

KKR Credit Advisors (UK) LLP

PILLAR 3 DISCLOSURES

JANUARY 2016

1. Background

The European Union Capital Requirements Directive 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 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 in BIPRU Chapter 11. 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 Credit Advisor (UK) LLP (“KCAUK” or the “Firm”) is a limited liability partnership company authorised by the UK FCA as a managed IFPRU investment Firm.

KCAUK is a consolidated subsidiary of KKR & Co L.P. (“KKR”), a Delaware entity, (NYSE: KKR).

KCAUK’s primary regulatory activity is portfolio management of alternative investment funds.

2. Scope of Application

KCAUK 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 KCAUK on an individual basis.

3. Risk Management

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

KCAUK management committee has appointed the Head of Risk with the responsibility for implementing and maintaining risk management within KCAUK. The KKR Global Risk Committee is responsible for identifying, prioritizing and

monitoring risk for KKR on a global basis and is accountable to KKR's Management Committee, which is responsible for KKR's global operations.

Business and fund performance risk

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

The risk that strategic business decisions prove to be ill-founded or poorly executed (e.g. performance, investment decisions, moves into new markets, products, or regions; changing the operating model), or there is a failure to anticipate / react to a more general shift in the economic environment or the loss of key personnel).

Business and fund performance risk is controlled and managed by ensuring that all new investments are approved by the Investment Committee and all new strategic initiatives are approved by the Management Committee. KCAUK considers the risks in its' business carefully and seeks to reduce and mitigate risks so as to ensure it maintains an appropriate capital position.

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.

Reputational risk

The current and prospective impact on earnings (and/or access to liquidity and capital) arising from how KCAUK is perceived by counterparties, regulators, clients and governments is considered an ongoing risk to KCAUK.

This risk is managed centrally via the KKR Public Affairs team, the KKR client relationship team and locally by the KCAUK's Management Committee.

Operational risk

The risk of loss resulting from inadequate or failed internal processes relating to back office operations, human resources, legal, compliance, IT systems, financial reporting, public affairs, tax and insurance.

KCAUK has processes and controls in place to manage and mitigate operational risks and local controls are supplemented by operational support from KKR.

Credit and market risk

KCAUK does not have material exposures to credit risk save for fee receivables and risk on banks with which it deposits funds and no material net exposures to market risk.

4. Capital Resources and Capital Adequacy

As at 31 December 2015, KCAUK's capital resources were comprised of Tier 1 capital only, which included members' capital, and audited accumulated profits but does not take into account the unaudited profits of the Firm occurring subsequent to such date.

Capital Position as of 31 December 2015 (Amount in €000)

	<u>€000</u>
Own Funds & Members' Capital	3,846
Reserves	<u>-1,212</u>
Available Tier 1 Capital	2,634

In addition, KCAUK currently have access to additional capital resources through KCAUK's direct parent company and ultimately from the KKR Group.

KCAUK is a managed IFPRU investment firm and is bound by the Capital Requirements Directive ("CRD"). KCAUK is authorized and regulated by the Financial Conduct Authority (the "FCA").

5. Minimum Capital Requirement

As at 31 December 2015 KCAUK's minimum regulatory capital requirement was €801k. The minimum regulatory capital requirement is calculated using the basic indicator approach.

6. Oversight

The management committee monitor the on-going compliance of the Firm with its minimum capital requirements and ensures that the Firm maintains adequate capital to cover its material risks at all times.

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

KCAUK 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. Stress testing and scenario analysis are also conducted on these projections in order to determine the appropriate level of capital required to be held by the Firm. 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.

8. Remuneration Code

KCAUK 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. KCAUK in line with KKR offers a fixed base salary to its employees and also a variable remuneration, which is dependent on individual and business performance.

KCAUK'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;
- 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. KCAUK 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 KCAUK management committee is set by the Global Heads of KKR Credit, 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.

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 KCAUK'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 and carry dollar, which may be subject to a deferral process.

For the year ended 31 December 2015, total remuneration payable to Senior Management who are involved in the KKR Credit Advisors (UK) LLP business was €1.88m.