**Blackstone Ireland Limited**

(formerly, Blackstone / GSO Debt Funds Management Europe Limited)

**Pillar 3 Disclosures – June 2021**

## 1. Background

Blackstone Ireland Limited ("BIL" or the "Firm") is authorised to conduct its business under the European Communities Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and is subject to the Central Bank of Ireland's ("Central Bank") Corporate Governance Requirements for Investment Firms and Market Operators 2018 (the "Corporate Governance Requirements").

The 2013 Capital Requirements Directive IV ("CRD IV") of the European Union created a revised regulatory capital framework for MiFID firms across Europe based on the provisions of the Basel III Capital Accord. The framework consists of three "pillars":

- Pillar 1 sets out the minimum capital requirements that the Firm is required to meet.
- Pillar 2 requires the Firm, and the Central Bank, to take a view on whether additional capital should be held against risks not adequately covered by Pillar 1; and
- Pillar 3 requires the Firm to publish information on our risk management objectives and policies, capital resources and capital requirements.

From 26 June 2021, a new prudential regime will apply to MiFID investment firms across the EU. The changes are being introduced by the Investment Firms Regulation ("IFR") and the Investment Firms Directive ("IFD").

The core aim of the IFR/IFD is to introduce more proportionate rules for all MIFID investment firms in relation to capital, liquidity and other risk management requirements, while ensuring a level-playing field between large and systemic financial institutions.

The new framework allows for differentiated regulation of investment firms depending on their classification, with higher impact investment firms being subject to more intensive regulation.

For the purposes of this Pillar 3 disclosure, in relation to 2020, reporting is in line with CRD IV.

**Scope**

The disclosures in this document are made in respect of BIL, its wholly owned subsidiary, Blackstone Ireland Funds Management Limited (("BIFM") formerly, Blackstone / GSO Debt Funds Management Europe II Limited), and its EU parent financial holding company Blackstone / GSO Debt Funds Europe (Luxembourg) S.à r.l ("LuxCo" and, together with BIL and BIFM, the "LuxCo Group") which are ultimately owned by The Blackstone Group Inc. ("Blackstone"). The Firm calculates the LuxCo Group's regulatory capital requirement and reports on a solo and a consolidated basis.

As described above, the Firm is subject to MiFID as well as CRD IV. It is not authorised to trade on its own account nor hold client assets. BIL's principal business activity is the provision of collateral management services to certain collateralised loan obligation vehicles ("CLOs"). It may also provide portfolio management services to separately managed accounts from time-to-time.

BIFM is an approved Alternative Investment Fund Manager under the European Union (Alternative Investment Fund Managers) Regulations 2013 (the "AIFM Regulations"). BIFM provides investment management functions including portfolio management, risk management, administration, marketing and related activities to its alternative investment funds in accordance with the AIFM Regulations and the conditions imposed by the Central Bank as set out in the Central Bank's alternative investment fund rulebook. BIFM does not carry out fund administration itself but delegates this function to third-party service providers regulated by the Central Bank or another recognised regulatory authority. BIFM delegates portfolio management of certain AIFs to Affiliates.

LuxCo is an unregulated entity and is not subject to supervision by its local regulator. However, as part of the LuxCo Group, it is subject to ancillary supervision by the Central Bank.

## 2. Risk Management

The Firm maintains a risk management framework that facilitates discussion and decision making in respect of risk matters at the appropriate level within the LuxCo Group and Blackstone. The Firm's risk management policies and processes are designed to manage the risks within its business and are comprehensive and proportionate to the nature and scale of the Firm's activities. The Firm has a risk management framework that enables effective and efficient escalation of risk issues.

The board of directors of the Firm (the "Board")[1] is ultimately responsible for the Firm's risk management framework and is supported by business management functions for day-to-day and periodic monitoring and maintenance of risk management controls with the Firm. In addition, the Firm established the Enterprise Risk Management Committee ("ERMC") which oversees the management of all risks of the LuxCo Group and reports to the Board. The ERMC provides a forum for senior management to review and discuss the LuxCo Group's risk profile.

The key risk exposures of the LuxCo Group are set out below:

*Operational Risk*

Operational risk is the risk to earnings and capital resulting from inadequate or failed internal processes, people, systems or from external events. It is multifaceted and impacts various functional areas including IT, legal and compliance, finance, trading, disaster recovery, HR management and outsourcing.

[1] References herein to the "Board" include, in the case of BIL, the Board acting in its capacity as the risk committee of that firm in accordance with the Corporate Governance Requirements.

The Firm's policy is to operate an effective risk management process, embedded within the governance and management structures of its business. The ERMC is responsible for overseeing material risks, relevant controls and risk mitigation procedures.

*Credit Risk*
Credit risk is the current and prospective risk to earnings and capital arising from a counterparty's failure to meet the terms of any contract with the Firm, or otherwise fail to perform as agreed. The LuxCo Group and Firm's credit risk principally arise from the following:

- Cash deposits - the LuxCo Group holds its cash deposit with reputable global banks.
- Debtors - the LuxCo Group's third-party debtors are mainly management fees due from CLOs and funds. The risk of non-payment from these counterparties is minimal as there is a close working relationship between the investment management teams and the administrators/trustees of these funds that are responsible to ensure that all receivables are settled in a timely manner.

*Market Risk*
LuxCo Group's market risk principally arises from exposure to foreign exchange fluctuations of assets and liabilities that are denominated in currencies other than the LuxCo's functional currency, the Euro. LuxCo Group's receivables from the CLOs and funds are in Euro and consequently LuxCo Group faces limited foreign exchange risk.

*Business Continuity Risk*
In response to the novel coronavirus pandemic ("COVID-19"), the Firm's primary focus has been the safety and wellbeing of employees and their families. In accordance with government guidance, all employees have been working remotely. The Firm's technology infrastructure has proven to be robust and capable of supporting this model. The Firm, alongside Blackstone, has implemented rigorous protocols for remote working, including increased cadence of group calls and updates, and frequent communication across leadership and working levels. We are leveraging technology to ensure our teams stay connected and productive, and that our culture remains strong even in these unusual circumstances. To the extent permitted by the Irish government, employees may elect to come into the office. We have implemented health and safety protocols, including contact tracing programmes, to help keep employees safe if they elect to come into the office.

The ongoing pandemic and restrictions on non-essential businesses have caused disruption in Europe and across global economies. Although an economic recovery is partially underway, it continues to be gradual, uneven and characterised by meaningful dispersion across sectors and regions.

## 3. Capital Resources

The capital resources of LuxCo Group and BIL as at 31 December 2020 were €74 million and €120 million, respectively, comprising Core Tier 1 capital.

## 4. Minimum Capital Requirement

The LuxCo Group is subject to consolidated supervision and is expected to hold minimum capital of the higher of (a) the base capital requirement (b) the Pillar 1 amount, (c) the Pillar 2 amount or (d) the expected amount required for an orderly wind-down on a consolidated group basis.

The Central Bank's base capital requirement for both BIL and BIFM is €125,000 each. For BIFM there are additional requirements which largely vary in accordance with its assets under management ("AUM"). LuxCo Group calculates its Pillar 1 minimum capital requirements as the higher of the Fixed Overhead Requirements and the sum of its Credit Risk and Market Risk capital requirements. The Pillar 1 capital calculation is based on pre-determined risk weights applied to LuxCo Group's exposure to credit and market risk.

The Pillar 2 calculation is based on the Board's own view about LuxCo Group's financial exposure to credit risk, market risk and operational risk and the probability of such risks materialising. The Pillar 2 amount is based on a bottom-up approach of LuxCo Group's risk assessment.

The orderly wind-down scenario is an analysis of the financial impact of a complete wind-down of LuxCo Group over a 12-month period.

As at 31 December 2020, LuxCo Group's minimum regulatory capital requirement was €11.9 million. The minimum regulatory capital requirement has been calculated by reference to the Pillar 2 amount, being the higher of the Pillar 1, Pillar 2 or the wind-down scenario. The Pillar 2 amount and wind-down scenario are identified in the Firm's Internal Capital Adequacy Assessment Process ("ICAAP").

## 5. Compliance with Pillar 2 Rule Requirements

The overall approach to assessing the adequacy of the LuxCo Group's internal capital is set out in its ICAAP.

The ICAAP process involves separate consideration of risks to the Firm's capital combined with stress testing using scenario analysis. The Firm assesses the impact by modelling the changes in its income and expenses caused by various potential risks and adverse scenarios over a 3-year time horizon.

LuxCo Group's risk assessment, through its 2021 ICAAP process, has concluded that both LuxCo Group and the Firm have adequate regulatory capital resources and are both forecast to have adequate regulatory capital resources over the planning horizon.

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between Affiliate and subsidiary undertakings and there are no subsidiary undertakings where actual capital resources are less than the required minimum.

## 6. Board of Directors

The Board of BIL monitors the on-going compliance of LuxCo Group and the Firm with their respective minimum capital requirements and ensures that both LuxCo Group and the Firm maintain adequate capital to cover their material risks at all times.

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. Other relevant matters will also be taken into account, such as the ability to fulfil time commitments in the case of non-executive directors.

## 7. Remuneration

The Firm is authorised and regulated by the Central Bank as a MiFID firm and is subject to rules on remuneration outlined in CRD IV. CRD IV includes requirements in relation to total remuneration, both fixed and variable, for certain individuals in the Firm. The Firm offers both a fixed base salary to its employees and variable remuneration, which is dependent on individual and business performance, taking appropriate consideration of financial and non-financial criteria. Our policy is designed to ensure that we comply with CRD IV and our compensation arrangements:

- are consistent with and promote effective risk management;
- do not encourage inappropriate and/or excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Firm's business strategy, objects, values and long-term interests.

CRD IV requires firms to apply the principle of proportionality when establishing and applying total remuneration policies, having regard to their size, internal organisation, nature, scope, and complexity of their activities. The proportionality principle contained in CRD IV and the guidelines of the European Banking Authority aim to match the remuneration policies and practices with the individual risk profile, risk appetite and the strategy of each institution. Certain firms are entitled to rely on proportionality to disapply specific remuneration rules. BIL falls into this category of firms and is therefore currently disapplying the rules on deferral, non-cash instruments and retention periods.

Blackstone's compensation process ("BXCP") is managed through several functions to provide robust and effective consideration of remuneration matters. The BXCP provides oversight over the design and operation of Blackstone's remuneration process and reviews and approves the Firm's remuneration policy (the "Remuneration Policy") after taking advice from the Board. The Board is responsible for providing oversight of the implementation of the Remuneration Policy and processes, which includes reviewing the Remuneration Policy at least annually. The Remuneration Policy reflects inputs from the relevant control functions including the European Head of HR and the Compliance and Finance functions. Senior management of BIL are responsible for the day-to-day implementation of the Remuneration Policy and monitoring compliance related risks. A cohort of senior management, including the Head of the Compliance and Finance Functions together with certain Board members of BIL review total remuneration data on an annual basis.

The Firm recognises the need to motivate, attract and retain highly skilled employees through a policy that delivers sustainable and superior business performance. Remuneration is made up of fixed and variable elements. Fixed remuneration is made up of base salary and standard benefits based on the individual’s role and primarily reflects relevant professional experience and organisational responsibility, as set out in the relevant employee’s job description as part of the terms of employment. Certain individuals receive a role-based allowance based on their role and responsibilities. Variable remuneration is discretionary and dependent on both the Firm and the individual’s performance against a number of financial and non-financial metrics, in each case taking appropriate consideration of regulatory guidance, the business function of the relevant employee and the potential impact of an employee’s actions on the risk profile of the Firm. Performance is assessed over a full year. Variable remuneration is paid in cash and, in certain cases, in common equity units of Blackstone and could be subject to deferral. Senior management and members of staff whose actions have a material impact on the risk profile of the Firm (“Identified Staff”) are subject to the cap on variable pay of 200% of fixed pay. This cap was increased from 100% by BIL’s parent, LuxCo on 28 June 2017. Identified Staff may also subject to malus and clawback provisions relating to variable remuneration in the following circumstances:

- evidence of misconduct or serious error by the Identified Staff member (e.g., breach of code of conduct and other internal rules, especially concerning risks);
- where BIL and/or the business unit subsequently suffers a significant downturn in its financial performance;
- where BIL and/or the business unit in which the Identified Staff member works suffers a significant failure of risk management;
- significant increases in BIL's or business unit’s economic or regulatory capital base;
- any regulatory sanctions where the conduct of the Identified Staff member contributed to the sanction.

Compensation payable is based on an assessment of a sustainable and risk adjusted performance of the business. Appropriate consideration is given to all regulatory guidance, including the rules on guaranteed bonuses and termination payments and the impact employee actions may have on the risk profile of the Firm.

The independence of the control functions is safeguarded by ensuring that the remuneration of relevant individuals who carry out control functions is not linked directly to the performance of the business area they control, is in accordance with objectives linked to their functions and is determined by the relevant global heads of such control functions who make recommendations to the BXCP, independent of the individual business group heads.

The Identified Staff group is reviewed on an ongoing basis. The application of remuneration policies and variable remuneration in respect of Identified Staff as defined in and in accordance with CRD IV and applicable local regulations.

**Quantitative remuneration disclosures**

The following tables set out aggregate quantitative information on the remuneration of Identified Staff for BIL's 2020 financial year. BIL has not broken down the information by business area as it has only one business area. In addition, the disclosure has not been broken down by senior management and other Identified Staff on the basis that it could result in disclosure of personal data linked to identifiable person(s) and cause prejudice to the individual(s) through infringing their right to privacy. Similarly, the disclosure under Articles 450(1)(h)(v), 450(1)(h)(vi) and 450(1)(i) of the CRR have been omitted on the basis that it could result in disclosure of personal data linked to identifiable person(s) and cause prejudice to the individual(s) through infringing their right to privacy. The information is available to the Central Bank upon request.

- Amounts of remuneration split into fixed and variable remuneration, and the number of beneficiaries

| | Identified Staff |
|---|---|
| Fixed remuneration | EUR 1.37m |
| Variable remuneration | EUR 1.48m |
| Number of Beneficiaries | 8 |

- Amounts and forms of variable remuneration split into cash, shares, share-linked instruments and other types

| | Identified Staff |
|---|---|
| Variable remuneration | EUR 1.48m |
| Cash | EUR 0.87m |
| Shares | EUR 0.61m |
| Other types | EUR 0.00m |

- Amounts of outstanding deferred remuneration, split into vested and unvested portions

| | Identified Staff |
|---|---|
| Outstanding deferred remuneration | EUR 0.61m |
| Vested at end of 2019 financial year | EUR 0.00m |
| Unvested at end of 2020 financial year | EUR 0.61m |

- Amounts of deferred remuneration awarded, paid out and reduced through performance adjustments

| | Identified Staff |
|---|---|
| Deferred remuneration awarded during 2020 financial year | EUR 0.61m |
| Paid out during 2020 financial year | EUR 0.00m |
| Reduced through performance adjustment during 2020 financial year | EUR 0.00m |

- During the 2020 financial year, no sign-on payments were awarded.