

KKR Capital Markets Limited

PILLAR 3 DISCLOSURES

JANUARY 2010

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 Services Authority (“FSA”) within the General Prudential Sourcebook and the Prudential Sourcebook (“BIPRU”) for banks, building societies and 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 is 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 Capital Markets Limited (“KCML” or the “Firm”) is a private limited company authorised by the UK Financial Services Authority (the “FSA”) as a full scope BIPRU 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.

KCML currently comprises two businesses: (i) KCML Capital Markets, which is responsible for carrying out capital markets activities in Europe and (ii) KCML CPG, which is responsible for marketing the funds (the “KKR Funds”) managed and advised by KKR in Europe.

2. Scope of Application

KCML is regulated by the FSA 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. Risk Management

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

The KCML Board of Directors has ultimate responsibility for the wider risk management of the Firm and has appointed a member of the KCML Board of

Directors as the Head of Risk Management with the responsibility for implementing and maintaining risk management within KCML.

The KKR Global Risk Committee is responsible for identifying, prioritizing and monitoring risk for the firm on a global basis and is accountable to KKR's Management Committee, which is responsible for KKR's global operations. Two members of the KCML Board of Directors are members of the Global Risk Committee.

Business risk

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

Risk of underwriting pressure on the balance sheet and changes in market conditions

Underwriting risk is controlled and managed by ensuring that all new underwriting transactions are approved by the Underwriting Committee. 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.

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

To manage the risk 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 performs marketing activities for the KKR Funds and manages investor relationships.

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.

Credit and market risk

KCML does not have material exposures to credit risk and no material net exposures to market risk.

4. Capital Resources and Capital Adequacy

KCML obtained regulatory approval in 2008. As at 30 November 2009, KCML's capital resources were comprised of Tier 1 capital only, which included share capital and accumulated losses.

	<u>£'000</u>
Ordinary shares	4,050
Accumulated losses	<u>(2,567)</u>
Tier 1 Capital	1,483

In addition, KCML and certain of its affiliates, through KCML's direct parent company, currently have access to substantial capital resources.

5. Minimum Capital Requirement

As at 30 November 2009 KCML's Pillar 1 operational risk capital requirement was £1,178k. The operational risk capital requirement is calculated using the basic indicator approach.

6. Oversight

The Directors monitor the ongoing 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.

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

KCML conducts 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.