KKR Kohlberg Kravis Roberts

KKR Capital Markets (Ireland) Limited

Pillar 3 Disclosures

June 2021

1. Background

The European Union Capital Requirements Directive ("CRD" or "the Directive") as amended, sets out the regulatory framework governing the amount of capital which must be maintained by credit institutions and investment firms in Europe.

As an authorised MiFID regulated investment Firm in Ireland, the CRD applies to KKR Capital Markets (Ireland) Limited, hereafter "KCMI" or "the Firm". 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.

KCMI is a private limited company authorised and regulated by the Central Bank of Ireland. KCMI is an indirect subsidiary of KKR & Co. Inc. ("KKR"), a Delaware entity, (NYSE: KKR). 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: KCMI 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 KCMI 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

KCMI is regulated by the Central Bank of Ireland ("CBOI") on a stand-alone basis and is not subject to consolidated supervision. The Pillar 3 disclosures contained within this document therefore apply to KCMI 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 currently 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. Michael Buckley serves as Chairman of the Board and Mr. Mark Danzey serves as Chief Executive Officer. Ms. Eileen Fitzpatrick serves as an Independent Non-Executive Director,Mr. Kevin McMahon serves as an Executive Director of the Board and Ms Christine D'Agostino and Ms Valeria Rebulla serve as Non-Executive Directors of the Board.

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 KCMI 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, KCMI Risk dashboards, risk register and ICAAP review).

The Risk Officer independently reports to the Board of KCMI 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.

- Second line of defence: KKR's control functions including Compliance, Finance and Risk control and implement risk management strategies, monitor risk management practices 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 KCMI, to the KKR EMEA Audit, Risk and Compliance Committee (the KKR EMEA "ARC") which is chaired by the KKR Chief Compliance Officer for International Markets.

The Board is responsible for oversight of the Risk Management Framework.

5.3 Risk appetite statement

The Firm's risk management policies and processes are comprehensive and proportionate to the nature and scale of KCMI'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 KCMIL objectives and strategy
- For the material risks identified, KCMI has developed a comprehensive set of risk appetite objectives and area-specific risks

Each quarter, the KCMI Board of Directors receives a complete set of risk appetite statements as well as the KCMI 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.

Should a risk appetite limit be reached, depending on the severity of it, the matter would also be escalated to other key KKR and KCM business and risk management heads and to the relevant KKR global governance bodies. Escalation is the responsibility of the CEO and the Board, and the Heads of the relevant KCMI support and control functions as applicable.

5.4 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.

5.5 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 KCMI's business is conducted on a best efforts or arrangement basis (and therefore does not involve underwriting risk), when KCMI 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. KCMI 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. The performance of KKR's current 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.

c. Exogenous risk to the business

This represents the risk arising from exogenous shocks such as COVID-19.. Such a risk caused disruption to the firm, the market and the global economy as well as the human costs – the firm's strategy remains unchanged and our robust policies and procedures, including IT & BCP have mitigated any material business disruption. However, the longer-term impacts on the global economy may have a negative effect on performance of the consolidated group going forward.

5.6 Operational risk

Operational risk includes a risk of loss resulting from inadequate or failed internal processes relating to human resources, legal, compliance, regulatory, IT systems, financial reporting, public affairs, reputations, tax and insurance. KCMI has processes and controls in place to manage and mitigate operational risks.

5.7 Credit risk

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

5.8 Market (Foreign exchange) risk

KCMI does not have material exposures to market risk save for any non-Euro denominated income and expenses, and assets or liabilities. 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.

6. Capital Resources and Capital Adequacy

As at 31 December 2020, KCMI'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 2020 is shown below.

Own funds	€'000
Capital Contributions	25,133
Accumulated reserves	11,928
Shareholders' funds per the 2020 financial statements	**37,061**
Own funds - Tier 1 Capital	**37,061**

In addition to the Tier 1 Capital above, KCMI currently has access to additional capital resources through the Firm's direct parent company and ultimately from the KKR Group.

7. Capital requirements and ratios

7.1 Minimum Capital Requirements

As at 31 December 2020 KCMI's minimum regulatory capital requirement was €7,033K. The minimum regulatory capital requirement is calculated as the sum of the Firm's initial capital requirement, its credit risk, market risk and basic indicator requirements plus the Firm's pillar II requirement.

Pillar I capital requirement	€'000
Initial Capital Requirement	730
Operational Risk	2,350
Credit Risk	988
Market (FX) risk	441
Total	**3,778**

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

7.2 Pillar 2 Capital Requirements

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 Pillar 2 methodology is updated and reviewed by the Board at least once annually as part of the ICAAP process. Reports assessing of the capital resources that are relevant given the nature and level of risks and potential risks of the Firm, are prepared for the Board. Each risk exposure is assessed using the most appropriate technique to determine how much capital is appropriate for that particular risk.

For those risks that have impact in the future, rather than causing an immediate depletion of the capital surplus, assessment has been made through stress testing of the impact on the financial forecasts. These scenarios are designed to cover severe but plausible circumstances.

7.4 Capital ratios

The Firm's capital ratios as at 31 December 2020 are as follows:

Ratio	
Common Equity tier 1 capital ratio	78%
Tier 1 capital ratio	78%
Total capital ratio	78%

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")

KCMI 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 2020 is 95% (Tier 1 capital of €37.1M as a percentage of total leverage ratio exposures of €38.9M).

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

KCMI is authorised and regulated by the CBOI as a MIFID investment Firm and is subject to the rules on remuneration outlined in the CRD IV and CRR (collectively referred to as "CRD"). The CRD remuneration rules cover an individual's total remuneration both fixed and variable. KCMI, 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.

KCMI's policy is designed to ensure compliance with the CRD 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 CRD requires authorised Firms to apply principles of proportionality when establishing and applying their remuneration policies, having regard to their size, internal organisation, nature, scope and complexity of their activities. The proportionality principles outlined in the CRD and the European Bank Authority Guidelines aims to match the remuneration policies and practices with the individual risk profile, risk appetite and the strategy of the Firm. KKR CAI's policy and disclosures are made in accordance with these principles.

The remuneration of the KCMIL Senior Management 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 KCMI employees is overseen by the Board, in line with the strategic guidelines and decisions of the wider KKR Capital Markets business and the Investment, Management & Distribution Committee, with the assistance of the Human Capital team.

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 KCMI'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.

The Remuneration Policy (in accordance with requirements of the CRD) outlines the governance framework supporting the remuneration practices in relation to staff whose professional activities have a material impact on the Firm's risk profile ("Identified Staff"). The schedule of Identified Staff is maintained by Compliance

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 2020, the number of Senior Management including identified staff who are involved in the KCMI business and members of staff who have a material impact on the risk profile of the KCMI business was 10.For the year ended 31 December 2020, total remuneration awarded to Senior Management who spend the majority of their time involved in the KCMI business and members of staff who have a material impact on the risk profile of the Firm was €543K of which €351K represented fixed remuneration and €192K represented variable remuneration including €62K of which is deferred over 3 to 4 years.

The total aggregate value of remuneration for KCMI's staff is disclosed in the firm's FY 2020 Report and Audited Financial Statements.