risks are driven by our decisions and actions and have both upside and downside potential. Effective management of these risks can lead to significant benefits, while poor management can result in substantial setbacks.

External Risks are driven by external factors that can surprise us. They are purely externally driven and have significant downside potential. These risks can also present opportunities if we plan well for them. Managing external risks involves monitoring actively, anticipating and preparing for unforeseen events.

Operational Risks are related to our day-to-day operations and have only downside potential. They are driven by our potential lack of operational excellence. Operational risks can be mitigated significantly, but it requires investment and is a cost/benefit question. Mitigating measures must be prioritized based on assessment of probability and consequence.

Risk Category	Key Guiding Question	Risk driven by	Consequences	Risk managed by	Examples
Strategic Risk	What must we succeed with?	Our business needs Our decisions	Upside and downside	Awareness, measuring and monitoring	Investment Portfolio Design, Stakeholder Management, Strategic Partnerships
External Risk	What can surprise us?	External factors that we cannot control	Upside (possibility if well prepared) or downside	Monitoring and planning	Climate, Country Risk and Macro Economic factors
Operational Risk	What can go wrong?	Factors within our control	Downside	Mitigating measures, prioritized by assessing probability and consequence / impact	Operational Security, Human Capital Risk, Compliance Risk

Risk Acceptance Levels:

Risk Acceptance refers to the degree of risk that Norfund is willing to bear in pursuit of its strategic objectives. When risks are identified that exceed our accepted levels, managing measures must be implemented to reduce the inherent risk to an acceptable level. This ensures that the remaining risk, after mitigation, aligns with our defined risk appetite. The following levels describe what characterizes the risk levels we accept and give direction for whether corresponding measures must be taken to manage risks.

Low Risk: Risks that have, or have been mitigated, so that they have low consequences and/or low probability. These risks are managed so that they are unlikely to significantly impact our objectives or operations.

Moderate Risk: Risks that have, or have been mitigated, so that they have moderate consequences and/or moderate probability. These risks are managed so that they have a balanced potential for impact, requiring careful planning and mitigation strategies. Examples include economic fluctuations that could affect our financial performance but can be managed with strategic adjustments.

High Risk: Risks that have potentially devastating consequences and high probability (are likely to occur). These risks are significant, but also essential for achieving our strategic objectives. Examples include investing in high-risk countries where political instability could severely impact operations.

Risk Appetite Statements:

Strategic Risks: What must we succeed with?

1. Investment Portfolio Design: We accept a moderate level of risk when executing our investment process to achieve satisfactory development effects. This approach balances the need for financial viability with the pursuit of innovative, impactful and high-potential projects. Our risk acceptance is guided by targeting and selection of countries, instruments (equity and credit risk), sectors, and overall asset diversification. We aim to navigate inherent risks to ensure an impactful, positive and risk reflecting internal rate of return (IRR) over time.

2. Commercial Partnerships, Investees and Co-investors: We accept a moderate level of risk in identifying and engaging with commercial partners who align with our market objectives and help achieve our target Internal Rate of Return (IRR). This approach balances the need for financial viability with the pursuit of innovative and high-potential collaborations. Our risk acceptance is guided by risk assessments per investment, thorough due diligence and vetting processes, monitoring, and adherence to ethical standards, ensuring that our partnerships contribute to our mission and deliver long-term value.

3. Governance, External Expectations and Stakeholder Management: We are committed to maintaining transparent and proactive communication, recognizing the potential political influences of our operations. We accept a moderate level of risk in our stakeholder management practices to ensure stability and operational freedom. This approach allows us to pursue positive investments and achieve our target Internal Rate of Return (IRR) while aligning with governmental priorities. Our risk acceptance ensures that our operations remain resilient and effective despite changing political landscapes.

External Risks: What can surprise us?

4. Country Risk: We accept high country risk, aligning with our mandate to invest in high-risk countries. These investments are critical for achieving our development goals, while also generating positive returns. We manage these risks by continuously monitoring country risk, diversifying the portfolio across many countries and defining maximum exposure per country.

5. Geopolitical and Global Regulatory Risk: We accept a high level of geopolitical and regulatory risk, while recognizing the inherent risks associated with evolving regulatory landscapes. We manage these risks by monitoring, interpreting and acting promptly according to regulatory changes, and changes in our framework conditions as they occur.

6. Climate Risk: We accept high climate risk, both physical and transitional, inherent in our markets. We actively engage with investees on climate-related risk mitigation. Addressing these risks is vital for long-term sustainability and financial performance.

7. Currency Risk: We accept high currency risk, including local currency exposures, to support our investment activities in diverse markets. We manage these risks through diversification, by monitoring currency fluctuations and macroeconomic development in the countries we operate, and limiting the currencies associated with the highest risk.

Operational Risks: What can go wrong?

8. Investment Process Risk: We accept low risk in our investment processes, recognizing the challenges in identifying and executing opportunities that align with our mandate, while striving for efficiency and favorable exits. Effective management of these risks is achieved by striving for operational excellence through flexible and risk-based approaches, and includes targeted training, awareness raising, continuous improvement of our investment manual and implementing pertinent quality controls.

9. Operational Security Risk: We accept low operational security risk, implementing robust measures to prevent and detect threats that could result in data breaches, asset loss, or reputational damage. Mitigating these risks is essential for maintaining trust and operational integrity.

10. Human Capital Risk: We accept low human capital risk, protecting the safety, health and well-being of people. We focus on ensuring a skilled workforce through reliable and solid leadership enabling accurate recruitment, targeted training, professional onboarding, and retention of talent to support organizational growth and performance.

11. Compliance Risk: We accept low compliance risk, ensuring sound governance structures. We manage these risks by implementing, awareness raising, training, testing and continuously improving our internal procedures and governing documents and reporting routines. This includes Investment Manual, Finance Manual, Business Integrity Management System (BIMS) and Environmental and Social management System (ESMS). Being ambitious and upholding these standards is critical for our reputation and operational success.