

KKR Capital Markets (Ireland) Limited  
Pillar III Disclosures  
June 2023

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## 1. Background

KKR Capital Markets (Ireland) Limited ("KCMI") is authorised and regulated by the Central Bank of Ireland as a "Class 2" MiFID investment firm. In response to governance requirements imposed by the Directive (EU) 2019/2034<sup>1</sup> and the Regulation (EU) 2019/2033<sup>2</sup> (together the "IFD/IFR"). The framework imposed new requirements relating to Capital and Own Funds, Liquidity, Internal Governance, Remuneration, and Disclosure and Reporting on in-scope investment firms.

Pillar I has been covered in IFR, Pillar II has been covered in both IFR/D, Pillar III is mainly disclosure, which been covered in IFR Part 6. As an authorised MiFID regulated investment Firm in Ireland, the IFR/IFD applies to KCMI. The regulatory framework comprises three Pillars:

- Pillar I sets out the minimum capital requirements that a Firm is required to meet;
- Pillar II 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. This process is known as the Internal Capital Adequacy Assessment Process (ICAAP); and
- Pillar III complements the capital requirements described in Pillar I and Pillar II and seeks to promote greater market discipline and transparency through the disclosure of key information about risk exposures and risk management processes.

The purpose of this document is to provide the Pillar III disclosures required for KCMI as at 31 December 2022. 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.

Information shall be regarded as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Information shall be regarded as proprietary to a firm if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render a firm's investments therein less valuable.

Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding a firm to confidentiality.

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. CPG is not a legal entity.

## 2. Scope of Application

KCMI is regulated by the Central Bank of Ireland ("CBI") on a stand-alone basis and is not subject to consolidated supervision. The Pillar III disclosures contained within this document therefore apply to KCMI on an individual basis.

## 3. Frequency of Disclosure

The Firm publishes Pillar III disclosures on at least an annual basis in conjunction with the date of its financial statements. 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.

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<sup>1</sup> Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU

<sup>2</sup> Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014

## 4. Board of Directors

### 4.1 Board of Directors

The number of Directorship held by the KCMI Board members are set out below:

Directorships held by Management body	
Number of Directorships held	24
of which KKR Group directorships	14
External Directorships	10

### 4.2 Risk Committee

With regard to KCMI audit, risk and compliance matters, the KCMI Board places reliance on the KKR EMEA Audit, Risk and Compliance Committee (“ARC”). The ARC is tasked with monitoring and making recommendations to the Board of Directors in relation to risk, financial reporting, external audit, internal controls and select regulatory and compliance matters. The ARC is part of KCMI’s third line of defence. The members of the ARC include the European Heads of Compliance, Legal, Finance and Risk, with senior representatives from KKR Group Legal, Compliance, Internal Audit and IT invited to attend. One of the KCMI Independent Non-Executive Directors has also been appointed as a permanent committee member of the ARC. The ARC may also invite the statutory auditors and other KKR representatives to attend on an ad hoc basis and where their input is required on specific areas being considered.

### 4.3 Remuneration Committee

There is no Remuneration Committee for KCMI.

### 4.4 Recruitment and diversity

As a member of the KKR group, KCMI is focused on promoting and supporting diversity in both the Firm and in the industry. KCMI also provide employees with training and experiences that develop their skills to maximize performance and realize their full potential. Becoming more diverse and inclusive is a strategic priority for our internal operations, as we believe that people from different backgrounds and perspectives help us make better decisions.

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. The Board is committed to achieving an appropriate balance of diversity over time.

## 5. Risk Management objective and policies

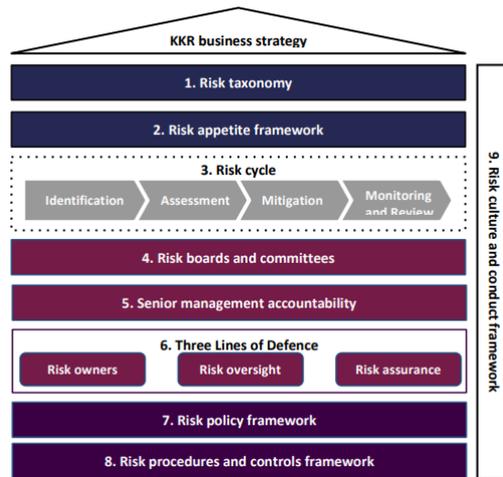
### 5.1 Risk management body

The board of directors (“the Board”) of KCMI are the governing bodies responsible for the management and supervision of their respective entities. Risk management is overseen at a global level by the KKR Global Risk and Operating Committee.

The Boards of KCMI delegate the oversight of risk management at a regional level to the KKR EMEA Audit, Risk and Compliance Committee (“ARC”). The ARC is tasked with monitoring and making recommendations to the Board in relation to Risk, financial reporting, external audit, internal controls and select regulatory and compliance matters.

### 5.2 Risk Management Framework

To help the Board discharge their responsibilities and support the management of risk, KKR Europe has established the Risk Management Framework (“RMF”). The Board is responsible for overseeing the risk framework of the Firm.



KCMI operates a three lines of defence model to manage risk throughout the business:

First line of defence: Risk owners embedding accountability with each employee at the business level forms the 'first line of defence'. Business line management takes the lead in identifying and managing risks for their business areas.

**a) The first line is responsible for:**

- Identifying and managing all the risks in the activities in which they are engaged
  - Developing appropriate policies, standards and controls to govern their activities
  - Regular self-assessments of risks and controls
  - Escalating risk events and issues as appropriate
- Second line of defence: Risk oversight The business areas are independently monitored by the Risk and Compliance functions which form the 'second line of defence'.

**b) The second line is responsible for:**

- Design and maintenance of the risk framework and programs for KCMI
- Facilitating risk management activities and providing oversight and challenge
- Ongoing monitoring of (i) risk exposure,(ii) design and performance of controls in the first line of defence
- Providing reporting to (i) the business, (ii) the relevant Global or Regional Head of their function (iii) relevant committees/governance forums. Note: Finance and Human Resources are control functions that provide oversight of certain risks, while also being accountable as first line owners of the risks inherent to their functional activities.

**c) Third line of defence: Risk assurance**

Internal Audit is the 'third line of defence', responsible for independently evaluating the adequacy and effectiveness of business processes and controls as well as evaluating the effectiveness of the 3rd Line Risk assurance, 2nd line Risk oversight, 1st line Risk owners second line functions. Internal Audit reports to the KKR Global Audit Committee and will also share their reports with the relevant business heads, CEO and Board of Directors.

**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 KCMI 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 KCMI 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 it 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 Identified Risks**

##### **a) Business risk**

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

##### **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 KCMI 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.

##### **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.

##### **b) 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.

##### **c) Credit risk**

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

##### **d) 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.

#### **5.6 Sustainability risk**

KCMI, as a member of KKR Europe, maintains that the thoughtful management of environmental, social, and governance (ESG), including sustainability and climate change issues makes KKR a better investor, and is an essential part of long-term business success in a rapidly changing world. This approach allows KCMI to better manage its own environmental, social and governance risks (including physical risks and transition risks as relevant and appropriate to KCMI). These risks are captured in the Risk Taxonomy and considered throughout the Risk Cycle detailed above.

Companies that carefully manage ESG and stakeholder risk and opportunity today should be better positioned in the future as diminishing resources, changing consumer demands, evolving norms, and increased regulation are expected to pose greater challenges and opportunities for companies around the world. KKR seeks to reduce risk and enhance value by building a proactive focus on these issues across the investment life cycle, wherever possible. KKR is committed to investing responsibly by:

- Incorporating material ESG, regulatory, geopolitical, and reputational considerations into KKR's investment decision-making and management practices, where relevant. This includes considering key risks and opportunities during the diligence process and, where applicable, then engaging on these issues with the companies in which KKR invests or to which KKR provides financing.
- Communicating KKR's responsible investment approach, progress, and goals transparently to the public, KKR's fund investors, and other stakeholders.
- Advancing consistent and thoughtful responsible investment processes in the financial industry by collaborating with industry peers, standard-setting organizations, and other stakeholders.
- Maintaining KKR's own internal governance and culture to ensure that KKR acts as a good citizen in the communities in which KKR operates.

Further information on the KKR group approach to sustainability risk is available from [the website](#).

### 5.7 Liquidity Risk

Liquidity risk is the risk that the Firm will be unable to meet its financial commitments as they fall due.

To monitor liquidity risk, the Firm prepares cash flow reports on a monthly basis that identify expected cash inflows and outflows to detect potential funding gaps. In the event that funding gaps arise, the Firm will be able to obtain cash funding from KKR Capital Markets Holdings L.P. (the Holding Company for KKR's capital markets business), which will then be pushed down into KCMI via its direct parent (KKR Capital Markets Holdco Limited). The Firm will also report the value of its liquid assets to the CBI as part of its Monthly Metrics Report.

When considering liquidity risk, it is important to note that the Firm forms part of an investment grade organisation that is well capitalized. The Parent Company for KKR's capital markets business has significant cash balances and access to a

US\$500 million RCF for use in KKR's capital markets business. It is unrestricted in its ability to directly or indirectly make arm's length capital contributions, loans or advances to the Firm or, aside from satisfying customary borrowing conditions, to use borrowings drawn under its credit facility to provide funding to the Firm if needed.

### 5.8 Concentration Risk

Concentration risk is defined as any single exposure or group of exposures with the potential to produce losses large enough to threaten the Firm's health or ability to maintain its core operations.

Given the Firm's current forecast capital basis, ability to diversify cash holdings, B2B arrangements, expected diversified client base, forecast Pillar I/2 Credit requirements and credit worthiness controls which will be put in place, no additional Pillar II capital has been assessed for concentration risk.

### 5.9 Risk Strategy

The Risk function is responsible for ensuring the consistent application of the RMF to help the business in achieving its strategic objectives. To achieve its mandate, the Risk function provides independent oversight and supports the business by:

- Leading a periodic review of the Risk taxonomy to ensure it continues to provide coverage of all risk exposures,
- Overseeing risk appetite setting, to support the management of material risks within appropriate limits,
- Supporting and challenging the business in ensuring comprehensive risk identification; providing a methodology to document and assess identified risks,
- Implementing and maintaining an appropriate risk governance structure and policy framework which supports the three lines of defence model,
- Independently monitoring risk management and business performance against agreed metrics and escalating issues for Board attention,
- Monitoring the effectiveness of business controls and reporting on deficiencies and potential gaps in the control landscape, and
- Facilitating the embedding of an effective risk culture through specialised training

### 5.10 Risk policies

Risk management policies are established only where the materiality of the risk exposure requires a formalised approach that clearly outlines compliance requirements. Policy documentation owned and maintained by the Risk function includes:

- A risk profile document that represents the funds, special purpose vehicles ("SPV") and Separate Managed Accounts ("SMA") (collectively "the Clients") currently managed by KKR Europe and the regulatory authority under which they are managed.

- A liquidity management policy that outlines the redemption rights and restrictions in place in each fund and the liquidity monitoring methodology Policy documentation owned and maintained by the Compliance function is set out in the KKR Europe Regulatory Compliance Manual which is separately available.

## 6. Capital Resources and Capital Adequacy

As at 31 December 2022, 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 2022 is shown below.

<b>Capital Position as of 31 December 2022</b>	<b>€000's</b>
Ordinary Share Capital	0
Capital Contributions	25,156
Reserves	3,721
Available Tier 1 Capital	<u>28,877</u>

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

### 7.1 Minimum Capital Requirements

As at 31 December 2022 KCMI's minimum regulatory capital requirement was €5.095m. The minimum regulatory capital requirement is calculated as the sum of the Firm's Pillar I requirement (higher of initial capital requirement, fixed overhead requirement or K-factor requirement) plus the Firm's Pillar II requirement.

<b>Pillar I capital requirement</b>	<b>€000's</b>
Permanent Minimum Capital	750
Fixed Overhead Requirement	549
K-Factor Requirement	0
<b>Pillar I capital requirement</b>	<b>750</b>

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.

<b>Pillar II capital requirement</b>	<b>€000's</b>
Operational Risk	1,950
Credit Risk	2,052
Market (FX) risk	342
<b>Total</b>	<b>4,345</b>

The Pillar 2 methodology is updated and reviewed by the Board at least 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.

### 7.2 Capital ratios

The Firm's capital ratios as at 31 December 2022 are as follows:

<b>Ratio</b>	
Common Equity tier 1 capital ratio	308%
Tier 1 capital ratio	308%
Total capital ratio	308%

### **7.3 Own Funds reconciliation**

Set out in Appendix 1.2 is the reconciliation of Own Funds, Restrictions, and deductions to the audited financial statement balance sheet of the firm.

### **7.4 Fixed Overhead Requirement**

The fixed overhead requirement determined in accordance with Article 13 of this Regulation is €549m.

### **7.5 K-Factor Requirement**

The K-factor approach is risk-based and is designed to capture the on-going impact an investment firm can have on others. K-factors are a series of risk parameters/indicators representing the specific risks investment firms face and the risks they pose to customers/markets. The IFR uses nine K-factors, which fall into three categories: Risk-to-Customer ('RtC') K-factors, Risk-to-Market ('RtM') K-factors and Risk-to-Firm ('RtF') K-factors.

KRR determined that the K-factors are not applicable. KCMi does not trade on their own account and has no assets-under-management.

### **7.6 Oversight**

The Board retains ultimate responsibility and oversight for all delegated activities and for all activities carried out by committees which it has appointed or on which it places reliance. From time to time the Board may consider it appropriate to delegate the execution of certain documents to a committee of the Board. This is only permitted where the Board has previously reviewed the subject matter of such documents, and where execution is by an authorised signatory of KCM Ireland, as defined within KCM Ireland's Signing Authority.

## **8. Internal Capital Adequacy Assessment Process ("ICAAP")**

This annual process was designed to incorporate significant senior management involvement in the ICAAP which reflects both challenge and testing of the ICAAP. Accordingly, senior management is involved each year from inception to final adoption and on a continuing basis as the ICAAP is embedded into the Firm's processes.

This process is designed to test and challenge the identified and potential new and emerging risks, both from the perspective of the business and from the perspective of the independent Risk, Finance and Compliance support functions.

The CEO, Board, Risk and Legal & Compliance teams are responsible for the ICAAP and for its implementation within the business on a day to day basis, including adherence to KCMi's risk appetite statements and risk management framework and reporting obligations.

The ICAAP, including its risk appetite statements, is a key reference document for monitoring and reporting on business risks throughout the year and for assessing new business or financial risks that may arise e.g. due to business changes or events.

Based on the forecasted financials, the regulatory capital calculations are prepared to analyse the regulatory capital movements through the cycle as below.

Base case - Three-Year Financial Projections	2022	2023	2024	2025
	Actual	Budget	Projection	Projection
	€000's	€000's	€000's	€000's
Own Funds	28,877	29,077	29,277	29,477
<b>Regulatory Capital Requirement</b>				
Fixed Overhead Requirement	549	257	604	665
K-Factor Requirement	0	0	0	0
Permanent Minimum Capital	750	750	750	750
<b>Pillar 1 Capital Requirement (Highest)</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>
<b>Pillar 2</b>				
Operational Risk	1,950	1,950	1,950	1,950
Credit Risk	2,052	1,299	1,309	1,320
Market Risk	342	950	1,044	1,149
Capital Planning Buffer				
<b>Pillar 2 Requirement</b>	<b>4,345</b>	<b>4,199</b>	<b>4,304</b>	<b>4,419</b>
Countercyclical Buffer ('CCyB')	0	0	0	0
Conservation Buffer ('CCoB')	0	0	0	0
Capital buffers	0	0	0	0
Total Capital Requirement - P1 and P2	5,095	4,949	5,054	5,169
Excess over Capital requirement	23,783	24,128	24,224	24,308
<b>Capital Ratio</b>				
Common Equity Tier 1	28,877	29,077	29,277	29,477
Total Risk Exposure	9,375	9,375	9,375	9,375
CET1 Ratio	308%	310%	312%	314%

## 9. Remuneration Policy

### 9.1 Remuneration Objectives

KCMI's principal remuneration objective is to ensure remuneration policies and practices for all staff are in line with the firm's business strategy, objectives, risk appetite, culture and values and long-term interests. KCMI offers competitive remuneration and appropriate reward and incentivisation schemes, to attract and retain individuals with suitable qualifications, experience and skills. The Board and Senior Management of KCMI considers it is important that staff be compensated in a manner that motivates them to excel and encourages them to remain with KCMI.

Further, the Firm intends to align the interests of staff with those of the wider KKR Group and its shareholders by encouraging the fostering of relationships amongst colleagues and divisions for sourcing business opportunities, developing and maintaining client and investor relationships, and promoting the success of KKR Group as a whole for the benefit of its stakeholders.

The Firm is committed to ensuring remuneration policies are appropriate to the nature, scale and complexity of the risks inherent in the business model and activities of KCMI. The remuneration policies of the firm are considered appropriate to the risk profile of the firm, the investments managed and the promotion of sound risk management.

KKR Group believes in a culture of meritocracy and fairness. Individual remuneration is not based on the success of specific transactions, investments, commissions, fees, profits or other income generated in connection therewith. Remuneration is based on the performance of each member firm of KKR Group individually and as a whole, and on an individual's contributions to KCMI, as well as to KKR Group.

### 9.2 Remuneration Framework and Regulatory Compliance

KCMI is subject to the remuneration requirements under the IFR/D Regulatory Regime and as such, all staff of KCMI are subject to the regime's basic remuneration obligations.

As a Class 2 Firm, KCMI's material risk takers ("MRTs") are also subject to the requirements of the IFR/D Regulatory Regime. MRTs are members of staff whose professional activities have a material impact on the risk profile of KCMI or of the risk profile of the assets that the firm manages. The Firm is responsible for reviewing and approving the list of MRTs annually.

KCMI framework is documented within KKR Group's European Regulatory Remuneration Policy Statement ("RPS"). The purpose of the RPS is to set out the remuneration policies and practices for affiliates of KKR Group which are authorised and regulated in the UK or European Union as investment firms. As such, the RPS applies to all staff of KCMI, which includes employees, officers and members.

KCMI in line with the RPS, offers a fixed base salary to its employees and a variable remuneration, which is dependent on individual and business performance. The level of variable remuneration to be granted takes into account:

- KCMI's overall profitability.
- The performance of the business in which the executive works.
- The executive's individual performance and contributions to the management, leadership, culture and values of KKR.

The RPS is reviewed, amended (if necessary) and approved annually by the KCMI in order to:

- Not encourage excessive risk taking;
- Cover all aspects of remuneration within the scope of the IFR/D Regulatory Regime for all staff;
- Be clear and documented;
- Be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model;
- Be consistent with and promote sound and effective risk management;
- Be in line with the KCMI's business strategy, objectives and interests;
- Include measures to avoid conflicts of interest; encourage responsible business conduct and fair treatment of clients;
- Include measures to avoid conflict of interest; and
- Comply with all applicable regulatory remuneration disclosure and regulatory reporting requirements for the relevant performance period.

### **9.3 Oversight of Remuneration**

Individual remuneration is set and approved in conjunction with the Firm's Remuneration Committee and Senior Leadership of KKR.

The Remuneration Committee directly oversees the remuneration of KCMI's support and control function directors, senior managers and MRTs, with input from the relevant Global Heads of KKR Group's Support and Control Functions.

The Firm is also responsible for commissioning, at least annually, a central and independent internal review to assess whether the Remuneration policies and practices implemented comply with the remuneration policies and practices that they have adopted. KCMI Internal Audit conducted a central and independent review in Q2 2022.

### **9.4 Remuneration Award Setting**

The KKR Group bonus pool, incentive pools and strategic guidelines for their implementation are set by the Senior Leadership Team of KKR. The Senior Leadership Team has overall responsibility for administering the KKR reward schemes, including making the adjustments referred to in further detail below, and ensuring that remuneration decisions, bonus pools and incentive scheme allocations take into account implications for risk and risk management and the long-term interests of stakeholders as a whole.

The KCAI Board has overall responsibility for KCMI's prudential matters, including compliance and risk management, and is therefore suitably positioned to ensure that staff and MRT remuneration decisions and awards are consistent with the RPS, encourage responsible business conduct, avoid conflicts of interest, promote risk awareness and prudent risk taking and do not exceed the firm's level of tolerated risk or financial resources, or impact the maintenance of a sound capital base.

In relation to variable remuneration, the Firm ensures:

- The total amount of the variable remuneration is based on a combination of the assessment of the performance of the individual; the business unit concerned; and the overall results of the firm; and
- The assessment of performance is part of a multi-year framework that ensures the assessment of performance is based on longer-term performance; and,
- The payment of performance-based remuneration is spread over a period that takes account of the business cycle of the firm and its business risks; including the investment risks and redemption policy for the relevant funds/AIFs managed as applicable.
- The allocation of variable remuneration components takes into account all current and future risks.

## 9.5 Components of Remuneration

The types of remuneration awards by KCMI, together with the categorisation of this remuneration between fixed and variable and any conditions relating to them are stated below:

Component	Settled in	Vesting Criteria	Market Performance Conditions	Malus and Clawback (to MRTs)
Fixed	Cash	No	No	No
Variable	Cash	No	No	Yes
Variable	Equity	Yes	No	Yes
Variable	Equity	Yes	Yes	Yes

## 9.6 Fixed and Variable Remuneration

Remuneration consists of fixed and variable elements:

**Fixed Remuneration:** A staff member's fixed remuneration is generally defined as their base salary and other fixed contractual benefits. Remuneration is considered fixed where the following conditions are satisfied and the award and its amounts are based on predetermined criteria, are non-discretionary, reflect the level of professional experience, seniority and organisational responsibility as set out in their particular role description, are transparent with respect to the individual amount awarded to the individual staff member, are permanent, i.e. maintained over a period tied to the specific role and organisational responsibilities, are non-revocable, the permanent amount is only changed via collective bargaining or following renegotiation in line with national criteria on wage setting, cannot be reduced, suspended or cancelled by the firm, do not provide incentives for risk assumption, and do not depend on performance.

The extent to which a staff member's fixed remuneration will be subject to periodic review is set out in the agreement governing their employment or appointment. In general, however, KCMI will be under no obligation following a review to award any increase and any increase in fixed remuneration will only be awarded if it is sustainable according to the financial situation of KCMI or the wider KKR group.

In compliance with the Firm, fixed remuneration represents a sufficient level of total remuneration to ensure the possibility of paying lower, or no, variable remuneration in any particular year.

The Firm believes that the fixed remuneration of certain key executive officers should typically not be the most significant component of total remuneration.

**Variable remuneration:** A staff member's variable remuneration is generally defined as remuneration that is based on performance; or in exceptional cases other conditions. Where based on performance the variable remuneration reflects the long-term performance of the staff member as well as performance in excess of the staff member's role description and terms of employment or appointment.

The application of performance adjustments could lead to the payment of no variable remuneration to a particular employee in a particular year.

KCMI sets the ratio at a level deemed to not promote taking risks beyond the firm's risk appetite.

The KCMI ratio is reviewed and approved by the Firm annually. The ratio set for a performance year reflects the highest amount of variable remuneration that can be awarded in the most positive scenario and that doesn't affect KCMI's ability to ensure a sound capital base.

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 KCMI, which may be subject to a deferral process.

As at 31 December 2022, there were 105 personnel who were classified as holding senior management roles and/or whose actions have a material impact on the risk profile of the firm

As at 31 December 2022, 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 €702KM (€5601M fixed and €141KM variable compensation including €24KM of which is deferred over 3 to 5 years).

The total aggregate remuneration for KCMI staff is disclosed in the firm's FY 2022 Report and Audited Financial Statements.

**Fixed versus Variable remuneration ratio:** KCMI, as part of the KKR Group's global reward framework is scaled according to seniority. This defines the target and maximum variable remuneration opportunity based on percentages of salary for individuals at each level. No individual can exceed the maximum opportunity for their grade. The effective ratio between variable remuneration awarded and fixed remuneration increases with performance achieved with maximum opportunity is only achievable in the event of exceptional performance.

### 9.7 Remuneration Design

Appropriate measures are taken to ensure that support and control function 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 CEO, the support and control function employees have independent reporting lines to the KKR Global Head of the relevant support and control function who also have input to support and control function employee remuneration.

There are a number of specific areas which make up KCMI's remuneration design. They are as follows:

**Guaranteed remuneration:** KCMI can, in limited circumstances, award guaranteed variable remuneration to staff. "Make-whole" awards are discretionary replacement awards, when new joiners lose a bonus entitlement from a previous employer. KCMI makes such payments in order to treat new joiners fairly

**Severance awards:** KCMI may be obligated to make payments to staff should their contract be terminated early. Such payments would reflect performance whilst being employed by the firm and would not reward failure, excessive risk taking or misconduct. When making such payments, account is taken of relevant factors applying to the individual, such as tenure, notice period and their participation, if any, in long-term incentive plans and pension schemes, unused annual leave and any incremental costs incurred by the employee as a result of termination.

**Adjustments to Variable Remuneration:** The allocation of variable remuneration components takes into account all current and future risks. To do this, KCMI will determine the level of seniority and responsibility adjustments should apply to, which risk adjustment techniques and measures are most appropriate and consider both financial and non-financial risks.

Ex-ante performance adjustments are included in determining the initial allocation or award of variable remuneration. This would include consideration of the member of staff's impact on the future business of the firm and the level of risk inherent in their role.

Ex-post performance adjustments are considered as a method to adjust variable remuneration allocated or awarded to staff after a reasonable period that has allowed risks to materialise and be measured against the parameters set out in the risk management framework. This would include consideration of the staff member's adherence to KCMI's risk management framework and policies, involvement in any operational loss events, breaches of regulations or laws and quality of engagement with third parties (including clients).

Ultimately, in the event that the financial performance of KCMI is subdued, the Firm must ensure the firm's total variable remuneration is appropriately contracted, including through malus or clawback arrangements as explained further below.

### 9.8 Material Risk Takers

KCMI has identified 10 MRTs on the basis of being at least one of the following:

- A member of the Firm.
- A member of the senior management for the purposes of the Regulatory Regime.
- Responsible for business units carrying out KCMI's activities permitted by the CBI.
- Responsible for activities of a Control Function, the prevention of money laundering and terrorist financing.
- Responsible for managing a material risk.
- Responsible for managing information technology, information security, outsourcing of critical or important functions, taking decisions approving or vetoing the introduction of new products and economic analysis.

Subject to regulatory approval, the quantitative criteria do not apply where the firm determines that the staff member, or the category of staff to which they belong, has no material impact on the risk profile of KCMI or the assets it manages.

The remuneration of these MRTs is subject to the malus and clawback (explained below) requirements of the RemCode as applied to both remuneration paid in a year and deferred awards.

### 9.9 Malus and Clawback

The Remuneration Rules require that KCMI sets out malus and clawback arrangements in relation to MRTs. These are arrangements that could result in adjustments to remuneration.

The key difference between malus and clawback is whether the award has already been paid or not.

- Malus provisions allow a firm, in certain situations, to reduce or cancel a cash bonus or share award before it has been paid out (or the shares issued or transferred).
- Malus provisions can also be applied to deferred remuneration e.g., to a share award that has been deferred and is not yet vested.
- Clawback provisions allow a firm to recover a bonus or share award, after it has been paid out.

The in-year adjustment, malus and clawback arrangements cover situations where the relevant MRT:

- Participated in or was responsible for conduct such as fraud or severe negligence which resulted in significant financial losses to the firm; and/or
- Failed to meet appropriate standards of fitness and propriety including material instances of misconduct, misbehaviour or material error.
- If the Firm or the relevant business unit suffers a material failure of risk management due to actions of the MRT.

Malus may be applied to a MRTs variable remuneration until the award has vested in its entirety.

The minimum malus and clawback period is three years. This allows sufficient time for any potential risks to crystallise. Different periods may be set for different categories of MRTs. The clawback period will span at least the combined length of any Deferral Periods and Retention Periods. Clawback will be applied at the minimum, in cases of fraud or other conduct with intent or severe negligence, which led to financial losses.

### 9.10 Quantitative Information on Remuneration

In respect of quantitative disclosures required to be made under the IFD/IFR regime, KCMI benefits from a derogation on the basis of point (a) or point (b) in Article 32(4) of Directive (EU) 2019/2034.

This derogation was availed for the benefit of the following KCMI

<b>MRTs</b>	Total Fixed Remuneration	<b>€561K</b>
	Total Variable Remuneration	<b>€141K</b>

Nonetheless, as a MIFID firm, KCMI must comply with the remuneration related principles set down in the IFR/IFD and has established remuneration policies in accordance with these regulations that are proportionate to the size, internal organisation, and the nature, as well as to the scope and complexity of the firm itself. KCMI also complies with the principles set down the European Banking Authority's Guidelines on Sound Remuneration Policies under Articles 34(3) of the IFD, disclosures under Article 34(4) of the IFD, and Article 51 of the IFR.