NATIONAL
WEALTH
FUND

Risk Management Framework

v.3.2 July 2025

NATIONAL WEALTH FUND

Summary

This Risk Management Framework ("RMF") provides a coherent foundation for effective risk management providing an overarching methodology and guidelines for governing NWF's key risks. This document is required by NWF's Framework and Financial Framework Documents and is approved annually by the Board of NWF and by HM Treasury (the "Shareholder"). It will also be subject to regular internal audit review. This document details NWF's approach towards risk management, forming the guiding reference framework for all risk policies and guidelines in NWF.

NWF Purpose & Risk Strategy

Purpose and Overview of the Fund

The National Wealth Fund has two strategic objectives; (i) to support regional and local economic growth and (ii) to help tackle climate change. In addition to this NWF must achieve a triple bottom line; helping deliver the government's growth and clean energy missions, generating a return for taxpayers and crowding in private capital.

The achievement of the triple bottom line will be achieved utilising four investment principles:

1) NWF investment supports the government's growth and clean energy missions.
2) NWF investment is in capital intensive projects, businesses or assets.
3) NWF investments are intended to deliver a positive financial return for the Exchequer, in line with its Financial Framework.
4) NWF investment is expected to crowd in significant private capital over time.

Risk Management Strategy

The purpose of the risk management strategy is to embed an effective risk management framework which enables the risks to the Fund's objectives to be managed in as simple and as effective a way as possible. It will foster a risk-aware culture and provide the necessary reporting to provide assurance that key risks are managed within the appetite set by the Board.

The Risk and Compliance function will achieve this through facilitating and overseeing the management of risks associated with the activities that the Fund undertakes and the products and services it provides to its clients.

The risk management strategy components are derived from and are in alignment with government guidance and standards for a public body, including Cabinet Office functional standards and HMT's Orange Book on the management of risk. The risk management strategy will be subject to Internal Audit review.

Embedding Risk Management

The CRO and their team seek to embed risk management by:

- Facilitating the identification, assessment, measurement, and monitoring of key risks to the Fund's objectives.
- Enabling risk appetite to be defined and monitored by the Board.
- Advising, educating, and raising awareness of risk and its management with Fund colleagues.
- Preventing risk exposures exceeding appetite and ensuring remedial actions are put in place where it occurs.
- Defining and communicating risk standards and methodologies.
- Performing independent monitoring and oversight of the effectiveness of key controls; and
- Providing appropriate risk reporting and disclosures to all relevant stakeholders.

Risk Culture

The Fund is consciously building its own culture, a combination of public and private sector ways of working. NWF has developed an Accountable Function approach which aligns with the FCA Senior Managers & Certification Regime and FCA Principles for Business where applicable, as well as the HMT's Orange Book on the management of risk. NWF expects that management, and all employees understand and champion both the basis for risk management and the operating practices laid out in this document.

NWF aims to build a risk-aware culture by designing and embedding good practice risk management through communication and training regarding the Fund's strategy and activities. A key part of this is to establish ownership of risks and controls across the Fund and the ability of staff to escalate matters without fear of any adverse consequences.

Risk Taxonomy

The Risk Taxonomy outlines the key areas of risk that the Fund is exposed to including six higher level one risk categories and 24 level two sub-categories (see below). For the key sub-categories of risk, the Board sets a risk appetite that determines the limit of exposure they are willing to tolerate. Within those areas of risk, specific individual risks can then be identified, assessed, and managed at a granular level on the Fund's and its functions' risk maps and registers.

Risk Category	Definition
Strategic & Business	Strategic & Business risk relates to threats that may inhibit the delivery of the Fund's business strategy. Strategic & Business risk can also arise from setting an inappropriate strategy, unclear plans, priorities, or accountabilities.
Reputational	The risk of damage to the Fund's reputation from adverse events, poor execution, or repeated failures. This includes stakeholder engagement risk.
Financial	Financial risk comprises market risk (including interest rate risk), credit risk, equity investment risk, liquidity, counterparty, and climate-related financial risks. These component risks may result in poor returns from investments, failure to manage assets/liabilities or to obtain value for money from the resources deployed, thus constraining the Fund's balance sheet. Failure to manage financial risks within approved appetite could trigger breach of other key risks including Strategic & Business and Reputational.
Operational - Operations	Operational risk is the risk of loss (or gain) resulting from inadequate or failed internal processes, people, and systems or from external events which impact the operations of the Fund.
Operational - People	The risk of failure to attract and retain suitable and sufficient resource to achieve the Fund's objectives and to build a positive culture.
Operational - Legal & Regulatory	The risk of breaching laws and regulations, breaching contracts, and the potential for legal disputes. This category includes the risk of the Fund's services being used for money laundering or terrorist financing, and the risk of fraud against the Fund.

Governance, Roles, and Responsibilities

Committee Structure

The Board is responsible for the effective management of risk. The setting of risk appetite is a matter reserved for the Board. The Audit & Risk Committee of the Board oversees the key risks and provides advice and challenge to the reporting of risks, controls, and actions to manage risk within Board risk appetite.

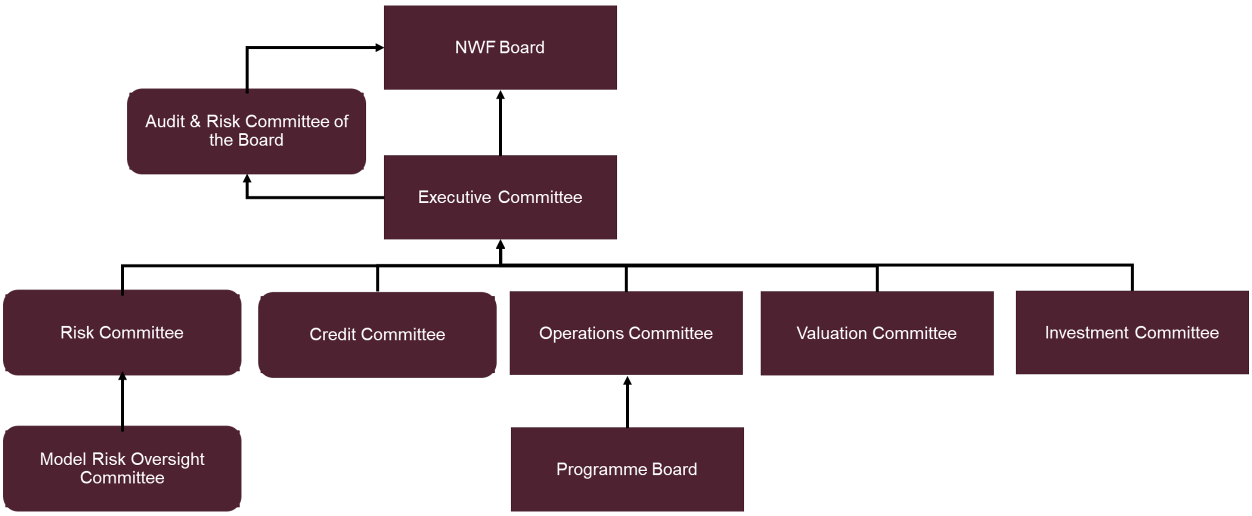
The Risk Committee is a sub-committee of the Executive Committee. It is responsible for reviewing the risk management strategy and frameworks, risk profile, and risk appetite on behalf of the Executive Committee, escalating issues where necessary. The Executive Committee may direct further risk-taking or greater mitigation of risk exposures within the guidelines of the Board's appetite for risk. Significant risks from functional registers may be escalated to the Fund's corporate risk map and register for Executive Committee and Board attention where relevant.

The Model Risk Oversight Committee oversees the quality assurance of the integrity and effectiveness of critical models and reports to Risk Committee. Financial Risk is assessed as part of each deal and the output is submitted to Investment Committee to consider the CRO's recommendation.

Credit Committee is a subcommittee of the Executive Committee. It oversees any changes in risk ratings, annual reviews of investments and covenant waivers or material changes to terms and conditions of any NWF Investment.

Other risks not having separate governance committee arrangements are discussed in the Risk Committee and escalated if necessary.

Governance Committee Structure



The Three Lines of Defence

The Fund operates a three lines of defence model which is considered best practice across financial services and included within HMT's Orange Book on the management of risk.

First Line of Defence (1LOD)

The first line of defence has direct accountability for the identification, assessment, and management of risks. They are also responsible for the provision and maintenance of an effective control environment and compliance with risk-related policies and appetite limits.

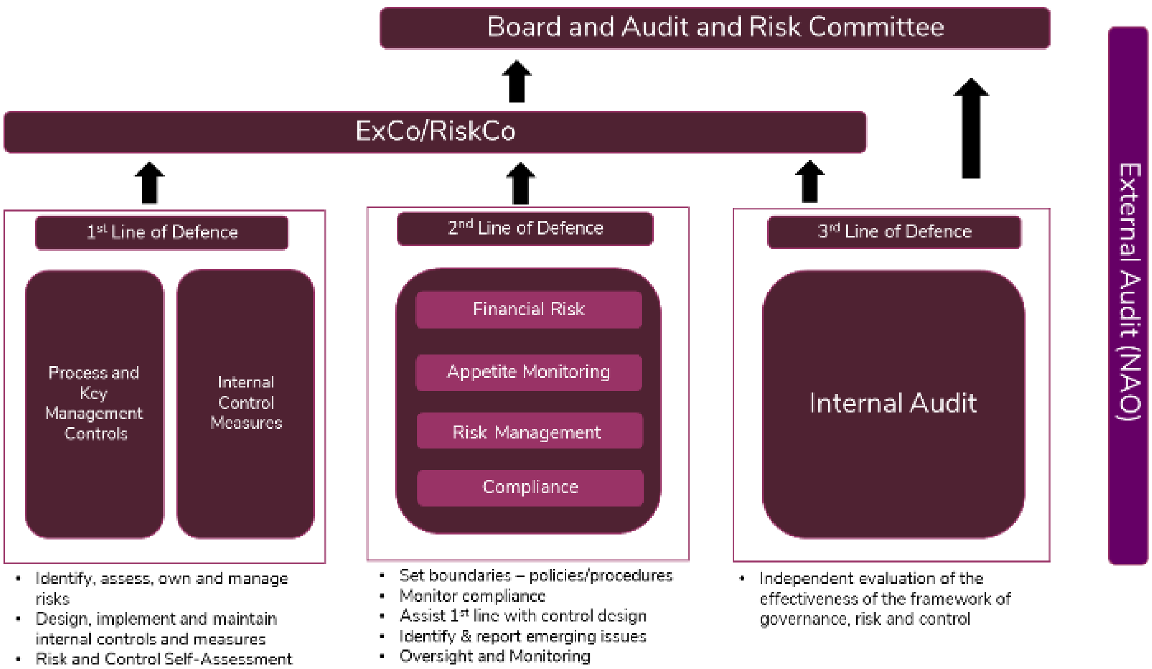
Second Line of Defence (2LOD)

The second line of defence is responsible for facilitating the risk management process and providing oversight and challenge to the effectiveness of risk decisions taken by the first line of defence. The second line of defence is also responsible for the provision and maintenance of risk policies, frameworks, and training.

Third Line of Defence (3LOD)

The third line of defence is the independent assurance provided to the Audit & Risk Committee and the Board by Internal Audit including regarding the effectiveness of risk management across the first and second lines of defence.

The Three Lines of Defence



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Risk Appetite

The Board has set the risk appetite for NWF including an overarching appetite statement which articulates the level of residual risk that the Fund is willing to take or tolerate in achieving its Strategic Objectives.

The overarching risk appetite is stated as follows:

"We will take the risks necessary to achieve our policy ambitions, the required financial return and impact outcomes as defined by the shareholder. We will do this within the constraints of being a publicly owned arm's length body."

The above statement is further clarified by a suite of risk appetite statements, one for each significant level two category of risk that the Fund faces. The Fund has established measures that monitor adherence to the Board's risk appetite
with thresholds indicating at what point the Fund is operating outside of each respective appetite statement and where immediate action may be required. Adherence to risk appetite statements is monitored and reported via a suite of Key Risk Indicators (KRIs) to the Risk Committee, Executive Committee, the Audit and Risk Committee and to the Board. The shareholder will receive reporting on adherence to risk appetite as part of the Quarterly Shareholder Meeting. NWF will report any incidence of a breach and intended actions to remedy the breach to UKGI/ HMT as soon as practicable after internal escalation. Updates on remedies will then also be supplied to UKGI/ HMT until any breaches are resolved.

Economic Capital

Economic Capital represents the amount of capital that NWF needs to protect against unexpected future losses.

The Fund will retain sufficient risk-bearing capacity to constitute a remote ongoing risk exposure to HMT. The Fund will ensure the effective planning and management of capital resources. It will ensure this by conducting stress testing to estimate the expected decline in the amount of capital and liquidity at a specified confidence level within a chosen time horizon. This would help demonstrate NWF's liquidity and capital remains sufficient in severe yet plausible scenarios, results of which will be reported to the Shareholder annually.

The Fund has developed its own Economic Capital methodology, supported by a model for calculating the economic capital attributable to individual investments and the investment portfolio as a whole. In terms of capital adequacy, the Fund will continue for the time being to retain the Standardised approach as it is more conservative than an Internal Ratings-based (IRB) methodology. The methodology has been subject to independent assurance with findings shared with UKGI and HMT. In addition, a stress testing approach has been developed and is conducted each year to test capital and liquidity adequacy and portfolio capital requirements.

Risk Data and Management Systems

NWF acknowledges the importance of ensuring that accurate data underpins the quality of risk management decision-making. CAMMS is the system through which risk capture, risk monitoring and risk reporting is delivered.

Through chairing the Model Risk Oversight Committee, the Head of Financial Risk is responsible for the oversight of business-critical financial and other models and their operation, updates, and application. All information related to budgets, projections, actual financial performance, assumptions, stress-testing, scenario analysis and its financial impact on all risk exposures including liquidity and capital and any related disclosures thereof is managed and maintained by Finance.

Emerging Risks

The CRO will assist senior management in establishing the Fund's emerging risk profile in accordance with the risk strategy. Emerging risks are defined as those which are expected to become more apparent over the next five years, but which may be brought much closer by a trigger event. Emerging risks are discussed with the Board on a regular basis.

The Emerging Risk Register will be maintained by Non-Financial Risk and will be reviewed and updated with stakeholders at least on an annual basis, feeding into the CRO report that is tabled at ARC and shared with UKGI and HMT.

Environmental, Social, Resilience and Governance

The Fund's Strategic Objectives of helping to tackle climate change (including supporting the net emissions target by 2050) and supporting regional and local economic growth are aligned to managing Environmental, Social, Resilience and Governance (ESRG) risk. Meeting those objectives will primarily be achieved through the lending and investment decisions NWF makes. NWF has an Impact Framework and an ESRG Framework to assess both the opportunities and risks of any potential investment, including ESRG screening.

ESRG screening might raise financial, reputational, regulatory or policy risks and we are developing our standards for this screening. We will incorporate them through our risk framework. In addition to effective investment, the Fund must also manage the impact of its day-to-day operations on the environment.