IGUAKO CAPITAL · Group policy

Risk Appetite Framework

This framework is the group's answer to the fourth of its four underwriting tests: what loss it is prepared to accept before capital moves. It sets the risk appetite statement the Board approves each year, defines eight categories of risk, fixes quantitative limits for the proprietary balance sheet of US$610 million, states the risks for which the group has no appetite at all, cascades limits from the Board to the desks and defines how a limit breach is escalated. The Chief Risk Officer owns the framework and reports against it monthly.

CODE	CATEGORY	VERSION
IGC-GR-001	Governance and risk	4.0
EFFECTIVE	**REVIEW**	**OWNER**
2022-03-01	Annual, approved by the Board with the strategic plan. Last reviewed March 2026. Next review due March 2027.	Chief Risk Officer

1. Purpose and the fourth test

Before capital moves, the group asks four questions: is the advantage structural or temporary, can it be converted and on what timetable, is this the best available use of the proceeds, and what loss are we prepared to accept. The first three are investment judgements. The fourth is a governance judgement, and it is made once a year by the Board for the whole group and then applied to every position. This framework records that judgement and the machinery that enforces it.

The framework covers the proprietary balance sheet, the committed but undrawn facilities of US$215 million and the group's own operations. It sets the standards the group applies when it manages the US$842 million client portfolio under stewardship, but the limits for each client mandate are set in that mandate and are governed by the Suitability and Appropriateness policy. The group never uses the appetite for its own capital as a reason to take a risk a client did not agree to.

The Chief Risk Officer owns the framework, proposes the annual statement, monitors utilisation and reports breaches. The Risk & Valuation Committee reviews the framework and recommends it to the Board. The Board approves the statement and the Tier 1 limits, and no one below the Board may raise a Board limit.

2. Structure of the framework

The framework has three parts. The risk appetite statement is a short document, approved by the Board each March, that states in words what the group will and will not do. The quantitative limits translate the statement into numbers for each risk category. The qualitative standards cover the risks that numbers do not capture: conduct, reputation and strategy. Together they are the appetite; none stands alone.

Eight risk categories are used: credit, market, liquidity, operational, model and technology, conduct, reputational and strategic. Each has a named executive owner and a place in the monthly risk dashboard.

Limits are set at three levels. Board limits bind the group. Executive Committee limits are set below Board limits so that the sum of divisional allocations does not exceed 85 per cent of any Board limit. Desk and division limits are set by the Executive Committee within its own allocation.

Utilisation of any limit above 85 per cent is amber and above 100 per cent is red. The colours are not advisory. An amber limit requires the owner to explain within five business days how utilisation will be brought down or why the Board should be asked to change the limit. A red limit is a breach and follows the escalation in this policy.

3. Quantitative appetite

The stressed loss tolerance is the anchor. A severe combined stress, defined each year by the Risk & Valuation Committee and run quarterly, may not consume more than 15 per cent of the proprietary balance sheet over twelve months. At US$610 million that is US$91.5 million, and the stress at 30 June 2026 consumed 11.2 per cent. Every other limit is set so that, if all were fully used at once, the stress result would remain inside the tolerance.

Concentration limits are expressed as shares of the proprietary balance sheet or of proprietary positions. No single name may exceed 8 per cent of the balance sheet, which is US$48.8 million; the largest at 30 June 2026 was 5.1 per cent. No single origination sector may exceed 35 per cent of proprietary positions and no single deployment sector may exceed 25 per cent; the largest sector, pharmaceuticals, stood at 28 per cent. No jurisdiction other than the Cayman Islands may hold more than 30 per cent of proprietary positions.

Market risk in the Quantitative Strategies division is limited to a one-day value at risk of US$4.5 million at the 99 per cent level, with a hard stop that halts new risk-taking if the monthly loss reaches US$9 million. Credit risk in the Commercial Finance division is limited to an expected loss of 1.5 per cent of the book each year. Liquidity appetite is a survival horizon of at least 90 days under combined stress without drawing the committed facilities, as set in the Liquidity and Funding policy.

Operational loss appetite is US$3 million in aggregate in any year, and any single event above US$250,000 is reported to the Board at its next meeting. Model and technology appetite is expressed through the Model Risk Management and Information Security policies: no Tier 1 model in use without current validation, and no severity 1 incident unresolved beyond its recovery objective.

- Stressed loss: not more than 15 per cent of the proprietary balance sheet (US$91.5 million) over twelve months.
- Single name: not more than 8 per cent of the balance sheet (US$48.8 million).
- Sector: not more than 35 per cent of proprietary positions in one origination sector or 25 per cent in one deployment sector.
- Jurisdiction: not more than 30 per cent of proprietary positions outside the Cayman Islands.
- Market: one-day value at risk of US$4.5 million at 99 per cent; hard stop at a US$9 million monthly loss.
- Operational: US$3 million aggregate per year; single events above US$250,000 reported to the Board.

4. Risks with no appetite

Some risks the group does not accept at any price, and the statement lists them without a limit because no utilisation is tolerable. The group has no appetite for a sanctions breach, for market abuse by any member of staff, for an automated decision about a client, for the sale of client data, for a position that fails the standards in the Animal and Biological Welfare in Investment policy, for retail business in any jurisdiction or for external capital to fund Programme Latitude.

The last of these is a statement about the group's nature. Every phase of Programme Latitude from 2026 to 2032 is funded from realised proceeds. A phase that cannot be funded from proceeds is deferred, not financed. The Expansion Committee confirms the funding source of each phase to the Board before the phase begins, and the Chief Risk Officer confirms that the phase sits inside the appetite for the year.

Conduct and reputational appetite are stated in words because they cannot be measured in advance. The group will not enter a market it cannot serve to the standard of its existing markets, will not accept a client whose source of wealth it cannot establish, and will not defend a position by withholding information from a counterparty or a regulator. A breach of any of these is treated as a red limit.

5. Monitoring and reporting

The Chief Risk Officer publishes the risk dashboard monthly. It shows every Board and Executive Committee limit, its utilisation, its colour, its trend over twelve months and the owner's commentary on any amber or red item. The dashboard is drawn from the group risk aggregation engine, a Tier 1 model under the Model Risk Management policy, and the figures are reconciled to the finance ledger before publication.

The Risk & Valuation Committee reviews the dashboard each month and the stress results each quarter. The Board receives the dashboard quarterly and the full stress results twice a year. Each division head confirms in writing each quarter that the division has operated within its allocated limits or lists every departure. Internal Audit tests the aggregation and the reconciliation annually.

6. Breaches and escalation

A red limit is reported to the Chief Risk Officer within 24 hours of the utilisation being known, whether it arose from a new position, a market move, a revaluation or a change in the balance sheet. The owner delivers an action plan within five business days stating how the breach will be cured and by when. The Chief Risk Officer informs the Chair of the Risk & Valuation Committee on the day of the report and the Board at its next meeting or within ten business days, whichever is sooner.

A breach is cured by reducing the position, by hedging, or by a Board decision to change the limit, and only the Board may take the last of these. A breach that is not cured on the timetable in the action plan is a matter for the Board Chair. In the twelve months to 30 June 2026 the framework recorded three amber items and one red: a single-name limit exceeded when a pharmaceutical exit was delayed by a counterparty, cured within twelve days by a partial secondary sale.

No breach is concealed by netting, by reclassification or by timing. A position that would breach a limit if entered is not entered, and pre-trade limit checks in the order management and lending systems enforce this for market and credit limits. Where a check is overridden, the override is recorded with the approver's name and is itself reported on the dashboard.

7. Review

The framework is reviewed each year alongside the strategic plan, so that the appetite and the strategy are approved together and neither is set without the other. It is reviewed again whenever the proprietary balance sheet changes by more than 10 per cent, when a Programme Latitude phase begins and after any red breach. Each Latitude phase carries an appetite annex that states the new jurisdictions and services and their effect on the limits.

The Board discusses the framework in a dedicated session each year without the executive present, led by the Chair and the chair of the Risk & Valuation Committee. The purpose of the session is to ask whether the limits still describe the loss the partnership and its co-investors are prepared to accept, which is the only question the fourth test asks.

Key controls

- Board-approved risk appetite statement renewed each March alongside the strategic plan.
- Stressed loss tolerance of 15 per cent of the proprietary balance sheet, tested quarterly.
- Concentration limits by name, sector and jurisdiction enforced by pre-trade and pre-lending checks.
- Three-level limit cascade with Executive Committee allocations capped at 85 per cent of Board limits.
- Amber and red thresholds with fixed response times of five business days and 24 hours.
- Monthly risk dashboard reconciled to the finance ledger and drawn from a validated Tier 1 model.
- Quarterly written confirmation by each division head of operation within allocated limits.
- Recorded and reported overrides of any pre-trade limit check, with the approver named.

Related policies

- Liquidity and Funding (IGC-GR-002)
- Model Risk Management (IGC-DT-004)
- Operational Resilience (IGC-GR-003)
- Valuation of Investments (IGC-MT-005)

Colophon

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