KKR Capital Markets Limited

Pillar 3 Disclosures

June 2018

1. Background

The European Union Capital Requirements Directive IV sets out the regulatory framework governing the amount of capital which must be maintained by credit institutions and investment firms. In the UK the directive has been adopted by the Financial Conduct Authority ("FCA") within the Prudential Sourcebook ("IFPRU") for management of investment firms.

The regulatory framework comprises three Pillars:

- Pillar 1 sets out the minimum capital requirements that a firm is required to meet;
- Pillar 2 requires the firm to assess the amount of capital that would be adequate to cover the risks that the firm has or may be exposed to (Internal Capital Adequacy Assessment Process); and
- Pillar 3 requires the firm to disclose its risk management strategies, policies and processes, capital resources, capital requirements and the firm's approach to assessing capital adequacy.

The purpose of this document is to provide the Pillar 3 disclosures required by the directive. The requirements provide for the omission of one or more of the required disclosures if such information is considered to be immaterial, proprietary or confidential.

KKR Capital Markets Limited ("KCML" or the "Firm") is a private limited company authorised by the UK FCA as a managed IFPRU investment firm. KCML is an indirect subsidiary of Kohlberg Kravis Roberts & Co L.P. ("KKR"), a Delaware entity. KKR is a US Securities and Exchange Commission ("SEC") registered investment advisor.

The activities of the firm are divided into two core lines of business:

- Capital markets: KCML supports KKR portfolio companies and third party clients by providing tailored capital markets services and developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing; and
- Capital Raising (the Clients and Partners Group, "CPG"): KKR's CPG activities for the EMEA region are located within KCML for regulatory purposes. CPG assists KKR with investor relations and capital raising globally across a range of products and fund platforms. CPG is the name of a business function within KKR. CGP is not a legal entity

2. Scope of Application

KCML is regulated by the FCA on a stand-alone basis and is not subject to consolidated supervision. The Pillar 3 disclosures contained within this document therefore apply to KCML on an individual basis.

3. Frequency of Disclosure

The Firm publishes Pillar 3 disclosures on at least an annual basis. Given the scale and range of its operations and complexity, the Firm assesses that there is no need to publish some or all of its disclosures more frequently than annually.

4. Board of Directors

4.1 Board of Directors

The Firm is managed by its CEO and its Board. Mr. John Empson serves as CEO and Chairman of the Board. Mr. Alex Fletcher (who headed the KCML CPG team and was a member of the Board Directors) left the Firm as of 30 June 2018. Mr. Kevin McMahon has been appointed to the KCML Board with oversight responsibility for CPG; Mr McMahon's appointment was approved by the KCML Board on June 18th 2018 and by the FCA on 11th July 2018.

4.2 Recruitment and diversity

In considering new appointments to the Board, the Firm acknowledges the importance and benefits of diversity (including, without limitation, by reference to the experience, background, race, culture, age and gender of any prospective candidates) in the boardroom. It is the policy of the Firm that all appointments to the Board are based on merit against objective criteria and with due regard to the benefits of diversity.

5. Risk Management objective and policies

5.1 Risk management body

The KCML Board of Directors have ultimate responsibility for the wider risk management of the Firm. The Board are responsible for implementing the Firm's business plan and establishing its risk appetite. The Board reviews its risk appetite determinations at least annually, including in connection with the ICAAP process.

The Board meets on a quarterly basis and at such other times as may be necessary to review, discuss and approve matters relating to the Firm such including risk management (quarterly risk report, KCML Risk dashboards and risk register/ICAAP review).

The KCML Risk Officer independently reports to the Board of KCML on a quarterly basis, including reporting the results of the Risk Appetite Statement measures.

5.2 Risk Management Framework

The KKR group operates an enterprise level risk governance framework and committee structure based on the three lines of defence model. This approach enables independent oversight of both (i) the primary risk takers in the business, as well as (ii) oversight of the risk and control functions that enable and advise the business on risk optimization:

- First line of defence: business owners are responsible for the identification and management of risks. Oversight of KKR's overall businesses and associated risks is executed by local and global committees for each business line. The KCML CEO and Board of Directors are the first line of defence for KCML.

- Second line of defence: KKR's control functions including Compliance, Finance and Risk advise on risk management strategies for the Firm, monitor risk management practices for the Firm and their implementation, provide independent challenge and provide reporting to (i) the business, (ii) the relevant Global or Regional Head of their function and (iii) to the KKR Risk and Operations Committee (ROC).

- Third line of defence: Internal Audit provides independent testing and validation of business processes and risk management, reporting to the KKR Global Audit Committee. Internal Audit also shares its reports with the relevant business heads, CEO and Board of Directors; the KKR ROC; and, for KCML, to the KKR EMEA Audit, Risk and Compliance Committee which is chaired by the Chief Compliance Officer – International Markets.

5.2 Risk appetite statement

Our risk management policies and processes are comprehensive and proportionate to the nature and scale of KCML's activities.

The risk appetite framework is discussed and agreed with the Board, and is reviewed and updated each year based on the development of the key risks / risk profile of the Firm.

The methodology for deriving these statements is as follows:

- Through the annual Risk Register review, the Firm identifies the material risks to achieving KCML objectives and strategy
- For the material risks identified, KCML has developed a comprehensive set of risk appetite objectives and area-specific risks

Each quarter, the KCML Board of Directors receives a complete set of risk appetite statements as well as the KCML Risk Dashboards (which the statements feed into). These are discussed during the Board meeting and any necessary mitigating actions agreed and assigned. Any items requiring action are monitored and tracked by the relevant control functions and the Risk team. The Board is kept informed of meaningful developments as they arise and/or at the next Board meeting as appropriate.

5.3 Adequacy of risk management arrangements

The Board considers that is has in place adequate and appropriate systems and controls with regards to the Firm's strategy and that the Firm is properly resourced and skilled, to avoid or minimise loss.

5.4 Business risk

The following risks are considered to be the most significant business risks:

a. **Revenue Generation:** this represents the risk to the ability of the Firm to generate revenues in line with the business plan. The main causes identified for potentially impacting revenue generation are:
    - Macro and political factors capable of negatively impacting deal flow
    - Underwriting and syndication risk

Although the vast majority of KCML's business is conducted on a best efforts or arrangement basis (and therefore does not involve underwriting risk), when KCML acts as the underwriter of record the underwriting risk is controlled and managed by ensuring that all new underwriting transactions are approved by the KCM Europe Underwriting Committee and the KCM Capital Commitments Committee. For commitments above $100m, a further approval by the KKR Balance Sheet Committee would be required. KCML considers the risks in its business carefully and seeks to reduce and mitigate risks so as to ensure it maintains an appropriate capital position.

b. **Risk regarding the ability to attract and retain appropriate investors** into the KKR Funds and the management of investor relations.

To manage the risks regarding the ability to attract and retain appropriate investors into the KKR Funds and to successfully manage investor relations, a team of individuals with solid experience in capital raising and investor relations perform marketing activities for the KKR Funds and manages investor relationships. Currently the performance of KKR's flagship funds are top first or second quartile which gives the board a degree of comfort that the team will be able to continue to attract new funds and investors. The recent performance of KKR's flagship funds are top first or second quartile which gives the Board a degree of comfort that the team will be able to continue to attract new funds and investors.

5.5 Operational risk

Operational risk includes a risk of loss resulting from inadequate or failed internal processes relating to human resources, legal, compliance, IT systems, financial reporting, public affairs, tax and insurance. KCML has processes and controls in place to manage and mitigate operational risks and, as a result, operational risks are not considered to be net material risks to the business.

5.6 Credit risk

KCML does not have material exposures to credit risk save for risk on banks with which it deposits funds.

5.7 Market (Foreign exchange) risk

The risk that changes in the value of non-sterling denominated income and expenses, and assets or liabilities, will adversely impact the capital position of the Firm. The Firm may be exposed to risks associated with fluctuations in exchange rates due to the fact that its revenues and expenses may be denominated in different currencies. The Firm's revenues and expenses are principally charged or incurred in GBP, Euros or Dollars. The Firm has no other market risk exposures. The Firm has gross assets of £101.8m of which £99.2m relates to cash and cash equivalents. The Firm has implemented a policy to hold all material cash balances in GBP.

6. Capital Resources and Capital Adequacy

KCML obtained regulatory approval in 2008. The Firm is a managed IFPRU investment firm and is bound by the Capital Requirements Directive ("CRD IV").

As at 31 December 2017, KCML's capital resources were comprised of Tier 1 capital only, which included share capital, a capital contribution reserve and audited accumulated profits. The Firm's capital position as of 31 December 2017 is shown below.

Own funds	£'000
Ordinary share capital	4,050
Accumulated reserves[1]	88,146
Shareholders' funds per the 2017 financial statements	**92,196**
Unaudited 2017 reserves	(54,083)
Own funds - Tier 1 Capital	**38,113**

[1] *During the financial year the Firm paid no dividend to its parent company.*

Ordinary share capital consists of 4,050,000 ordinary shares at £1.

In addition to the Tier 1 Capital above, KCML currently has access to additional capital resources through its direct parent company, KKR Capital Markets Holdings L.P.

7. Capital requirements and ratios

7.1 Minimum Capital Requirement

The Firm's overall regulatory capital requirements are determined after performing Pillar 1 capital calculations, assessing Pillar 2 capital requirements and taking into account any Individual Capital Guidance ("ICG") issued by the FCA.

The calculation of Pillar 1 and Pillar 2 capital requirements allows the Firm to determine, and subsequently monitor, the appropriate amount of capital to be held based on its risk profile.

During the financial year ended 31 December 2017, the Firm maintained surplus capital resources at all times to satisfy its minimum capital requirements.

The Firm's Pillar 1 capital requirement at 31 December 2017, calculated in accordance with the guidance set under the Capital Requirements Directive, is detailed below.

Pillar I capital requirement	£'000
Operational Risk	3,764
Credit Risk	1,797*
Market (FX) risk	1,704
Total	**7,265**

**Arising from cash at banks and fee receivables. All assets are unencumbered.*

7.2 Pillar 1 Capital

Operational risk

Operational risk is calculated using the basic indicator approach as 15% of average income over the last three years.

Credit risk

Credit risk is calculated using the standardised approach whereby credit exposures in relation to institutions and corporates are assigned a risk weighting depending on the credit quality step the are allocated using External Credit Assessment Institutions (Moody's & Standard and Poor). KCML's credit risk capital requirements are summarised as follows:

£'000	Original exposure	Risk Weighted assets	Own funds requirement
Institutions	99,590	20,261	1,621
Corporates	2,184	2,196	176
Total	**101,774**	**22,457**	**1,797**

Credit risk by credit rating is summarised as follows:

£'000	Original exposure	Risk Weighted assets	Own funds requirement
Aaa to Aa3	90,857	18,171	1,454
A1 to A3	8,304	1,661	133
Baa1 to Baa3	206	206	16
B1 to B3	14	21	2
Caa1 and below	9	14	1
Unrated	2,384	2,384	191
Total	**101,774**	**22,457**	**1,797**

The Firm's policy for assessing impaired balances is detailed in the 2017 financial statements.

'Past due' assets are defined as receivables which are outstanding past their contractual payment date.

Market (FX) risk

FX risk arises from foreign exchange exposures on non-sterling denominated balances held with institutions or due from corporates, a straight 8% charge is taken on these balances.

7.2 Pillar 2

Pillar 2 requires firms to assess the amount of internal capital they consider adequate to cover all of the risks to which they are, or are likely to be, exposed to. It also requires firms to consider the costs associated with winding down the Firm (orderly wind down) and various stressed scenarios. The Firm's Pillar 2 requirement has been assessed as being £18,869k (inclusive of Pillar 1 items above and capital buffers), and therefore is the minimum capital requirement of the Firm.

7.3 Capital buffers

Capital buffers include the countercyclical (CCyB) and capital conservation (CCoB) buffer and total £2.2m as at 31 December 2017. The CCyB arises as the firm had credit exposures in Sweden where the CCyB rate was 2.0%. The CCoB was set at 1.25% for the year ending 31 December 2017.

7.4 Capital ratios

The Firm's capital ratios as at 31 December 2017 are as follows:

Ratio	
Common Equity tier 1 capital ratio	41.97%
Tier 1 capital ratio	41.97%
Total capital ratio	41.97%

8. Oversight

The Directors monitor the on-going compliance of the Firm with its capital requirements and assess the impact on capital adequacy of each deal prior to approval. This ensures that the Firm maintains adequate capital to cover its credit, market and operational risks at all times.

9. Internal Capital Adequacy Assessment Process ("ICAAP")

KCML conducts at least annually an internal assessment of the amount of capital that is considered adequate to cover the risks facing the Firm's current and future activities.

Determination of the business strategy for the Firm includes the projection of financial profitability, capital resources and capital requirements. The key risks to which the business is or might be exposed are considered along with the amount of capital that would be considered adequate to cover the Firm in the event that those risks were to crystallize. In addition, the economic environment and the impact of adverse economic conditions on the Firm's profitability and capital position are considered, as well as the actions that management would take in those situations.

10. Leverage ratio

The Firm's leverage ratio as at 31 December 2017 is 37.45% (Tier 1 capital of £38,113k as a percentage of total leverage ratio exposures of £101,774k).

The Firm does not use leverage as an integral part of its business model and does not consider the excess leverage to be a material risk.

11. Remuneration Code

KCML is subject to the FCA's rules on remuneration. The rules are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration both fixed and variable. KCML in line with KKR group remuneration policies offers a fixed base salary to its employees and also a variable remuneration, which is dependent on individual and business performance. Certain KCML representatives including the CPG group and certain support and control personnel are employed by affiliates of KCML. In such cases such affiliate is responsible for funding their remuneration. In certain cases KCML may reimburse certain affiliates for compensation costs.

KCML's policy is designed to ensure compliance with the RemCode and the Firm's compensation arrangements:

- Do not encourage excessive risk taking;
- Are consistent with and promote effective risk management;
- Include measures to avoid conflict of interest; and
- Are in line with the Firm's business strategy, objectives and interests.

The RemCode requires authorised firms to apply principles of proportionality when establishing and applying their remuneration policies. The FCA applies the proportionality by categorising firms into three tiers. KCML falls into tier three and as such this disclosure is made in line with the requirement of a tier three firm.

The remuneration of the KCML Board Members is set by the Global Heads of KKR Capital Markets and the Client Partner Group, as appropriate, in conjunction with members of the KKR Management Committee and with the assistance of the human resource department, having regard to the principles laid out in the Firm's Remuneration Policy Statement and the Firm's Conflict of Interest Policy. Similarly, remuneration for other KCML employees is overseen by the Board, in line with the strategic guidelines and decisions of the wider KKR Capital Markets business and KKR Management Committee, with the assistance of human resources.

Appropriate measures are taken to ensure that Support and Control employees are not placed in a position where their activities could be directly linked to an increase in their variable Remuneration. In addition to reporting to KCML's CEO, the Support and Control Employees have independent reporting lines to the Global Head of the relevant Support and Control function who also have input to Support and Control Employee remuneration.

Remuneration is made up of fixed and variable elements. Variable remuneration is discretionary and is awarded based on performance against a number of financial and non-financial metrics, in each case taking appropriate consideration of all regulatory guidance, the function of the relevant employees and the impact of their actions on the risk profile of the Firm. Variable remuneration is paid in cash and in certain cases in common units of KKR, which may be subject to a deferral process.

For the year ended 31 December 2017, the number of Senior Management staff who are involved in the KCML business and members of staff who have a material impact on the risk profile of the KCML business was 16, of which 10 were paid greater than €1 million or more for the year ended 31 December 2017.

For the year ended 31 December 2017, total remuneration payable to Senior Management who are involved in the KCML business and members of staff who have a material impact on the risk profile of the KCML business was £19.9m (£2.4m fixed and £17.5m variable, being £9.4m of cash paid in the period and £8.1m of equity awards which typically vest over a number of years and included a number of one off awards in the year), a portion of which was paid by affiliates.