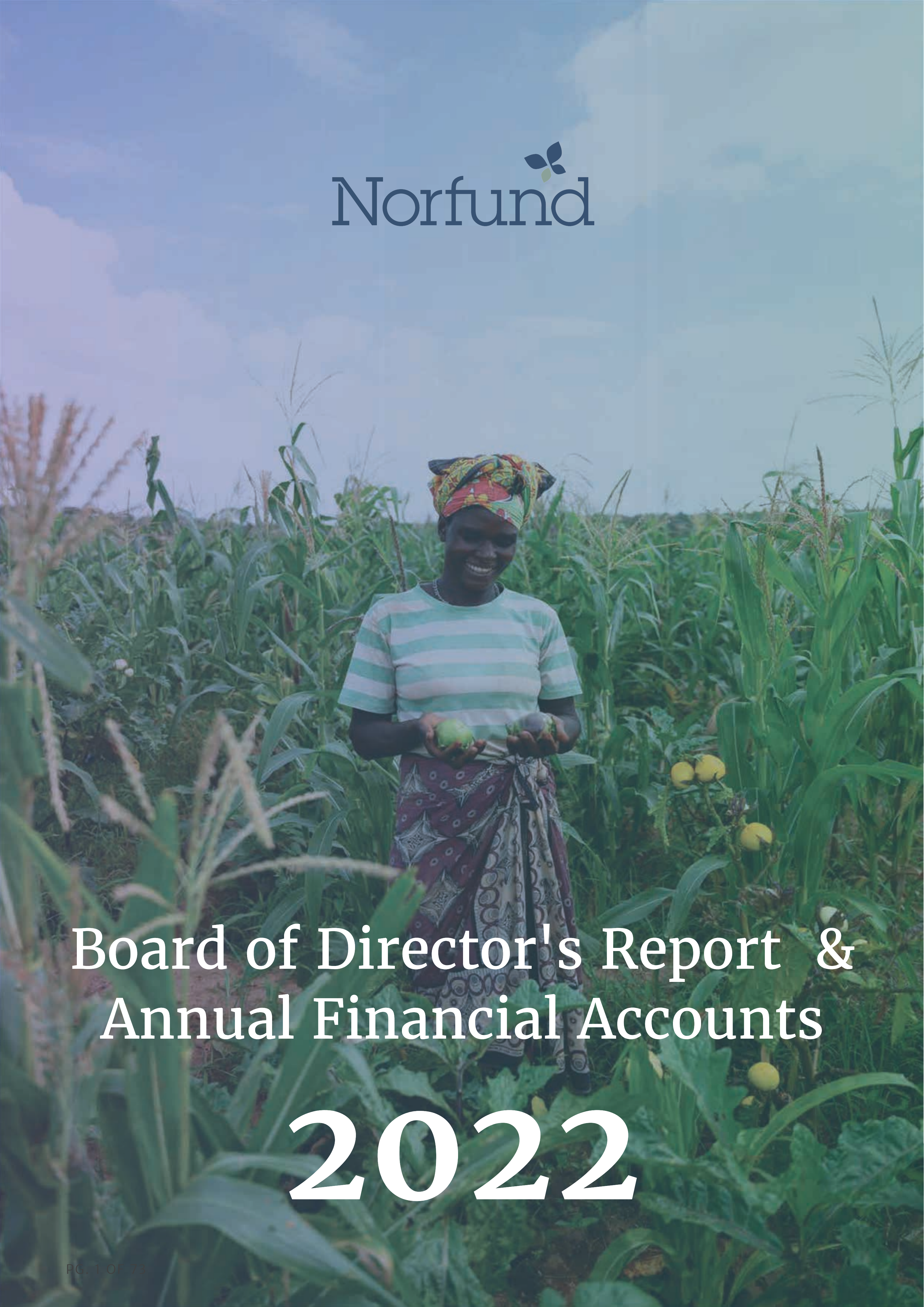

Norfund

Board of Director's Report & Annual Financial Accounts

2022

Board of Directors' report

The president of Ghana stated in an address in May of 2022 that, “Though the bombs are falling far away, they are hitting us here in Africa”, a pertinent observation of the fact that as with COVID-19, the impacts of the war in the Ukraine and macroeconomic instability are hitting hard in the poorest countries.

Following an economic rebound in 2021, the world economy was hit by inflation, rising interest rates and a slowdown in economic growth in 2022. The Russian invasion of Ukraine drove up the prices of energy, food and fertilizers in particular. According to the World Bank, inflation reached almost 10 per cent in emerging and developing economies (EMDEs), its highest level since 2008, and in advanced economies it reached just over 9 per cent, the highest since 1982.

Monetary tightening, rising interest rates and risk aversion led to depreciation of many currencies and capital outflows from many EMDEs. While food prices eased somewhat toward the end of 2022, food price inflation remained very high in some EMDEs. For Low Income Countries (LICs) the number of people living in food insecurity increased from around 92 to 104 million people between 2021 and 2022. This is further exacerbated by a significant increase in the number of extreme weather-related events in LICs.

Increased poverty and an inequitable distribution of global investments heightens the need for Norfund’s activity. The International Energy Agency has reported that clean energy investments grew by 8 per cent in 2022, but half of this increase is linked to rising costs. However, the growth is concentrated in advanced economies with EMDEs stuck at 2015 levels. This illustrates the importance of the establishment of the Climate Investment Fund.

In 2022 Norfund increased its investment in developing countries by 22.5 per cent, to another record-high 6.5 billion NOK. This was possible through a combination of available funds from the sale of SN Power (completed in 2021), recycling of funds through selling assets and stable, annual capital injections from the Norwegian government.

With continued capital injections from the Norwegian government, Norfund is in a position to maintain a high level of investment in the years ahead.

About Norfund

Norfund's mandates and strategy

Norfund was founded in 1997 as Norway's key instrument for promoting investment in developing countries. The fund's mandate is to contribute to the development of sustainable business and industry in developing countries by providing equity and other risk capital and furnishing loans and guarantees. The aim is to establish viable, profitable businesses that would not otherwise be initiated because of the high risk involved.

In addition to Norfund's original development mandate given in the Norfund Act, Norfund was in 2022 assigned the management of the Climate Investment Fund on behalf of the Norwegian state. The aim of the fund is to accelerate global energy transition by investing in renewable energy in developing countries with large emissions from coal and other fossil power production. The new mandate builds on Norfund's long track record of investing in renewable energy and there are considerable synergies between the two mandates. The fund is managed according to a separate instruction issued by the Ministry of Foreign Affairs, anchored in a revision of the Norfund Act. This means that Norfund now has two mandates – a development mandate and a climate mandate.

The mission of the ***development mandate*** is to create jobs and improve lives by investing in companies that contribute to sustainable development. Here, Norfund has four investment areas, the largest being Financial Inclusion, which invests in banks, microfinance, as well as insurance and fintech. The second largest is Renewable Energy, which invests in solar, wind and hydropower plants as well as distributed energy solutions. Scalable Enterprises covers investment in the agricultural value chain, manufacturing industry and funds. Green Infrastructure covers investment in water supply and waste management. Each investment area has ambitions that contribute directly and in a measurable way to the achievement of the UN Sustainable Development Goals. Under the ***development mandate***, Norfund prioritises investing in countries where capital is scarce, such as Least Developed Countries (LDCs) and Sub-Saharan Africa and is primarily an equity investor. Further, the Ministry of Foreign Affairs has decided that approximately 60 per cent of capital injections from the state budget should over time be invested in renewable energy (starting as of 2022).

For the ***climate mandate*** the mission is to contribute to the transition to net zero in emerging markets. Here, Norfund invests primarily in large-scale renewable power plants as well as commercial and industrial energy solutions. Also for this mandate, Norfund prioritises equity. For the climate mandate, the geography is primarily middle-income countries where the potential to avoid large-scale greenhouse gas emissions is significant.

Under ***both mandates***, Norfund strives to be a responsible owner, tailoring our engagement to the industry, instrument and risk level of our investment. For some investments (such as equity investments with a substantial stake), we will take an active role, for others (such as loans to banks), we will be less active, but still ensure that we are a responsible owner with high ethical standards. We will always seek to exit when our role as investor is no longer needed so that capital can be recycled and put to work in new investments.

For all of Norfund's investments we collaborate with and rely on strong, local partners. These partners are the companies in which we invest, their owners, management teams and employees as well as our co-investors, both locally and internationally. This is core to our model and to how we can invest responsibly and with healthy returns in our markets.

Financing

Norfund is financed through annual capital allocations from the Norwegian government and the surplus generated by its investment activities. In 2022, government allocations amounted to 1.7 billion NOK to the development mandate and 1 billion NOK to the climate mandate. In addition to the capital allocations, Norfund received a grant of 15 million NOK for the Business Support programme. As of 31 December 2022, Norfund's committed portfolio amounted to 31.65 billion NOK. The return in the form of interest and return on investment, repayment of loans and realisation of earlier investments makes up a growing share of the Fund's available investment capital and enables Norfund to increase the volume of its investment and contribute to even stronger development and climate effects going forward.

Additionality

Most countries in which Norfund invests hold limited attraction for international investors because the risk associated with them is considered too high. Norfund's expertise, willingness and ability to manage risk are therefore important for bringing capital to and succeeding in these countries. Additionality is therefore key to how Norfund invests. The Fund is financially additional in that it supplies capital that businesses would otherwise have difficulty securing because of a shortage of capital and high risk. Norfund is value additional in that it contributes beyond the financial capital through active ownership, promoting environmental and social standards, and business improvements. Norfund is a minority investor and thereby also contributes to mobilising capital from other investors, both in Norway and worldwide. Norfund's additionality ambitions for the individual investments are registered and reported to the OECD Development Assistance Committee and reported on Norfund's website.

Investments and results in 2022

Investments and results in 2022 – Development mandate portfolio

In 2022, the development mandate delivered an estimated return, measured as IRR,[1] of 5.1 per cent measured in the investment currency and 14.8 per cent measured in NOK. Since its inception, the portfolio has had an IRR of 5.1 per cent measured in investment currencies and 8.1 per cent measured in NOK. The profitability of the portfolio was in line with expectations. As of end 2022, committed portfolio was 29.5 billion NOK, an increase of 2.6 billion NOK. The rise reflects this year's commitments and FX effects due to the weakening of the NOK, with the transfer for one project to the climate mandate and a significant exit tempering the increase.

For the development mandate, Norfund committed 4.5 billion NOK and made 34 new and 18 follow-on investments. Investments were broadly distributed within Norfund's investment areas, with 1.8 billion NOK in Financial Inclusion and 1.1 billion NOK in Renewable Energy. Direct investment in Scalable Enterprises (agricultural value chain and manufacturing) amounted to 839 million NOK, and 680 million NOK was invested in Scalable Enterprises through funds. The newest investment area Green Infrastructure remains small, with 139 million NOK invested in 2022.

Investment in LDCs accounted for 37 per cent of the portfolio at the end of 2022, while investment in Sub-Saharan Africa accounted for 63 per cent of the portfolio. Equity investment accounted for 74 per cent of the portfolio at the end of the year. The new Renewable Energy KPI ended at 64 Per cent at the end of 2022. Norfund's portfolio is thus well within the key performance indicators set by the Board, which stipulate that at least 33 per cent of the portfolio must be in LDCs, 50 per cent must be in Sub-Saharan Africa, 70 per cent in equity, as well as approximately 60 per cent of capital allocations to Norfund over time should be invested in renewable energy.

Norfund's investments contribute directly to the attainment of the UN Sustainable Development Goals. For the development mandate, these are SDG 1 (No poverty), 7 (Affordable and clean energy), 8 (Decent work and economic growth) and 9 (Industry innovation and infrastructure. Each year, Norfund gathers data on development effects in our portfolio companies. These include companies we are invested in both directly and indirectly through platforms and funds. The data is gathered based on harmonized indicators. In 2022 Norfund received data from 915 companies (a 97% response rate) for the Development Mandate. To highlight the actual development in portfolio companies, we also report changes from 2021 to 2022 for those which were part of the portfolio and reported also 2022/2021 data (71%).

At the close of 2022 there were a total of 514,000 jobs in Norfund's portfolio companies. 60% of these were in Africa, and 28% were in Least Developed Countries. Women held 37% of these jobs; youth under the age of 25 held 18% of them. There was a net increase of 24,500 new jobs in Norfund's portfolio companies in 2022, equivalent to a 7% increase, the largest part being in Africa. Taxes and fees paid by portfolio companies constituted 23.2 billion NOK, of which 17 billion NOK was paid in Africa.

Norfund uses the Joint Impact Model to estimate the indirect effects of our investments. These estimates show that the ripple effects of Norfund's investments both backwards (value chain and suppliers) and enabled (effects of access to finance and energy) are substantially bigger than the direct effects. It should be noted though that these numbers are modeled estimates and come with a significant degree of uncertainty.

As part of the Norfund strategy for 2019-2022 ambitions were set for each investment area to reflect accumulated organic growth (that is, development in the companies after

Norfund invested) on sector-relevant parameters. Clean energy delivered above ambitions with access to energy at 7.6 million new households (2022 goal: 1.5 million) and new capacity financed at 5.3 GW (2022 goal: 5 GW). Financial Institutions also delivered above ambitions with 32.1 million new banking clients (2022 goal: 15 million clients) and an increased loan portfolio of 195.9 billion NOK (2022 goal: 130 billion NOK). For Scalable Enterprises, the situation was more challenging, particularly due to COVID-19. Ambitions were not met, with increased revenues for portfolio companies at 1.1 billion NOK 2022 goal: 2 billion NOK) and 32,300 new jobs created (2022 goal: 50,000).

All numbers for development effects are unattributed, meaning they show the total effect of Norfund's portfolio companies and do not account for Norfund's ownership stake. More comprehensive information on Norfund's development effects is available in the annual report.

[1] *IRR in Norfund is at a gross rate as costs related to investing in the instrument such as due diligence, evaluation and other direct or indirect costs are not considered.*

Investments and results in 2022 – Climate mandate portfolio

The climate mandate became operational in 2022, making it too early to report meaningful numbers on financial returns. At the end of 2022, the total committed portfolio was 2.14 billion NOK. The investments were primarily in large-scale integrated power producers (IPPs), and one in transmission. For the climate mandate, the board has set an indicative risk threshold for individual country exposure of 25 per cent. 2022 was the first year of investment and the fund invested in only two countries (India and South Africa), which means it is too early to apply the risk threshold.

Also for the climate mandate, Norfund's investments contribute directly to the attainment of the UN Sustainable Development Goals. These are SDG 13 (Climate action), 7 (Affordable and clean energy) and 8 (Decent work and economic growth). For 2022 Norfund contributed to financing 2 443 MW renewable energy and estimated ex ante avoided greenhouse gas emissions of 6,2 million tonnes CO2 equivalents. This is in line with the ambitions for the strategy period for the climate mandate (2022-2026) of 9 GW renewable energy financed and 14 million tonnes of avoided emissions. Due to the fact that only a limited number of companies in the climate mandate portfolio reported data for 2022 it is not possible to report on jobs and taxes. This will be reported for 2023. As for the development mandate, this numbers are not unattributed.

Review of the financial statements

Norfund ended the year with an operating income of 1070 million NOK and a positive result after tax of 2.243 billion NOK. We received total dividends of 421.2 million NOK where KLP Norfund Invest AS (138 million NOK), Agua Imara (92 million NOK), Klinchenberg B.V. (82 million NOK), a joint venture with Scatec, and Arise B.V. (33 million NOK), were the most significant. Interest income has increased significantly to 475 million NOK as we have achieved a growth of 28 per cent of our loan portfolio in local currency, while floating interest rates have soared as national banks have increased their interest rates from around zero to levels we have not had since prior to the financial crisis. However, the most significant effect on income and financial statements for 2022 is the significantly weaker NOK with a 11.8 per cent decrease against USD, our main currency. The historically weak NOK results in a higher value of investments and cash holdings converted into NOK. This shows the significant impact that NOK fluctuations have on income and financial statements, an effect that will be reversed if there is a similar strengthening of the NOK. To the board, however, the relevant indicator is IRR measured in local currency as this better captures Norfund's underlying performance.

While some investment areas have seen improvements as COVID-19 restrictions have been lifted, repercussions of the pandemic as well as the Russian invasion of Ukraine have led to high inflation rates in many markets, with negative effects on our investments and subsequent write-downs. Further, as the situation in Myanmar remains challenging, we have further written down our investments in the country with NOK 63 million and have now written down an average of 72 per cent of these assets. All in all, we have accounted for net write-downs of 243 million NOK in 2022.

Last year, overall labor costs rose by 14 per cent, to 180 million NOK, after further strengthening both corporate and investment departments to be able to deliver on the climate investment mandate. This also means increases in the other cost areas, but on balance within the expectations for 2022. Travel costs remained at a lower level than we expected as travel has been still restricted throughout the first quarter of 2022.

Norfund's overall balance at the end of 2022 was 37.4 billion NOK, an increase of 4.9 billion NOK on 31.12.2021. The total earnings added to the earned equity amounted to 2.2 billion NOK. As of 31.12.2022 the net asset value, based on the estimated market value of Norfund's portfolio, was 39.8 billion NOK.

At the end of 2022, Norfund had outstanding, undisbursed commitments totaling 8.5 billion NOK. Cash holdings were 5.5 billion NOK, in addition to current assets of 8.3 billion NOK. When the Climate Investment Fund was established, 5 billion NOK of Norfund's cash and current asset reserves were reserved for this purpose. The Board regards liquidity as sound and confirms that the going concern assumption applies. In the opinion of the Board of Directors, the financial statements for 2022 provide a true and fair view of Norfund's financial position.

Organisation, environment and corporate social responsibility

Corporate governance

The General Assembly is Norfund's supreme body. Corporate governance is exercised through decisions taken by the General Assembly, including the adoption of and any amendments to the Norfund statutes. In 2022 an extraordinary general meeting was held to pass a resolution to amend Norfund's statutes to include a new article on the management of the Climate Investment Fund and raise the expectation on Norfund's investments in renewable energy. In addition, a resolution was passed to formalise the governance instructions for the Climate Investment Fund. These resolutions were anchored in a revision of the Norfund Act, passed by the Norwegian parliament, to reflect the fact that Norfund has now been tasked with managing the new fund. The Norwegian Ministry of Foreign Affairs receives quarterly reports, and four contact meetings are held through the year. Norfund's Board of Directors is elected by the General Meeting, and two members are elected by and among the Fund's employees. The Board consists of nine members. In 2022, the Board held a total of eight Board meetings. In addition, the Board travelled to London and Cambridge for a session on Norfund's role in a changing world and meetings with key partners. Norfund has taken out a Directors and Officers Liability Insurance with AIG.

Norfund has a framework of governing documents ranging from the Norfund Act and statutes to policies adopted by the board, guidelines for important areas, to procedures for the conduct and follow-up of investment activities. The structure is geared to Norfund's activities. The Investment Committee considers investment proposals and contributes to quality assurance. In 2022 the committee consisted of eight members, two of whom are external. The Credit Committee considers and approves loans to financial institutions and consists of five members, one of whom is external. Both committees are authorised to approve individual investments of between 4 million USD and 20 million USD. Both committees also submit their recommendations for investments of over 20 million USD, but it is the Board that approves them. Investments of less than 4 million USD are considered and approved by the management.

Risk management and internal control

It is at the core of Norfund's mandate to take risk. The risks taken and how these are managed are set up in Norfund's risk appetite statement. This statement describes two categories of risks. The first is about where and in what Norfund invests (such as markets, instruments, and currency risks). These risks are managed by market insight, local presence, and portfolio diversification. The second category is risks related to how investment partners are selected and how Norfund operates and runs investment and operational processes (such as risk of corruption, ESG compliance and health & safety). These risks are minimized by designing and implementing appropriate systems and processes, regular training, contractual requirements, internal control and compliance. The risk appetite statement was updated in 2022 to also include climate risk.

In 2022, Norfund worked to strengthen and operationalise the recently introduced risk management initiatives. This includes the systematic use of the framework for Enterprise Risk Management (ERM) which is a tool for the management and board to identify, monitor and manage key operational risks. Under the current framework, the risk overview is updated and reported to the management team, Risk and Audit Committee and the Board every six months. IT security continued to be a priority and a new IT strategy was developed. An external audit of the IT operations was performed, concluding that governance and control of the IT operations and IT security has been significantly improved.

Financial operations continued to streamline processes and implemented further checks and segregation of duties to minimize risk of fraud and unintended error, especially regarding payments. A new accounting system was introduced in 2022 to improve overview of the daily business and to enable automatization of processes and reconciliations to reduce risk with manual tasks.

Norfund has developed a country risk tool to assess, understand and manage country risk. This tool enables Norfund to monitor portfolio exposure by country and the risk level of the country with respect to political, economic, E&S and business integrity. Based on the country risk tool the board has set risk thresholds on exposure to individual countries and groups of countries. The country exposure under both the development and climate mandate are in line with the indicative risk thresholds set by the board.

Norfund has zero tolerance for corruption and financial irregularities in its portfolio companies. There were six reports of purported financial irregularities in the portfolio, of which two cases were documented irregularities and four cases remain unsubstantiated allegations. Norfund has established systems for preventing, reporting and handling irregularities in its portfolio. One of the confirmed cases was reported further to the Ministry of Foreign Affairs.

In addition to the reports on purported financial irregularities from our portfolio companies, Norfund received a total of six whistleblowing reports through our externally managed whistleblowing channel. Norfund has followed up, maintaining confidentiality and integrity of the whistleblowers in accordance with internal procedures. No allegations or claims raised through the whistleblowing channel in 2022 have led to any further criminal or formal proceedings. A dedicated business integrity week was launched in 2021 and carried out for the second time in 2022 with corruption as the main theme.

Organisation and operational efficiency

Norfund has experienced substantial growth over the past few years, both in new investments, size of portfolio and number of employees. As the organisation grows it has been necessary to strengthen corporate staff functions to ensure that the growth is monitored and supported sufficiently. Recruitments during 2022 have primarily been related to the responsibility for the climate mandate as well as increased expectations and requirements for measurement and reporting. The regional offices have also grown, reflecting the ambition to primarily grow the organisation close to the markets in which Norfund invests. In 2022 Norfund initiated a cost efficiency study, mapping Norfund against a selection of other DFIs. Preliminary findings show that Norfund is among the most cost efficient, as measured by the share of operational costs of committed capital. Norfund's ambition is that this number will remain below the average of comparable development finance institutions. This, combined with the efforts to strengthen and improve processes as described under «Risk management and internal control» will going forward strengthen Norfund's work on operational efficiency.

Increased complexity due to organisational growth has been defined as a key risk. Acknowledging that a specific and concrete corporate culture is paramount to ensure that the organisation develops and grows smart, Norfund initiated a project in 2022 to further strengthen the corporate culture. This resulted in *The Norfund Way* – five action driven values that describe the attitudes and behaviours we believe are most important to promote and deliver on Norfund's mandate.

By year end 2022 Norfund had 127 employees; of those 121 are permanent positions, representing 24 nationalities. Strong regional offices with experienced teams that are close to our markets are vital to succeed with Norfund's investment strategy. In addition to the office in Oslo, Norfund consists of five regional offices in Accra, Cape Town and Nairobi in Africa, Bangkok in Asia, and San José in Central America.

The activity duty and the duty to issue a statement (aktivitets- og redegjørelsesplikten) is provided in a separate report on the Norfund website, available under the annual report. Norfund has guidelines for recruitment, competence building and gender equality and procedures for employee follow-up and remuneration. In 2022, "desk swap" was introduced, whereby employees can work at a different office for a short period of time. The aim is to strengthen company culture and promote learning across the organisation as well as increase employee motivation. In 2022, 10 employees were assigned to desk swaps.

Norfund is hiring more young employees, and the average age has fallen from 41.4 in 2019 to 40.4 in 2022. The gender balance remains stable with 48 per cent female and 52 per cent male employees. In 2022, Norfund had 23 new employees, 48 per cent women and 70 per cent aged 30 or under. The internal network "Young Norfund" ran a self-leadership training and provided an arena for young employees to develop professional skills and share experience. In 2022 Norfund continued the internship programme, which aims to enhance diversity and support employer branding. Six students/recent graduates participated.

Sick leave in 2022 amounted to two per cent of working hours. This is one per centage point lower than in 2021, and the Board of Directors does not deem it necessary to implement special measures relating to the working environment or designed to promote the aims of the Norwegian Anti-Discrimination Act and Anti-Discrimination and Accessibility Act.

In 2022, Norfund continued to monitor salary levels across functions, including conducting an annual gender pay gap analysis. Following the adjustments that were made in 2021, no further adjustments were required in 2022. Guidelines for executive pay and reports on salaries and other remuneration of senior executives are both published on the Norfund website.

Corporate social responsibility

Social responsibility is a foundation for Norfund's activities, both for its own operations and the portfolio companies. The cross-cutting considerations of Norwegian development policy – human rights, gender equality, anti-corruption, climate and environment – all form part of these efforts.

Norfund has significantly strengthened its work on climate in 2022. The ambitions and actions in this area reflect owner expectations and the fact that Norfund is an investor in developing countries, which presents different challenges and opportunities than for organisations in more developed markets. Norfund is aligned with the other European DFIs in its commitment to net zero by 2050, aligning all new investments with the Paris agreement and assessing climate risk for all new investments. Norfund also reports in line with TCFD. In 2022, improvements were made to strengthen climate competence and integrate risk assessments into the investment process. Integrating climate effectively is challenging and this work will continue in the coming years.

With regards to Norfund's own operations, Norfund was certified as an Eco-Lighthouse (Miljøfyrtårn) in 2022 and uses this framework to improve our internal environmental performance. Emissions from operations and the process to estimate emissions from the investment portfolio can be found in Norfund's annual report.

For the ***development mandate***, there is a requirement that approximately 60 per cent (previously 50 per cent) of capital allocations from the government should over time be invested in renewable energy, an important contribution to mitigating climate change. In line with the mandate, the organization will also continue to prioritise the least developed countries and Sub-Saharan Africa, which are expected to be hardest hit by climate change.

For the ***climate mandate***, established in 2022, the mission is to avoid greenhouse gas emissions and hence this is a cornerstone of Norfund's contribution to mitigating climate change.

Norfund works systematically with environmental and social (E&S) risk throughout the investment process, applying the environmental and social standards of the International Finance Corporation (IFC). The IFC standards are tailored to investments in developing countries. By applying these operational standards, Norfund meets the expectations of responsible business conduct in Meld. St. 8 (2019–2020) (The state's direct ownership of companies) including the expectation that due diligence should be performed to avoid harm to people, society or the environment as described in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGP). In 2022, EDFI published a summary statement on human rights that describes the DFIs' ambitions and commitments in this important area, including support for the Guiding Principles on Business and Human Rights (UNGP). In 2022, Norfund's work on E&S was further strengthened by the expansion of our ESMS (Environmental and Social Management System), development of a new E&S monitoring system as well as recruitment (9 FTEs now work as dedicated E&S advisors) and competence building (improved mandatory E&S training for all investment staff).

Good working conditions are a requirement for all companies in Norfund's portfolio. Norfund monitors health, safety and environment (HSE) in all its investments, with a particular focus on training and compliance with HSE procedures. The investment agreements contain a requirement that serious accidents and fatalities must be reported. In 2022 Norfund regrettably experienced 13 fatalities in directly held portfolio companies. Seven of the fatalities were the result of traffic accidents. These incidents are reported to the Board, and in special cases also to the Ministry of Foreign Affairs. One of these was reported to the Ministry of Foreign Affairs. Norfund follows up all fatalities related to its investments to ensure that they are investigated, that safety procedures are modified if necessary, and that the next of kin receive the compensation to which they are entitled.

Norfund has a firm policy on responsible tax which is aligned with the European DFIs based on a review conducted in 2021, operational adjustments, including more focus on tax structure elements and adjustments in the investment manual, were initiated in 2022. There was substantial investment in funds and companies with regional outreach in 2022, and hence extensive use of third countries also in 2022.

Norfund has a Business Support Program funded by the Ministry of Foreign Affairs. The purpose of this facility is to enhance the development effects of investments. For example, Norfund supports capacity development and climate adaptation training for smallholder farmers and digitalization of a training program for women entrepreneurs. In 2022, 19 new Business Support projects were approved, a total of 27.4 million NOK was committed, and the portfolio consisted of 54 active projects.

In 2021 Norfund signed up to the "2X Challenge", designed to promote investors' work for equal opportunities in their investment activities. In 2022, the primary focus was to strengthen implementation of the Norfund's gender position by enhancing the investment process and working through the business support program. As a result, 2022 saw an increase of Business Support projects focusing on this issue. Dialogue with external stakeholders continued.

Norfund regularly engages in dialogue and collaborates with civil society organisations and other partners. In 2022, a dialogue meeting on Norfund's impact took place with all interested organisations, and several bilateral meetings were held with individual organisations on issues such as climate and environment, gender equality, child labour, microfinance and job creation.

The Norwegian parliament established a separate Project Development and Risk Mitigation Facility (PDRMF) in 2019, renamed the Frontier Facility to better communicate its purpose in a simple way. Through this, Norfund can provide early-stage project development and risk mitigation. The facility is used for projects with higher risk than the investments in Norfund's core portfolio and is managed separately. The current portfolio consists of eight projects with 94.8 million NOK committed. In 2022 one PDRMF project was converted into an equity investment, which allowed for a replenishment to the facility of 26.8 million NOK.

Outlook for the future

The UN Sustainable Development Goals (SDGs) and the climate ambitions set out in the Paris agreement provide important guidelines for development going forward, also for Norfund. The funding gap to reach the SGDs was formidable in developing countries already before the COVID pandemic and the Russian invasion of Ukraine. The investment gap has now widened even more.

The economic outlook for developing countries is bleak. The World Bank estimates that over the next two years, per capita income growth in emerging and developing economies will average 2.8 per cent, a full percentage point below the 2010-2019 average. In Sub-Saharan Africa – which accounts for 60 per cent of the world's poor – growth in per capita income over 2023-24 is expected to average just 1.2 per cent, a rate that could cause poverty rates to rise, not fall. By the end of 2024, GDP levels in emerging and developing countries will be roughly 6 per cent below levels expected before the pandemic. The Bank further estimates that over the 2022-24 period, gross investment in these economies is likely to grow by 3.5 per cent on average – less than half the rate of the previous two decades. In fragile and conflict-affected areas, average per-capita incomes are expected to decline by 2024.

After the balance sheet date, there has been substantial turbulence in the financial industry where several banks, especially in Europe and the United States, face significant challenges. This has led to uncertainty in the financial markets. At the time of submission of the annual accounts it is the board's assessment that this does not present significant uncertainty for Norfund's financial position. Still, it should be underlined that this economic backdrop, combined with uncertainty about possible new corona virus outbreaks and the development of the war in the Ukraine creates instability and uncertainty, not least for Norfund's markets.

This situation entails new challenges for companies in Norfund's portfolio, but it also clearly shows the need for a patient, countercyclical investor like us. When capital flows are moving out of developing countries, Norfund's role becomes even more important. It also shows the importance of investing in the priority sectors, for example strengthening the agricultural value chains, not least in Sub-Saharan Africa, a region which is a large net importer of food. With the high energy prices and a return to fossil fuels in many parts of the world, it also positions the Climate Investment Fund as part of the solution to avoiding large-scale emissions from countries such as India and Indonesia.

Even in challenging conditions, Norfund's pipeline remains strong for both mandates. By the end of 2023, we estimate that the committed portfolio will be approximately 31.2 billion NOK for the development mandate and 3.6 billion NOK for the climate mandate. However, these numbers depend on market conditions and continued development of pipeline.

Norfund has revised its strategy for the 2023-26 period. Our mission now reflects the two mandates – development and climate: "Norfund invests to create jobs, improve lives and support the transition to net zero by investing in companies that drive sustainable development". The four investment areas for the development mandate – Renewable Energy, Financial Inclusion, Scalable Enterprises and Green Infrastructure – still address key development needs in our markets and will remain. The strategy for the new climate mandate has been developed to deliver on the mission to avoid large scale climate emissions. By clearly delivering on both our development and climate mandates, as well as understanding the interlinkages between the two, we have a strong foundation for continued growth in the next strategy period. The Fund is in position to keep its level of investment high in the years ahead but maintaining the investment level is contingent on continued annual injections of capital from the Norwegian government for both the development and the climate mandate.

As Norfund, we never succeed on our own, but rely on collaboration with our partners – our investees, co-investors, owner and other stakeholders. We are grateful for the trust that they have put in us in 2022 and will do our utmost to deliver also in 2023.

The Board views Norfund as well equipped to deliver on the strategy and goals that have been set, and thanks the management and employees for their important work through a demanding year. Norfund will continue to make an important contribution to the success of an ambitious development and climate agenda and contribute to creating jobs, improving lives and supporting the transition to net zero in the developing countries of the world.

Oslo, 8 May 2023

Olaug Svarva

Brit Rugland

Åslaug Haga

Jarle Roth

Lasse David Nergaard

Tove Stuhr Sjøblom

Martin Skancke

Karoline Teien Blystad

Vidar Helgesen

Income Statement

(Figures in 1000s of NOK)	Note	2022	2021
Interest income loans	2	474 888	297 674
Realised gains	2, 3	136 065	4 794 267
Dividends received	2	421 255	878 634
Other operating income	2	38 251	21 265
Total operating income		**1 070 459**	**5 991 841**
Operating expenses			
Payroll expenses	4	181 587	158 142
Depreciation fixed assets	5	3 639	2 767
Other operating expenses	4, 6	131 309	111 086
Total operating expenses prior to exchange rate adjustment of loans and write-down on investment projects		316 535	271 994
Adjustment for gain/loss on FX, project loans	2	791 555	198 299
Realised losses and net changes in value, investments	2	-242 788	-390 365
Profit/loss on operations		1 302 691	5 527 781
Net financial items	**7**	**948 402**	**295 171**
Profit/loss before tax		**2 251 093**	**5 822 952**
Taxes	8	-7 777	-7 655
Profit/loss for the year		**2 243 316**	**5 815 297**
Allocations			
Transferred to / from surplus fund	9	2 243 316	5 815 297
Total allocations		**2 243 316**	**5 815 297**

Balance

Balance Sheet Assets			
(Figures in 1000s of NOK)	**Note**	**2022**	**2021**
Assets			
Non-current assets			
Fixed assets			
Equipment and vehicles, fittings and fixtures, etc.	**5**	**5 764**	**8 132**
Total fixed assets		**5 764**	**8 132**
Financial fixed assets			
Pension plan assets	4	23 914	24 242
Total financial fixed assets		**23 914**	**24 242**
Total non-current assets		**29 678**	**32 374**
Current assets			
Receivables			
Other receivables	10	2 229 848	3 527 783
Total receivables		**2 229 848**	**3 527 783**
Investments			
Capitalised project development costs		0	8 717
Loans to investment projects	2, 11	6 470 661	4 803 865
Investments in equities and funds	2, 11	14 940 616	11 906 383
Other short-term Investments	12	8 272 899	7 996 748
Total investments		**29 684 176**	**24 715 713**
Bank deposits, cash and cash equivalents			
Bank deposits, cash and cash equivalents	12	5 499 614	4 237 965
Total bank deposits		**5 499 614**	**4 237 965**
Total current assets		**37 413 639**	**32 481 462**
Total assets		**37 443 317**	**32 513 835**

Balance Sheet – Equity and liabilities			
(Figures in 1000s of NOK)	**Note**	**2022**	**2021**
Equity and liabilities			
Equity			
Called and fully paid capital			
Primary capital	9	17 803 853	15 813 989
Reserve capital	9	6 152 502	5 464 214
Total called and fully paid capital		**23 956 355**	**21 278 203**
Retained earnings			
Surplus fund	9	13 121 368	10 861 015
Total retained earnings		13 121 368	10 861 015
Total equity		**37 077 723**	**32 139 218**
Liabilities			
Provision for obligations and charges			
Pension obligations	5	59 952	72 109
Total provision for obligations		**59 952**	**72 109**
Current liabilities			
Accounts payable		14 761	11 753
Taxes		1 329	0
Unpaid government charges and special taxes		13 712	11 538
Grants from the Ministry of Foreign Affairs	13	168 859	160 306
Other current liabilities	14	106 982	
Total current liabilities		**305 642**	**118 912**
Total liabilities		**365 594**	**374 617**
Total equity and liabilities		**37 443 317**	**32 513 835**

Oslo, 8 May 2023

Brit Rugland

Åslaug Haga

Jarle Roth

Lasse David Nergaard

Tove Stuhr Sjøblom

Martin Skancke

Karoline Teien Blystad

Vidar Helgesen

Cashflow Statement

(Figures in 1000s of NOK)	Note	2022	2021
Cash flows from operations			
Profit before tax		2 251 093	5 822 952
Taxes paid		-6 448	-7 655
Ordinary depreciation	5	3 639	2 767
Gain/loss (-) on sales		-136 065	-4 794 267
Reversal of write-down (-) / Write-down investment projects		242 788	390 365
Differences in pension expenses and receipts/disbursements, pension plan		4 004	121
Effect of exchange rate changes		-1 676 622	-220 016
Investments in fixed assets	5	-1 311	-2 456
Change in other accruals		1 298 953	-3 299 321
Net disbursements of grant capital	13	-6 296	-29 393
Net cash flow from operations		**1 973 735**	**-2 136 904**
Cash flows from investment activities			
Proceeds of sales/reflows from shares/holdings recorded at historical cost		906 904	12 160 721
Disbursements in connection with acquisition of shares/interests in other enterprises		-3 106 212	-3 098 611
Disbursements – investment loans		-2 238 992	-1 389 654
Receipts - repayment of principal, investment loans		1 309 212	1 207 133
Changes current investments	12	-276 151	-7 112 074
Net cash flow from investments		**-3 405 239**	**1 767 515**
Cash flow from financing activities			
Receipts - grant resources carried as current liabilities	13	15 000	32 000
Increase in/repayment of equity	12	2 678 152	1 678 152
Net cash flow from financing activities		2 693 152	1 710 152
Net change in cash and cash equivalents		1 261 648	1 340 762

(Figures in 1000s of NOK)	Note	2022	2021
Bank deposits, cash and cash equivalents at 01.01		**4 237 965**	**2 897 203**
Bank deposits, cash and cash equivalents at 31.12	**12**	**5 499 614**	**4 237 965**

Notes

Note 1 – Accounting policies

The financial statements for Norfund consist of the following:

- Income statement
- Balance sheet
- Cash flow statement
- Notes

In accordance with Section 25 of the Norfund Act the financial statements are presented in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles in effect at 31 December 2022. The financial statements provide a true and fair view of assets and liabilities, financial standing and results.

With effect from the 2022 accounting year, Norfund also manages the Government Climate Investment Fund for Renewable Energy in Developing Countries (Climate Investment Fund - CIF) on behalf of the Ministry of Foreign Affairs in accordance with instructions for management. The mission of the Climate Management Fund is to help to reduce or avoid greenhouse gas emissions by investing in renewable energy in developing countries. Resources are allocated over the government budget or from surplus capital. Norfund is to invest in its own name in appropriate financial instruments such as equity, loans, guarantees etc. Balance sheet and profit and loss items associated with the CIF are presented separately in the notes where relevant. Transactions related to the CIF will be subject to the same accounting principles as Norfund generally.

Fundamental principles

The financial statements have been prepared on the basis of fundamental principles governing historical cost accounting, comparability, the going concern assumption, congruence and prudence.

A more detailed account of the accounting policies is provided below. When actual figures are not available at the time the accounts are closed, generally accepted accounting principles require management to make the best possible estimate for use in the income statement and the balance sheet. Actual results could differ from these estimates.

Valuation and classification

The most important valuation and classification principles applied to Norfund's balance sheet and profit and loss items are described below.

- Transactions are recorded at their value at the time of the transaction.
- Revenue is recognised when it accrues and expenses are matched with the related revenue.
- Current assets/liabilities, including the bond portfolio, are recorded at the lower/higher of historical cost or fair value. The definition of fair value is estimated future sales price reduced by expected sales costs.
- Other assets are classified as non-current assets. Non-current assets are carried in the accounts at historical cost, with deductions for depreciation.

Some exceptions are made to the general valuation rules, and these are commented upon in relevant notes. When applying the accounting policies and disclosure of transactions and other items, the "substance over form" rule is applied. Contingent losses that are probable and quantifiable are expensed. The segmentation is based on Norfund's internal management and reporting requirements as well as on risk and earnings. Figures are presented for geographical markets, since the geographical distribution of activities is of material importance to the users of the financial statements.

Principles for revenue recognition

Operating income includes dividends, gain on sale of shares/ownership interests in other companies, interest on loans made to other companies, directors' fees and other project income.

Gains on sales of shares/ownership interests in other companies are recognised in the year in which the sale takes place.

Changes in the value of investments in funds are calculated for the individual fund as they arise. Receipts are recorded either as dividend or as reflow of capital which is deducted from the book value.

Interest is recorded as and when it is estimated to be earned. When loans to development projects are classified as problem loans, a decision is taken as to whether interest should continue to be recorded. If the evaluation indicates that interest cannot be expected, no accrued interest is recorded. In the event of known losses, recorded interest is reversed.

Front-end fees invoiced when a loan is set up are recognised over the life of the loan. If the loan is redeemed, any remaining part of the fee recorded on the balance sheet is taken to income.

Financial income and expenses

Interest on Norfund’s liquidity reserve in Norges Bank and other banks, plus income from other liquidity deposits and seller credit, is recorded as financial income.

Project development expenses

Development expenses are entered on the balance sheet when it is probable that they will lead to future investments and a positive return on the investment. Determining such probabilities entails using judgement based on experience and best estimate of future developments. In view of Norfund's investment strategy and geographical investment areas, expectations of future developments are shrouded in uncertainty.

Equity investments

Pursuant to Norfund’s Statute 12, Norfund’s injection of capital into a portfolio company shall not exceed 35 per cent of the company’s total equity. Norfund's share of the equity may be higher in special cases, but nonetheless such that the Fund's total equity holding does not exceed 49 per cent of the portfolio company's total equity.

Norfund treats its equity investments in other companies as current assets. In other words, the equity method is not used, even though Norfund’s shareholdings provide it with considerable influence. This is because the purpose with the investments is to dispose of all or part of each investment, normally after 3–10 years. According to generally accepted accounting practice, such investments are temporary by their very nature and should therefore be included under current assets.

Substantial uncertainty is associated with the valuation of Norfund's investments, which consist almost exclusively of equities that are not listed, or that are traded in nonliquid markets. Investments are valued on the basis of available information, in accordance with the International Private Equity and Venture Capital Valuation (IPEV) guidelines.

Equity investments in companies are valued at the lower of historical cost or assumed fair value in Norwegian kroner (NOK) on the basis of a concrete evaluation of each investment. Norfund makes individual valuations of all its investments, and adjusts the value on the basis of the assets' assumed fair value.

Because of the nature and volume of the investment portfolio, the management calculates estimates, makes discretionary assessments and makes assumptions that affect the book values of investments. Estimates of fair value are calculated continuously and are based on historical experience, known information and other factors that are regarded as probable and relevant on balance sheet date. No group write-downs are made on the company's equity investments.

When investments are exited wholly or in part, the gain/loss is calculated on the basis of the original cost in NOK compared with the exchange rate on the date of the exiting transaction. This means that gain or loss presented in the accounts will be a function of changes in exchange rates and the change in the value of the investment expressed in foreign currency. See also the section 'Forex items' below.

By "committed investments" is meant an external future commitment for a specified amount. Commitments are not entered on the balance sheet as they are uncertain, and Norfund may make them subject to the fulfilment of specific criteria.

Norfund often utilises various instruments – such as options, conversion options and so forth – in investment agreements in order to reduce risk. These are taken into account when valuing the individual investment.

Loans

Loans forming part of Norfund's investment portfolio are regarded as current assets and carried at amortised cost according to the straight-line allocation method.

When estimating write-down of loans, both the current and the anticipated future financial position of the borrower in question are considered. Key considerations when assessing whether the client will be able to repay the loan are for example the general market situation, company-specific factors, the risk of bankruptcy and associated collateral.

If it is laid down in the agreement, accrued interest will be capitalised and added to the principal.

Valuations and any write-downs are made for the individual loans. Group write-downs are not made on the company's loan portfolio.

There will be uncertainty associated with valuation of the loan portfolio and associated collateral.

Guarantees

In some cases, Norfund issues guarantees in connection with investments. Accounting provisions are made when the likelihood of the guarantee being invoked is 50% or higher. On the balance sheet, the guarantee provision is entered under 'Other current liabilities'.

Known losses on equity investments and loans

Losses as a result of insolvency, the winding-up of a company and the like, and losses on sale of shares are recorded as known losses.

Forex items

Bank deposits and other short-term investments are recorded at the exchange rate at the end of the accounting year, and any unrealised gain/loss on these is recorded as financial income or expense.

Unrealised exchange rate gain/loss on loans as part of the investment portfolio is presented as part of the operating results as gain/loss on exchange on loans to projects.

In the valuation of equity investments, changes in value as a result of the exchange rate are presented as part of the operating results.

Since 2021 Norfund has had a fair-value hedge against USD for a bond portfolio consisting of securities denominated in EUR and GDP as well as USD. Futures contracts are used as a hedging instrument, with daily settlements that are not recorded on the balance sheet, but are recorded on the income statement as they mature.

Bank deposits and other short-term investments

Liquid assets consist of bank deposits without any kind of binding.

Other short-term investments consist of instruments (time deposits, loans and bonds) with a longer or shorter fixed term intended for temporary placement of surplus liquidity intended for investment within Norfund's mandate. Interest income from these is recorded as other financial income.

Current receivables/Accounts receivable

Current receivables, seller credit and accounts receivable are recorded at their estimated value.

Fixed assets

Fixed assets are recorded at historical cost reduced by commercial depreciation based on the estimated economic life of the asset in question.

Leases

Rent paid under leases that are not recorded on the balance sheet is treated as an operating cost and allocated systematically over the whole term of the lease.

Equity

Norfund’s capital is divided into primary, reserve and surplus capital. This breakdown is made on the basis of the framework conditions for Norfund’s activities, which specify that the Ministry of Foreign Affairs must be notified if the institution’s losses are so great that its primary capital is affected. Any net profit is added to surplus capital, while any net losses are deducted from the surplus capital or from reserve capital if the former fund is insufficient to cover the net loss.

Government grants

Norfund receives government grants that are treated in accordance with Norwegian Accounting Standard 4 (NRS 4). In Norfund’s view, net recording of government grants received by the institution provides the best picture of the accounts.

Related parties

Two parties are related if one party can influence the other's decisions. Relations between such parties are regarded as normal in business.

Norfund's related parties are classified as investments, and Norfund buys services from or sells services to these companies. The company has direct transactions with a limited number of companies in its investment portfolio. There are some transactions of an administrative nature with companies we have a stake in, including Norfinance AS, KNI India AS and KLP Norfund Investments AS. All transactions are according to separate agreements and pricing based on the arm's length principle.

Deferred tax and tax expense

Norfund is exempt from tax pursuant to a separate section in the Taxation Act. In certain countries, Norfund is obliged to pay withholding tax on interest and dividends.

Cash flow statement

The cash flow statement is compiled using the indirect method.

Pension obligations and costs

Norfund has pension plans known as defined benefit plans which entitle employees in Norway to defined future benefits. In 2018 the company closed its defined benefit plan and introduced defined contribution plans for new employees in Norway. The company therefore has two different pension schemes for employees in Norway. In addition the company has defined contribution plans for employees at regional offices outside Norway.

Pension obligations are calculated on a straight-line earnings basis, taking into account assumptions regarding the number of years of employment, discount rate, future return on plan assets, future changes in pay, pensions and National Insurance benefits, and actuarial assumptions regarding mortality, voluntary retirement etc. The chosen principle is the IAS 19R option of NRS 6, with unamortised actuarial losses over equity.

Plan assets are stated at fair market value. Net pension obligation comprises gross pension obligation less the fair value of plan assets. Net pension obligations from underfunded pension plans are included on the balance sheet as a provision, while net plan assets in overfunded schemes are included as long-term interest-free receivables if it is likely that the overfunding can be utilised. Employer's social security contribution is made on the basis of net plan assets.

The effect of changes in pension plans with retroactive effect not conditional on future earnings is defined as an actuarial gain or loss and charged directly to the company's equity.

Net pension expenses, which consist of gross pension expenses less estimated return on plan assets, are classified as an ordinary operating expense and presented as part of the payroll expenses item. All actuarial gains or losses are charged directly to the company's equity. Employer's social security contribution is calculated on contributions paid to the pension plans.

Estimates and uncertainties

Determining estimates and probabilities entails using judgement based on experience and best estimate of future developments. Given Norfund's investment strategy and geographical investment areas, there is a high degree of uncertainty associated with expectations regarding future developments. Specific areas that include extensive estimation and judgement are net asset value / valuation of equity investments, write-down on equity investments and provision for losses on loans to investment projects.

Note 2 – Segment information

Norfund's operations fall into five segments: Funds, Financial Institutions, Clean Energy, Green Infrastructure and Scalable Enterprises. The table below provides an overview of the results in each segment. The costs of shared functions have largely been allocated according to the number of employees in each segment and are recorded as part of other operating expenses.

	Norfund total	Development mandate						Climate Investment Fund
		Funds	Financial Institutions	Renewable Energy	Green Infrastructure	Scalable Enterprises	Administration etc.	
Operating income								
Interest – invested portfolio	474 888	368	288 038	143 077	890	42 515	0	0
Realised gains	136 065	13 484	18 898	93 608	0	10 075	0	0
Dividends received	421 255	12 811	61 678	346 164	0	0	0	601
Other project revenues	38 251	135	17 271	18 595	0	1 950	300	0
Total operating income	**1 070 459**	**26 798**	**385 887**	**601 443**	**890**	**54 540**	**300**	**601**
Operating expenses								
Payroll expenses	-181 587	-5 078	-33 099	-35 071	-4 601	-39 562	-64 176	0
Depreciation fixed assets	-3 639	0	0	0	0	0	-3 639	0
Other operating expenses	-131 309	-1 220	-12 875	-26 929	-1 820	-29 772	-58 693	0
Allocation Climate Investment Fund*	0						4 714	-4 714
Total operating expenses	**-316 535**	**-6 298**	**-45 974**	**-62 000**	**-6 422**	**-69 334**	**-121 793**	**-4 714**

	Norfund total	Development mandate						Climate Investment Fund
		Funds	Financial Institutions	Renewable Energy	Green Infrastructure	Scalable Enterprises	Administration etc.	
	0							
Gain/loss (-) on FX, project loans	791 555	4 867	389 710	312 454	-2 668	87 193	0	0
Realised losses and net changes in value,	-242 788	30 804	-168 817	-46 433	0	-58 343	0	0
Profit/loss on operations	1 302 691	56 171	560 805	805 465	-8 200	14 056	-121 493	-4 113
Net financial items**	948 402	0	0	0	0	0	948 402	0
Profit/loss before tax	2 251 093	56 171	560 805	805 465	-8 200	14 056	826 909	-4 113
Taxes	-7 777	0	0	0	0	0	-7 777	0
Profit/loss for the year	2 243 316	56 171	560 805	805 465	-8 200	14 056	819 132	-4 113

*Indirect costs have been allocated in proportion to the Climate Investment Fund's share of total investment in Norfund.
**Financial items include gain/loss on FX bank deposits and current liabilities.

Balance sheet (investments and loans) net book values						
	Norfund total	Funds	Financial Institutions	Renewable Energy	Scalable Institutions	Climate Investment Fund
Investments	23 224 484	2 991 296	9 548 265	7 604 469	2 652 473	427 981
Write-downs	-1 813 207	-524 627	-601 139	-313 289	-374 152	0
Total investments per segment	**21 411 277**	**2 466 669**	**8 947 126**	**7 291 180**	**2 278 321**	**427 981**
Segment information by geographical region:						

Balance sheet (investments and loans) net book values						
	Norfund total	**Funds**	**Financial Institutions**	**Renewable Energy**	**Scalable Institutions**	**Climate Investment Fund**
Balance sheet	Africa	Asia	America	Global	Accumulated write-downs	Total
Loans to investments	2 670 337	1 070 210	2 460 252	411 410	-141 548	6 470 661
Equity investment in Climate Investment Fund	212 745	215 235	0	0	0	427 980
Equity investments	10 497 314	2 519 180	808 982	2 358 818	-1 671 659	14 512 635
Total balance sheet	**13 380 396**	**3 804 625**	**3 269 234**	**2 770 228**	**-1 813 206**	**21 411 277**
Interest income loans	211 152	97 079	145 245	21 412	0	474 888
Realised gain on shares	68 944	12 829	14 427	39 865	0	136 065
Dividends received	144 652	453	44 435	231 714	0	421 254
Other project revenues	22 574	6 075	6 001	3 601	0	38 251
Total operating income	**447 322**	**116 436**	**210 108**	**296 592**	**0**	**1 070 458**
Gain/loss on FX, project loans	**174 391**	**126 244**	**226 684**	**264 236**	**0**	**791 555**

Note 3 – Exited investments

In 2022 Norfund exited from three funds and four equity investments:

	Aureos Latin America Fund	HEFF	LOCFUND II	Bronkhorstspruit Biogas Plant	Fanisi Management II	Fanisi Venture Management Company	First Finance
Annual IRR during Norfund's ownership period	5.3%	0.7%	8.1%	-11.4%	-10.9%	-100.0%	6.2%

Note 4 – Payroll expenses

Statement on the setting of salaries and other remuneration to senior employees

Norfund complies with the government guidelines laid down on 13 February 2015 with respect to the setting of salaries and other remuneration for senior employees. These are based on changes published in the white paper *A diverse and value-creating ownership. The State's guidelines for remuneration for senior executives in companies with state ownership* (Meld. St. 27 (2013-1014)). The changes were adopted with effect from 30 April 2021 and form the basis for the preparation of the Board of Directors' statement for 2022.

Guidelines for Norfund on the setting of salaries and other remuneration in 2022

The following guidelines apply to the setting of salaries for senior Norfund employees up to the ordinary General Meeting in 2023.

The remuneration system is designed to attract and retain competent personnel. In setting salaries, emphasis is placed on the individual's contribution to fulfilling Norfund's mandate.

Norfund wishes to promote moderation in executive salaries. The aim in setting salaries is that senior Norfund employees should have pay conditions that are competitive, but not at the top end of the scale, to ensure that Norfund secures and retains sufficient expertise in the Fund.

Norfund considers that other government funds such as the National Insurance Scheme Fund, Export Credit Norway and Investinor form a relevant benchmark.

Setting of salaries

The Board sets the salary of the managing director. The managing director sets the salaries and bonuses of the corporate heads of department who report to him, after executive salary conditions have been endorsed by the Board. This group consists of senior Fund employees. Norfund's pay conditions for senior employees consist of fixed salary, pension and insurance schemes and other benefits that cover newspapers, electronic communications etc. The fixed salary is subject to regulation in line with pay developments in the financial sector, represented by reference figures from Finance Norway, the results of the main settlement and for the companies Norfund has defined as its peers, and an assessment of the individual's performance and goal achievement. The managing director sets annual goals for the individual member of the executive group and the Board sets goals for the managing director.

Senior employees have three months notice of termination. The CEO has an agreement for pay after termination of employment equivalent to 6 months' salary. This arrangement is in line with the guidelines for salary and other remuneration.

Bonus scheme

Norfund has a bonus scheme that covers all company employees except the managing director. The bonus scheme is in line with the guidelines' requirement of variable pay. Bonus candidates are proposed by an individual's line manager for an overall assessment by the management team. Bonuses awarded to both senior and other employees are fixed by the managing director. Bonuses are awarded once a year, and individual bonuses vary from NOK 10 000 to NOK 100 000 per award, with NOK 100 000 as the maximum amount per year.

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Retningslinjer for godtgjorelse til ledende ansatteDownload

Pension and insurance conditions

In 2018 Norfund closed its defined benefit pension scheme to new employees, and now offers a defined contribution scheme to all company employees, including managers. The transition to the new scheme was voluntary for existing employees. This means that Norfund has both a defined benefit and a defined contribution scheme for agreements entered into before the closure of the former in 2018. The defined benefit scheme entitles the individual to defined future benefits and depends primarily on the number of qualifying years, pay level on reaching retirement age and the size of National Insurance benefits. Agreements entered into prior to 2018 exceed the current guidelines for senior executive salaries, as the previous scheme entailed a full qualifying period of 30 years and pension payments of 70 per cent of salaries up to 12 G The pension scheme satisfies the requirements of the Act on Mandatory Occupational Pensions. There are currently 64 employees covered by the defined contribution scheme and 28 by the defined benefit scheme. Norfund also has a scheme which entitles employees to pension rights for salaries in excess of 12 G. This scheme was closed to new members in 2012. The scheme, which is funded from operations, consists of 66 per cent of pay in excess of 12 G with a retirement age of 67 and a full qualification period of 30 years in the calculation base. If the service period is calculated as being less than 30 years, the pension is reduced proportionately. On termination of employment or on reaching retirement age, employees receive a settlement for the value of the amount saved. This scheme currently covers 4 employees. In the defined contribution scheme, 7 per cent of salary is set aside from pay from 0–7 G, and 20 per cent from salaries of 7.1–12 G. The costs of both schemes are included in the calculation of pension expenses.

Senior Norfund employees are covered by insurance schemes that apply to all Norfund employees.

Wages, salaries and other payroll expenses	Norfund	
(Figures in 1000s of NOK)	2022	2021
Wages and salaries	126 375	106 928
Employer's social security contribution	21 356	19 818
Pension expenses	21 542	18 330
Other benefits	12 314	13 065
Total wages, salaries and other payroll expenses	**181 587**	**158 142**

Remuneration for the management 2022						
	Title	**Salary**	**Bonuses**	**Insurance and other payment in kind**	**Pension**	**Total**
Jan Tellef Thorleifsson	CEO	2 966 629	0	20 239	201 069	3 187 938
Ylva Lindberg	EVP Strategy & Analysis	1 770 974	50 000	21 401	199 475	2 041 849
Fride Andrea Hærem	EVP CFRO from 01.12.	1 766 988	50 000	19 242	202 397	2 038 627
Thomas Fjeld Heltne	EVP Legal Department	1 768 159	50 000	19 621	195 835	2 033 615
Erik Sandersen	EVP Financial Institutions	1 965 055	50 000	21 756	519 677	2 556 488
Mark Davis	EVP Renewable Energy	2 143 596	50 000	63 151	1 256 791	3 513 538
Ellen C. Rasmussen	EVP Scalable	1 819 032	50 000	22 386	202 397	2 093 815

Remuneration for the management 2021						
	Title	**Salary**	**Bonuses**	**Insurance and other payments in kind**	**Pension**	**Total**
Jan Tellef Thorleifsson	CEO	2 954 288	0	20 305	203 367	3 177 961
Ylva Lindberg	EVP Strategy & Analysis	1 708 654	50 000	19 880	198 484	1 977 018
Cathrine Kaasen Conradi	EVP CFRO until 30.11.	1 703 836	50 000	23 414	196 254	1 973 504
Fride Andrea Hærem	EVP CFRO from 01.12.	555 096	0	8 949	68 945	632 990
Thomas Fjeld Heltne	EVP Legal Department	1 705 421	50 000	20 038	197 925	1 973 384
Erik Sandersen	EVP Financial Institutions	1 926 602	50 000	19 795	366 865	2 363 262
Mark Davis	EVP Renewable Energy	2 109 094	50 000	83 636	1 055 051	3 297 781
Ellen C. Rasmussen	EVP Scalable	1 750 350	50 000	19 896	200 248	2 020 494

Salaries for senior employees are reported for the whole year, including the period when they were not senior employees.

Remuneration to Norfund's Board of Directors

Norfund's Board of Directors consisted in 2022 of the Chair and 8 Board members. In 2022 the General Meeting set remuneration to the Chair at NOK 295 000 (285 000 in 2021), while remuneration to the Board members, with the exception of the two employee representatives, was set at NOK 147 000. In 2022 the General Meeting set remuneration for the chair of the Risk and Audit Committee at NOK 80 000 and for the members of the committee at NOK 69 000.

Bonuses

The company has no share or option schemes for its employees, and there are no plans for such schemes. In all 77 employees of a total of 100 eligible for bonuses received a bonus for 2022. The highest total bonus award in 2022 was NOK 100 000. The bonus scheme accounted for 3.1 per cent of Norfund's payroll expenses in 2022, a total of NOK 3 190 000. Bonuses are paid for extraordinary performance, and the average payment in 2022 was NOK 41 429. The highest payment represented 10.4 per cent of the individual's salary. Six members of the management team received a bonus of NOK 50 000 in 2022.

See also Norfund's Executive Pay Statement for 2022.

Auditor's fee		
(Figures in 1000s of NOK)	**2022**	**2021**
Statutory audit	723	627
Other services (including legal services)	345	685
Total	**1 068**	**1 312**

Auditor's fee is inclusive of VAT.

In addition, business partners of Deloitte AS in other countries delivered other services expensed in the amount of NOK 0.7 million (NOK 1.6 million in 2021).

Number of permanent employees

The company had 127 (111) employees at the end of 2022. The number of full-time equivalents was 123.5 (106).

Pensions

In addition to the employee pension plans described in the Executive Pay Statement, local employees at Norfund's regional offices in South Africa, Ghana, Thailand, Kenya and Costa Rica have defined contribution pension plans. Norfund therefore has no obligations other than what has been paid through the year. In 2022, NOK 1 775 000 (NOK 1 709 000 in 2021) was expensed in connection with these schemes.

Financial assumptions	2022	2021
Discount rate	3.00%	1.90 %
Expected return on plan assets	3.00%	1.90 %
Salary adjustment	3.50%	2.75 %
Pension adjustment	3.25%	2.50 %
Adjustment of the basic amount (G) in the National Insurance System	3.25%	2.50 %
Turnover	9.00%	9.00 %
Employer's social security contribution	19.10%	19.10%

Financial assumptions (Figures in 1000s of NOK)	2022	2021
Net present value of pension earned in the period	10 666	9 948
Capital cost of previously earned pensions	2 893	2 202
Expected return on plan assets	-1 919	-1 421
Administrative costs	87	1 133
Accrued employer's social security contribution*	2 240	2 065
Net pension expenses for the year incl. employer's contribution	13 967	13 928

*Employer's social security contribution is calculated on the amount paid in.

Estimated pension obligations	Funded	Unfunded	2022
Estimated pension obligations	133 928	22 845	156 773
Estimated plan assets*	106 436	0	106 436
Net pension obligations 31.12.	27 492	22 845	50 337
Accrued employer's social security contribution**	5 251	4 363	9 614
Net pension obligations 31.12.	**32 743**	**27 208**	**59 951**

*Estimated plan assets consist of paid premiums invested in Nordea Life & Pension.
**Accrued employer's social security contribution is based on net pension obligation.

Reconciliation opening/closing balance	2022	2021
Carrying amount net pension obligations 01.01 incl. employer's social security contribution	72 108	58 074
Net pension expenses for the year incl. employer's social security contribution	13 967	13 928
Actuarial gain/loss charged directly to equity	−17 037	14 975
Pensions paid, early retirement / unfunded, incl. employer's social security contribution	−499	−1 916
Investment in plan assets, etc., incl. employer's social security contribution	−8 588	−12 953
Carrying amount net pension obligations 31.12 incl. employer's social security contribution	**59 951**	**72 108**

Nordea Life & Pension's asset mix*	30.09.2022	30.09.2021
Property	14.0%	14.4%
Equities	11.0%	12.2%
Bonds at amortised cost	65.0%	12.7%
Short-term bonds/certificates	9.0%	60.5%
Other	1.0%	0.0%
Total financial assets	100%	100%

*Known values at calculation date

Norfund has paid into a separate fund intended to meet future obligations related to the unfunded scheme, the book value of which was NOK 23.9 million as of 31.12.

Note 5 – Fixed assets

Fixed assets

(Figures in 1000s of NOK)	Equipment and vehicles, fittings and fixtures etc.	Works of art	Total
Historical cost at 01.01	24 093	1 463	25 556
+ acquisitions during the period	1 311	0	1 311
Historical cost at end of period	25 404	1 463	26 867
Accumulated ordinary depreciation at 01.01	17 891	0	17 891
+ ordinary depreciation for the period	3 639	0	3 639
Acc. ordinary depreciation at 31 December	21 530	0	21 530
Book value for accounting purposes at end of period	**3 874**	**1 463**	**5 337**
Depreciation period	*3-4 years*	*Non-depreciable*	

A deposit of NOK 427 000 is additionally recorded under this item.

Note 6 – Other operating expenses

(Figures in 1000s of NOK)	2022	2021
Seminars, conferences, upgrading of competencies	6 240	4 030
Travel expenses	18 088	4 135
External assistance, projects	44 866	51 095
External assistance, other	15 546	12 471
Rent, Oslo, including shared costs	10 075	8 199
Rent regional offices	4 637	3 083
Other expenses	31 857	28 073
Total operating expenses	**131 309**	**111 086**

	Lease duration	Annual rental costs
Premises at Fridtjof Nansens Plass 4, Oslo	15.11.16 – 31.12.2026	6 310 836

In addition there are lease contracts for our regional offices.

Note 7 – Net financial items

(Figures in 1000s of NOK)	2022	2021
Other interest income	427 083	128 438
Other financial income	877 630	647 719
Other financial expenses	-356 311	-480 987
Total financial income/expenses	**948 402**	**295 171**

Other interest income comes from the bond portfolio and liquidity placements in loans in addition to placements in banks.

Note 8 – Taxes

Tax expenses are attributable to withholding tax on dividends and interest on foreign investments. In addition some of our regional offices pay tax on their operations and as at 31.12.2022, NOK 1.3 million has been allocated for paying tax at the regional offices. Norfund is exempt from tax in Norway; see Section 2-30 (1e) of the Norwegian Taxation Act.

Note 9 – Capital movements

Company				
(Figures in 1000s of NOK)	**Primary capital**	**Reserve capital**	**Surplus fund**	**Total equity**
Capital at 31.12.2021	15 813 989	5 464 214	10 861 016	32 139 219
Capital supplied in 2022	1 989 864	688 288	0	2 678 152
Other changes				
Actuarial gains/losses, pensions	0	0	17 037	17 037
Net surplus/deficit (–)	0	0	2 243 316	2 243 316
Capital at 31.12.2022	**17 803 853**	**6 152 502**	**13 121 368**	**37 077 723**
Of which the Climate Investment Fund	*750 000*	*250 000*	*995 887*	*1 995 887*

Reserve capital can only be used to cover losses that cannot be covered from other reserves apart from primary capital.

Of the capital received in 2022, 75% was allocated to primary capital and 25% to reserve capital, 1 billion of which belongs to Climate Fund investments.

Note 10 – Other receivables

(Figures in 1000s of NOK)	2022	2021
Accrued interest	216 714	118 322
Other receivables	2 013 134	3 409 461
Total receivables	**2 229 848**	**3 527 783**

Other receivables consist largely of an interest-bearing seller credit (3% interest for 7 years, after which the interest rate increases to 30%) to Scatec in connection with the sale of SN Power for NOK 1 971 million (USD 200 million).

Note 11 – Loans and investments

Loans to companies				
(Figures in 1000s of NOK)	**Committed investment**	**Historical cost**	**Accumulated loan loss provision**	**Book value**
Financial Institutions	4 673 149	4 159 546	-28 313	4 131 233
Green Infrastructure	19 715	9 857		9 857
Renewable Energy	1 828 148	1 450 193	-48 634	1 401 559
Scalable Enterprises	1 213 632	982 755	-64 601	918 155
Funds	9 857	9 857		9 857
Climate Investment Fund	991 266			
Total loans	**8 735 767**	**6 612 209**	**-141 548**	**6 470 661**

By 'committed investment' is meant that there is an external commitment for a specific amount. For conversions to NOK, the exchange rate on the disbursement date is used for the part of the amount that is disbursed. The exchange rate at 31.12.2022 is used for the part that has not been disbursed.

Norfund makes a semi-annual assessment of each of the loans in the loan portfolio, including provisions for losses.

Loan loss provision and known loan losses

A loan is regarded as non-performing when borrower has not made due payments within 60 days of the due date. On balance sheet date Norfund had 6 (12 in 2021) non-performing loans with total interest and repayments due of NOK 126 million (NOK 115 million in 2021) and a total outstanding amount of NOK 157 million (NOK 275 million in 2021). Examples of default or losses are significant financial problems on the part of debtor, restrictions on foreign exchange transfers in countries in which debtor operates, debt settlement proceedings or winding up of a business.

Days past due date	Amount due
0–60*	7 288
61–120	4 963
121	113 589
Total	**125 840**

Loans are written down by up to 100% of the outstanding principal and accumulated interest, depending on the likelihood of the amount being repaid.

Three loans were considered partially lost, with a total loss of NOK 6.4 million.

Repayment

Eight loans were repaid in the course of the year (12 in 2021), while one was converted into equity.

Equity investments in funds				
(Figures in 1000s of NOK)	Committed investment	Historical cost	Accumulated loan loss	Book value
Financial Institutions	1 001 002	606 937	-41 963	564 974
Green Infrastructure	139 704			0
Renewable Energy	772 376	177 872	-5 696	172 176
Scalable Enterprises	189 516	98 400	-22 637	75 763
Funds	5 628 742	2 890 109	-518 234	2 371 875
Total invested in funds	**7 731 340**	**3 773 318**	**-588 530**	**3 184 788**

Equity investments in companies				
(Figures in 1000s of NOK)	**Committed investment**	**Historical cost**	**Accumulated loan loss**	**Book value**
Financial Institutions	5 112 299	4 781 782	-530 864	4 250 919
Renewable Energy	6 888 852	5 976 355	-258 916	5 717 439
Scalable Enterprises	1 907 151	1 561 461	-286 914	1 274 547
Funds	131 391	91 330	-6 387	84 942
Climate Investment Fund	1 143 827	427 981		427 981
Total invested in equity	**15 183 520**	**12 838 908**	**-1 083 081**	**11 755 828**

By 'committed investment' is meant that there is an external commitment for a specific amount. For conversions to NOK, the exchange rate on the disbursement date is used for the part of the amount that is disbursed. The exchange rate as of 31.12.2022 is used for the part that is not disbursed.

Accumulated loan loss provisions are accrued, not realised losses on portfolio investments.

Note 12 – Bank deposits and other short-term placements

Bank deposits, cash and cash equivalents		
(Figures in 1000s of NOK)	**2022**	**2021**
Deposits in Norges Bank	3 482 160	3 256 120
Tax deductions	11 783	6 118
Ordinary bank deposits	2 005 671	975 726
Total bank deposits	**5 499 614**	**4 237 965**
The following bank deposits are earmarked for:		
Grants from the Ministry of Foreign Affairs (see note 13)	168 859	176 417
Climate Investment Fund	1 567 180	0

Other short-term Investments		
(Figures in 1000s of NOK)	**2022**	**2021**
Fixed-term deposits (1 to 6 months)	1 797 087	1 767 915
Lending to banks of excess liquidity in our markets	2 059 080	1 867 067
Bonds	4 416 731	4 361 787
Other short-term placements	**8 272 899**	**7 996 769**

As a consequence of the exit from SN Power, substantial liquidity became available and was placed in temporary investments: First, loans were extended to three banks with an average interest rate of 1.5% + LIBOR and a term of 5 years, with linear repayment after the first year. Second, USD deposits with fixed terms of 1–6 months were placed in banks.

In addition, Allianz has been commissioned to manage USD 500 million. The portfolio consists of highly liquid covered bonds and has a weighted credit rate of AA- and average term of 2.8 years. The portfolio is to be mainly invested in development banks, i.e. within the sector in which we operate ourselves. Up to 40% can be invested in other sectors, however, but the bonds must then meet the requirements of either being green and sustainable or having a social impact. Norges Bank's Investment Management's exclusion list is also applied. 38% of the portfolio is invested in euros and 7% in sterling, but hedged against USD by means of 3-month rolling futures contracts. Hedging contracts have been made for EUR 164.0 million and GBP 24.1 million.

The value of the portfolio has fallen in pace with rising expectations of higher key policy rates, and we expect further falls in the period ahead. However, Norfund intends to hold the portfolio until maturity, such that the average annual return is estimated at 1.5% for the life of the portfolio.

Bonds

	Instrument currency	Fair value of instr. currency	Historical cost in USD	Fair value in USD	Change in value	Book value in NOK
Enterprises			**169 488**	**150 640**	**-18 848**	**1 484 903**
Financial Institutions	EUR	77 756	93 104	82 985	-10 119	818 004
	USD	30 370	33 698	30 370	-3 328	299 364
Manufacturing	EUR	2 896	3 408	3 091	-317	30 469
	USD	16 381	18 709	16 381	-2 327	161 476
Supply	EUR	16 691	20 569	17 813	-2 756	175 588
Public authorities			**316 258**	**288 201**	**-28 057**	**2 840 888**
Agencies	EUR	17 108	20 421	18 259	-2 162	179 983
	USD	24 899	26 435	24 899	-1 535	245 440
Local authorities	EUR	3 707	4 357	3 957	-401	39 001
Independent organisations	USD	7 128	7 857	7 128	-729	70 266
Supranational authorities	EUR	44 223	52 706	47 197	-5 509	465 233

Bonds						
	Instrument currency	**Fair value of instr. currency**	**Historical cost in USD**	**Fair value in USD**	**Change in value**	**Book value in NOK**
	GBP	24 012	30 969	28 883	−2 086	284 710
	USD	157 878	173 513	157 878	−15 635	1 556 255
Cash and accrued interest			**9 226**	**9 226**	**-**	**90 941**
	EUR	997	1 064	1 064	–	10 492
	GBP	454	546	546	–	5 386
	USD	7 615	7 615	7 615	–	75 062
Total			**494 971**	**448 067**	**-46 904**	**4 416 731**

Note 13 – Unused resources (Norfund's grant schemes)

In 2019 the Storting established a special scheme, the Frontier Facility (formerly the Norwegian Investment Fund for Developing Countries). The scheme enables Norfund to make risk capital available in the most demanding markets, which are especially vulnerable states and the least developed countries (LDCs), where access to risk capital is limited. The scheme is to be used for projects with higher risk than investments in Norfund's ordinary portfolio, and is to be administered as a separate scheme. The Storting granted NOK 100 million for the scheme in 2019, of which NOK 75 million was disbursed in 2019 and NOK 25 million in 2020. At the end of 2022, NOK 12.63 million remained to be allocated, while NOK 65.37 million of allocated capital had not yet been disbursed.

Norfund additionally received NOK 15 million (NOK 32 million in 2021) of grants under the previously established Business Support scheme, which is to be used to increase the development effects of Norfund's investments by improving businesses and through local community development. Support may, for example, be provided for training and transfer of expertise and equal opportunity programmes, workers' rights, improvement of internal control, corporate governance and leadership development. The resources are treated as current liabilities, and undisbursed amounts are included in Norfund's liquid assets. When costs are met from the resources, the liability is reduced by an equivalent amount. At the end of 2022, NOK 8.4 million remained to be allocated to projects, while NOK 41.3 million of allocated capital had not yet been disbursed.

In 2022 the grant facility earmarked for Balkan projects was restructured and three loans were repaid, freeing up EUR 2.5 million for investment in a fund in the region.

Grant facilities Balkan Trust Fund				
(Figures in 1000s of NOK)	**2022**	**2021**	**2022**	**2021**
Receipts				
Carried over from previous year	144 195	141 588	16 111	17 247
Transferred from Ministry of Foreign Affairs	15 000	32 000	0	0
Reversals	26 820	0	7 867	0
Total receipts	**186 015**	**173 588**	**23 978**	**17 247**
Income	0	0	11	12
Disbursements				
General costs				
Fund management	0	0	0	0
General follow-up	0	0	-150	-380
Intervention				
Project development:	-519	-557	0	0
Amplify and support project development effects	-11 631	-5 705	0	0
Promote social responsibility	-1 560	-2 542	0	0
Local investment funds				
Follow-up costs	0	0	0	-768
Loans / investment projects	-7 947	-20 589	-19 327	0
Total disbursements	**-21 656**	**-29 393**	**-19 477**	**-1 148**
Non-disbursed resources	**164 359**	**144 195**	**4 501**	**16 111**
Total non-disbursed resources at 31.12.2022	**168 859**			

Note 14 – Current liabilities and guarantees

Other current liabilities

Included in other current liabilities is an item of NOK 98.2 million to the Dutch bank FMO in connection with the acquisition of shares in Green Resources, of which Norfund was the owner at year-end 2022.

Guarantees

As part of its activities, Norfund has issued 8 guarantees totalling NOK 245 million. An annual assessment is made by the project manager of whether the guarantee is at risk of being invoked, and a proportional provision is made accordingly. As of 31.12.22, no allocation had been made for guarantee commitments.[[

Other commitments

In connection with the exit from SN Power AS, there are some latent liabilities related to gains tax in particular which may be invoked by Scatec ASA. The claim is uncertain, with a probably outcome of USD 0.25 million, but may be up to USD 6 million under certain conditions. As the probability is not high, and the size of the claim is uncertain, no allocation is made in the accounts for this commitment.

Note 15 – Risk management and use of financial instruments

Norfund has a mandate whereby investments made by the company are required to be additional, by providing access to capital and expertise for companies that would not otherwise have received such financing because of the high risk involved. Norfund's investments are evaluated through an extensive selection process that consists of checking against Norfund's mandate, thorough evaluations and analysis of legal, financial, commercial and ESG-related aspects. The Investment Committee and/or the Board take the final decision regarding investment.

Efforts are made to diversify portfolio risk by achieving portfolio breadth in terms of countries, industries, business partners, instruments and time of making investments. Norfund exercises active ownership in the largest investments in its portfolio through representation on boards, investment committees or other governance bodies

Norfund is exposed to several different types of risk, including liquidity risk, credit risk, currency risk, interest-rate risk and other market risk, including political risk. The financial risk management has been established to identify and analyse these risks, and to establish appropriate risk limits and risk controls. Norfund regularly reviews the established risk management guidelines and the system that has been established to ensure that changes in markets are reflected in the risk limits.

The Board has adopted Norfund’s zero tolerance policy, which is based on the risk Norfund is willing to take in order to deliver on its mandate. This includes country risk and political risk, and in 2021 developing a system for managing country risk has been a high priority task. Efforts to actively minimise risk are largely about how Norfund chooses its investment partners and how the investment process and other operational processes in the business are carried out. This concerns risk of corruption, for example, and if this is detected an immediate response is triggered. Minimising and managing risk associated with ESG and questions concerning the integrity of our business partners are based on best practice for development finance institutions (DFIs). Norfund's approach to risk is summarised in a Risk Appetite Statement adopted by the Board and published on Norfund’s website.

Market risk

Market risk is an umbrella term for the risk of losses occurring as a consequence of changes in conditions, exchange rates or prices that influence the earning capacity of the companies in which we have invested. Norfund's mandate is to invest in developing countries, which means that the macroeconomic conditions and uncertainties are more complex, and the risk is accordingly higher. Future returns depend among other things on the ability to manage and mitigate risk in all phases of an investment.

Interest

Norfund's income is also substantially affected by fluctuations in the fixed income market, as 30 per cent of the investment portfolio is in the form of loans, 57 per cent of which have a floating interest rate, with Libor/SOFR + margin making up the largest proportion. In addition, Norfund has significant cash holdings and a bond portfolio (see Note 12) which accrue interest. Thus the interest rate level has a substantial direct effect on Norfund's operating and financial revenue.

Credit risk

Norfund has a significant number of loans, and individual semi-annual reviews are conducted of the borrowers' financial standing, history and other relevant factors. If default on a loan is considered highly likely, it is written down. A loan is regarded as non-performing when a payment has not been made within 60 days of the due date. In the event of default, our total investment in the borrower is evaluated.

Norfund does not carry any general loss provisions for the loan portfolio, but makes a specific allocation for each loan; see also Note 3.

Liquidity risk

Liquidity risk is the risk of Norfund being unable to fulfil its commitments, which are therefore monitored closely in relation to available liquidity. To ensure strong financial freedom of manoeuvre, Norfund aims to maintain a real and solid liquidity reserve that must at least cover future committed investments plus a minimum amount. Liquidity is strengthened through annual allocations from the Owner and through repayments from the investment portfolio in the form of interest, repayment of the principal, dividends and exits from companies. Norfund does not use debt instruments in its liquidity management.

The liquidity reserve consists of bank deposits, short-term placements in banks with terms of up to one year, and a bond portfolio. Placements in anything other than Norfund's relationship banks must be in accordance with the investment mandate laid down by the Board, which regulates amounts and terms.

The Finance Department monitors Norfund's liquidity and adapts the placement of resources to ensure an appropriate return on the liquidity placements and according to the expected cash flow prior to investment.

Currency risk

Norfund's operations are strongly exposed to currency risk, as we receive our allocations in NOK, while investments largely take place in other currencies, USD being by far the largest. In consequence, costs associated with investments will also largely be in currencies other than NOK.

Norfund's base currency is NOK, which means that its future returns and gains/losses for accounting purposes are strongly influenced by the exchange rate between NOK and other currencies. Investments are subject to a greater or lesser extent to fluctuations in the exchange rate between USD and the local currency in the individual country, which in turn may affect the results and values of these companies in Norfund's balance sheet.

Three-month forward contracts are used to hedge the portion of the bond portfolio denominated in EUR and GBP against USD; see Note 12.

Norfund's liquid assets are mainly placed in NOK-denominated, interest-bearing accounts in Norges Bank, while its USD-denominated liquid assets are mainly placed in DNB and short-term investments.

FX rates used in conversion				
		31.12.2022	**31.12.2021**	**Change during the year**
US dollar	USD	9.857	8.819	11.8%
South African rand	ZAR	0.581	0.553	5.0%
Indian rupee	INR	0.119	0.118	0.9%
Kenyan shilling	KES	0.079	0.077	2.4%
Ugandan shilling	UGS	0.003	0.002	6.4%
Mozambican metical	MZN	0.153	0.137	12.1%
Bangladeshi taka	BDT	0.096	0.101	-5.2%
Ghana shilling	GHS	0.963	1.424	-32.4%
Tanzania shilling	TZS	0.004	0.004	10.0%
Euros	EUR	10.514	9.989	5.3%

Operational risk

Operational risk is the risk of financial losses occurring as a consequence of errors in internal processes and systems, human error or as a consequence of external events such as criminality or natural disasters.. Management of operational risk has become increasingly important in Norfund in recent years, as the company is growing significantly and becoming a more complex organisation.

The identification, management and control of operational risk is a management task, and is coordinated through Norfund's Enterprise Risk Management System. The management's most important aid is semi-annual reviews of the risk picture and action plans, and systematic work to maintain these. There is also continuous work on awareness-raising and knowledge-building in the organisation. If weaknesses are detected, they are reported to the organisation's management team.

Norfund places emphasis on authorisation hierarchies, clear descriptions of procedures and well defined areas of authority as elements of our framework for managing operational risk.

Norfund's risk exposure and management thereof are followed up by the company's external internal auditor, and reports are submitted regularly to the Board and the Risk and Audit Committee.

Note 16 – Events after balance-sheet date

Since balance sheet day, there has been turbulence in the financial sector and several banks, particularly in Europe and the US, have faced significant financial challenges. This has created uncertainty in the financial market, and given a steadily rising interest rate level, this uncertainty has not, as yet, abated. However, at the time of submitting the financial statements, we cannot see that this situation significantly affects the valuation of Norfund's investment activities, and we can therefore establish that it does not create any major uncertainty with respect to Norfund's financial position.

Auditor's report

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To the General Meeting of Norfund

INDEPENDENT AUDITOR'S REPORT

Opinion
We have audited the financial statements of Norfund (the Company), which comprise the balance sheet as at 31 December 2022, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable statutory requirements, and
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other information accompanying the financial statements otherwise appear to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable statutory requirements.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for

such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain 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 error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain 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.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude 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 to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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 deficiencies in internal control that we identify during our audit.

Oslo, 8 May 2023
Deloitte AS

Grete Elgåen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Revisors beretning

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Til generalforsamlingen i Norfund

UAVHENGIG REVISORS BERETNING

Konklusjon
Vi har revidert årsregnskapet for Norfund som består av balanse per 31. desember 2022, resultatregnskap og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noter til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening

- oppfyller årsregnskapet gjeldende lovkrav, og
- gir årsregnskapet et rettvisende bilde av selskapets finansielle stilling per 31. desember 2022, og av dets resultater og kontantstrømmer for regnskapsåret avsluttet per denne datoen i samsvar med regnskapslovens regler og god regnskapsskikk i Norge.

Grunnlag for konklusjonen
Vi har gjennomført revisjonen i samsvar med International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet nedenfor under *Revisors oppgaver og plikter ved revisjonen av årsregnskapet*. Vi er uavhengige av selskapet i samsvar med kravene i relevante lover og forskrifter i Norge og International Code of Ethics for Professional Accountants (inkludert internasjonale uavhengighetsstandarder) utstedt av International Ethics Standards Board for Accountants (IESBA-reglene), og vi har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Innhentet revisjonsbevis er etter vår vurdering tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

Øvrig informasjon
Styret og daglig leder (ledelsen) er ansvarlige for informasjonen i årsberetningen og annen øvrig informasjon som er publisert sammen med årsregnskapet. Øvrig informasjon omfatter informasjon i årsrapporten bortsett fra årsregnskapet og den tilhørende revisjonsberetningen. Vår konklusjon om årsregnskapet ovenfor dekker verken informasjonen i årsberetningen eller annen øvrig informasjon.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese årsberetningen og annen øvrig informasjon. Formålet er å vurdere hvorvidt det foreligger vesentlig inkonsistens mellom årsberetningen, annen øvrig informasjon og årsregnskapet og den kunnskap vi har opparbeidet oss under revisjonen av årsregnskapet, eller hvorvidt informasjon i årsberetningen og annen øvrig informasjon ellers fremstår som vesentlig feil. Vi har plikt til å rapportere dersom årsberetningen eller annen øvrig informasjon fremstår som vesentlig feil. Vi har ingenting å rapportere i så henseende.

Basert på kunnskapen vi har opparbeidet oss i revisjonen, mener vi at årsberetningen

- er konsistent med årsregnskapet og
- inneholder de opplysninger som skal gis i henhold til gjeldende lovkrav.

Ledelsens ansvar for årsregnskapet
Ledelsen er ansvarlig for å utarbeide årsregnskapet og for at det gir et rettvisende bilde i samsvar med regnskapslovens regler og god regnskapsskikk i Norge. Ledelsen er også ansvarlig for slik internkontroll som den finner nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet så lenge det ikke er sannsynlig at virksomheten vil bli avviklet.

Revisors oppgaver og plikter ved revisjonen av årsregnskapet
Vårt mål er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med ISA-ene, alltid vil avdekke vesentlig feilinformasjon. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon er å anse som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke de økonomiske beslutningene som brukerne foretar på grunnlag av årsregnskapet.

Som del av en revisjon i samsvar med ISA-ene, utøver vi profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen. I tillegg:

- identifiserer og vurderer vi risikoen for vesentlig feilinformasjon i regnskapet, enten det skyldes misligheter eller utilsiktede feil. Vi utformer og gjennomfører revisjonshandlinger for å håndtere slike risikoer, og innhenter revisjonsbevis som er tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon som følge av misligheter ikke blir avdekket, er høyere enn for feilinformasjon som skyldes utilsiktede feil, siden misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, uriktige fremstillinger eller overstyring av internkontroll.
- opparbeider vi oss en forståelse av intern kontroll som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige etter omstendighetene, men ikke for å gi uttrykk for en mening om effektiviteten av selskapets interne kontroll.
- evaluerer vi om de anvendte regnskapsprinsippene er hensiktsmessige og om regnskapsestimatene og tilhørende noteopplysninger utarbeidet av ledelsen er rimelige.
- konkluderer vi på om ledelsens bruk av fortsatt drift-forutsetningen er hensiktsmessig, og, basert på innhentede revisjonsbevis, hvorvidt det foreligger vesentlig usikkerhet knyttet til hendelser eller forhold som kan skape tvil av betydning om selskapets evne til fortsatt drift. Dersom vi konkluderer med at det eksisterer vesentlig usikkerhet, kreves det at vi i revisjonsberetningen henleder oppmerksomheten på tilleggsopplysningene i årsregnskapet, eller, dersom slike tilleggsopplysninger ikke er tilstrekkelige, at vi modifiserer vår konklusjon. Våre konklusjoner er basert på revisjonsbevis innhentet frem til datoen for revisjonsberetningen. Etterfølgende hendelser eller forhold kan imidlertid medføre at selskapet ikke kan fortsette driften.
- evaluerer vi den samlede presentasjonen, strukturen og innholdet i årsregnskapet, inkludert tilleggsopplysningene, og hvorvidt årsregnskapet gir uttrykk for de underliggende transaksjonene og hendelsene på en måte som gir et rettvisende bilde.

Vi kommuniserer med styret blant annet om det planlagte innholdet i og tidspunkt for revisjonsarbeidet og eventuelle vesentlige funn i revisjonen, herunder vesentlige svakheter i intern kontroll som vi avdekker gjennom revisjonen.

Oslo, 8. mai 2023
Deloitte AS

Grete Elgåen
statsautorisert revisor

Denne revisjonsberetningen er signert elektronisk.