3i Group plc

Directors' remuneration policy

Directors' remuneration policy

This is an extract from the 2017 Annual report and sets out the Directors' remuneration policy ("the Policy") approved at the 2017 Annual General Meeting held on 29 June 2017 and is effective from that date for all payments made to directors.

The Policy is reproduced here for ease of reference only.

Policy report

Remuneration policy table

The table below summarises the policy in respect of each element of the Company's remuneration for Executive and non-executive Directors effective from the date of the 2017 Annual General Meeting. This policy will be put forward for shareholder approval at the 2017 Annual General Meeting in accordance with section 439A of the Companies Act 2006.

This policy remains materially unchanged from the policy approved by shareholders at the 2014 Annual General Meeting. While the Committee will consider the appropriateness of the Remuneration policy annually to ensure it continues to align with the business strategy, there is no current intention to revise the policy more often than every three years, unless required to through changes to regulations or legislation.

Executive Directors

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
Base salary			
• To provide a fixed element of pay at a level that aids the recruitment, retention and motivation of high performing people. • To reflect their role, experience and importance to the business.	• Salaries are normally reviewed annually by the Committee, with any changes usually becoming effective from 1 July. • These are reviewed by taking into account a number of factors, including: – performance of the Company and individual; – wider market and economic conditions; – any changes in responsibilities; and – the level of increases made across the Company.	• Whilst there is no maximum salary level, increases are generally considered in the context of those awarded to other employees and the wider market. • Higher increases may be awarded in exceptional circumstances. For example, this may include a change in size, scope or responsibility of role, or development within the role or a specific retention issue. • The annual base salary for each Executive Director is set out in the Annual report on Remuneration for the year.	• None, although the Committee considers when setting salary levels the breadth and responsibilities of the role as well as the competence and experience of the individual.
Pension			
• To provide contributions to Executive Directors to enable them to make long-term savings to provide post-retirement income. • Pension contributions are provided to both support retention and recruit people of the necessary calibre.	• Participation in the defined contribution pension scheme (3i Retirement Plan) or cash equivalent. • Prior to 2011 Executive Directors were eligible for membership of the 3i Group Pension Plan, a defined benefit contributory scheme. Pension accrual ceased for all members with effect from 5 April 2011, although a link to final salary is maintained for existing accrual up to the date of leaving the Company.	• Executive Directors receive a pension contribution or cash allowance of 12% of pensionable salary. • For those Executive Directors who were members of the 3i Group Pension Plan, their deferred pension will change to reflect the deferred pension available on leaving, payable from age 60. • Details for the current Executive Directors are set out in the Annual report of remuneration for the year.	• N/A
Benefits			
• To provide market competitive benefits at the level needed to attract and retain high performing people. • To provide health benefits to support the well being of employees.	• Executive Directors are entitled to a combination of benefits, including a non-pensionable car allowance, private medical insurance, an annual health assessment and life assurance. • The Remuneration Committee may remove benefits that Executive Directors receive or introduce other benefits if it is appropriate to do so.	• Whilst there is no maximum level of benefits, they are generally set at an appropriate market competitive level, taking into account a number of factors including market practice for comparable roles within appropriate pay comparators. • The Remuneration Committee may review the benefits for an existing or new Executive Director at any point.	• N/A

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
Annual bonus			
• To incentivise the achievement of the Group's strategic objectives on an annual basis. • Deferral into shares reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and risk alignment.	• Bonus awards are considered annually based on performance in the relevant financial year. • All performance targets are reviewed and set by the Committee early in the year. • Awards are determined by the Committee after the year based upon the actual performance against these targets. • No more than 50% of any bonus award is paid as cash. • At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years. • Deferred bonus awards may be granted in the form of conditional share awards, options or forfeitable shares. Awards may also be settled in cash. • Participants receive the value of dividends in cash on the shares which are subject to the award. • Awards are subject to the malus/clawback policy (as set out in the Notes on page 90).	• Maximum bonus of 400% of salary for the Chief Executive. • Maximum bonus of 250% of salary for the Group Finance Director.	• Performance is assessed against a balanced scorecard which aligns with the strategic objectives of the Group. • The targets can be a range of financial, business line specific, personal, risk and other key Group targets. • The Committee uses the scorecard as a prompt and guide to judgement and considers the performance outcomes in the wider context of personal performance (including values and behaviours), risk, market and other factors. • Details of the annual performance targets (and performance against targets) are shown within the Annual report of remuneration.
Long-term Incentive Plan			
• Alignment of reward with long-term, sustainable Company performance and the creation of shareholder value over the longer-term. • The combination of total shareholder return targets and strategic performance measures balance internal and external perspectives of performance, and align participants with shareholders' interests.	• All performance targets, along with relative weightings, are reviewed and set by the Committee prior to awards being made. • The Committee may make an award in the form of forfeitable shares, conditional share awards, stock appreciation rights, or options under the plan. Awards may be settled in cash. • Award levels are determined by reference to individual performance prior to grant. • Awards vest subject to the Group's achievements against the performance targets over a fixed three-year period. • To the extent that shares vest, they are released 50% on or around (but not earlier than) the third anniversary of grant, and 25% on or around (but not earlier than) the fourth and fifth anniversaries of grant. • The Committee may determine that participants may receive the value of dividends in cash or shares which would have been paid on the shares that vest under awards. • Performance share awards are subject to the malus/clawback policy (as set out on the next page).	• Awards granted in respect of a financial year will have a face value of up to 400% of salary for the Chief Executive. • Awards granted in respect of a financial year will have a face value of up to 250% of salary for the Group Finance Director. • Normally, no payment will be made for below threshold performance. Between 20% and 25% of the award vests at threshold performance, depending upon the performance condition.	• The scorecard used to measure the performance links at least half of the award to total shareholder returns and the balance, if any, to strategic objectives set by the Board. • The achievement against these targets is measured over a three-year period and is determined by the Committee. • The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed. • Details of the current performance conditions are shown within the Annual report of remuneration.

Directors’ remuneration report

continued

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
Shareholding requirements			
• To create alignment with shareholders by encouraging longer-term focus.	• Executive Directors are required to build up over a reasonable period of time, and thereafter maintain, a shareholding in the Company’s shares. Vested shares (net of income tax and National Insurance contributions) under the Deferred Bonus Plan and Long-term Incentive Plan should be retained until the shareholding requirement is met. • In addition, shareholding targets exist for other members of the Executive Committee and for staff designated as “partners” in the Group’s businesses. • The Committee retains the ability to introduce additional retention conditions.	• The shareholding targets for the Executive Directors are: – Chief Executive – 3.0 times salary – Group Finance Director – 2.0 times salary • Executive Committee members have a target of 1.5 times salary and selected “partners” 1.0 times salary.	• N/A

Notes to the Remuneration policy table

Performance conditions

The Committee selected the performance conditions used for determining the annual bonus and LTIP awards as they align directly with the short and long-term strategy of the business. These conditions are set annually by the Committee at levels that take into account the Board’s business plan.

Changes to the policy operated in FY2017

There have been no major changes to the remuneration policy from that which was applied during the year, other than an increase in the shareholding requirement of the Finance Director from 150% to 200% of base salary.

Consistency with policy for all employees

All employees are eligible to receive salary, pension contributions and benefits and to be considered for a discretionary annual bonus, with the maximum opportunities reflecting the role and seniority of each employee. Other members of the Executive Committee are subject to the same bonus deferral arrangements as the Executive Directors. Higher-earning members of staff below Executive Committee have a portion of their bonus deferred into shares vesting in equal instalments over a three-year period.

Within each of the Group’s businesses, senior members of staff have a significant part of their compensation linked to the long-term performance of the Group’s and its clients’ investments through carried interest schemes or similar arrangements.

Co-investment and carried interest plans

Executive Directors, other than the Chief Executive and Group Finance Director, are permitted to participate in carried interest plans and similar arrangements. This was approved by shareholders on 4 July 2001 and 6 July 2011 when approving the Group’s Long-term Incentive Plan. No current Executive Director benefits from these arrangements.

Malus/Clawback policy

The Committee has agreed a policy, which applies to long-term incentive awards and deferred bonus share awards made during the year to Executive Directors (and certain other Senior Executives), under which awards may be forfeited or reduced prior to vesting in exceptional circumstances on such basis as the Committee considers fair, reasonable and proportionate. This would include, but is not limited to, material misstatement of Group financial statements, or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.

The Group may recover amounts that have been paid or released from awards (including cash bonus awards), as long as a written request for the recovery of such sums is made in the two-year period from the date of payment or release and in circumstances where either (a) there has been a material misstatement of Group financial statements or (b) the Group suffers a material loss, and (in either case) the Committee considers that there is reasonable evidence to show that the misstatement or loss has been caused by the individual’s reckless, negligent or wilful actions or inappropriate values or behaviours.

The Committee may make minor changes to this policy, which do not have a material advantage to Directors, to aid in its operation or implementation without seeking shareholder approval for a revised version of this Policy report.

Non-executive Directors – Fees

Purpose and link to strategy	Operation	Opportunity
• To attract and retain high performing non-executive Directors of the calibre required.	• Non-executive Directors receive a basic annual fee. • The fee is delivered in a mix of cash and shares. • The Chairman's fee is reviewed annually by the Committee. • Fees are benchmarked against other companies of comparable size and against listed financial services companies. • The Board is responsible for determining all other non-executive Director fees, which are reviewed annually to ensure they remain appropriate.	• Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company but the Company avoids paying more than necessary for this purpose. • Additional fees are paid for the following roles/duties: – Senior Independent Director – Committee Chairman – Committee membership • Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.

Recruitment policy

In determining remuneration arrangements for new executive appointments to the Board (including internal promotions), the Committee will take into consideration all relevant factors, including the calibre of the individual, the nature of the role, local market practice, the individual's current remuneration package, 3i remuneration policy, internal relativities and existing arrangements for other Executive Directors. For external appointments, some variation may be necessary in order to attract the successful candidate and to reflect particular skills or experience specifically required.

The maximum level of variable pay (as expressed as a multiple of base salary) which may be awarded to new Executive Directors in respect of their appointment shall be no more generous than the combined maximum limits expressed in the Remuneration policy table above in respect of the Chief Executive, with an appropriate mix between annual bonus and LTIP opportunity, excluding any awards made to compensate the Executive Director for awards forfeited by their previous employer.

It may be necessary to compensate the new Executive Director for variable pay being forfeited from their current employer. The Committee's intention is that any such award would be no more generous than the awards being forfeited and would be determined on a comparable basis at the time of grant, including the pay out schedule and performance conditions, where appropriate.

In determining whether it is appropriate to use such judgement, the Committee will ensure that any awards made are in the best interests of both the Company and its shareholders. The Committee is at all times conscious of the need to pay no more than is necessary, particularly when determining buy out arrangements.

For both internal and external appointments, it may be deemed appropriate to buy out awards held in carried interest or other asset-related incentive arrangements. The Committee's intention is that any such buy out would be at a fair value at the time of appointment.

In the event of the appointment of a new non-executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table above.

Directors' remuneration report

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Service contracts

The main terms of the service contracts of the Executive Directors who served in the year were as follows:

Provision	Policy
Notice period	• 12 months' notice if given by the Company • 6 months' notice if given by the Executive Director • Company policy is that Executive Directors' notice periods should not normally exceed one year. Save for these notice periods the contracts have no unexpired terms.
Dates of contracts	• Mr S A Borrows – 17 May 2012 • Mrs J S Wilson – 1 October 2008
Termination payments	• Mr Borrows' contract entitles the Company to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment. • All Directors' contracts entitle the Company to give pay in lieu of notice.
Remuneration and benefits	• The operation of all incentive plans, including being eligible to be considered for an annual bonus and Long-term Incentive Plan awards, is non-contractual. • On termination of employment outstanding awards will be treated in accordance with the relevant plan rules.

The Chairman and the non-executive Directors do not have service contracts or contracts for services. Their appointment letters provide for no entitlement to compensation or other benefits on ceasing to be a Director. Service contracts are available for inspection at the Company's headquarters in business hours.

Payment for loss of office

As outlined above, the Committee must satisfy any contractual obligations agreed with the Executive Directors. Details of the Directors' notice periods are shown alongside the service contract information.

An Executive Director may be eligible to receive a time pro-rated annual bonus in respect of the year up until he or she ceased employment. In determining whether to award any bonus, the Committee will assess performance during the financial year up to the date of cessation of active involvement in their management role.

The treatment of outstanding share awards is governed by the relevant share plan rules. The following table and the note below it summarise the leaver categories and the impact on the share awards which employees (including Executive Directors) may hold.

For the avoidance of doubt, the Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above, where the terms of that payment were agreed (i) before the 2014 policy came into effect or (ii) before this policy came into effect, provided that the terms of payment were consistent with the shareholder approved Directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award or option over shares, the terms of the payment are "agreed" at the time the award is granted.

Plan	Good leaver categories	Good leaver treatment[1]	Bad leaver treatment[1]
Deferred share awards	• Death • Retirement • Ill-health, injury, disability • Redundancy • Employing company/business ceasing to be part of 3i Group • "Scheduled Departure" (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)	Awards vest in full on the normal vesting date. On death, awards vest in full immediately.	Unvested awards lapse in full. Vested awards structured as options may be exercised for three months following the participant's cessation of employment.
Long-term Incentive Plan	• Death • Retirement • Ill-health, injury, disability • Redundancy • Employing company/business ceasing to be part of 3i Group • "Scheduled Departure" (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)	Awards vest on the normal vesting date subject to performance. Pro rating for time will apply. If a participant dies, the Committee will determine the extent to which awards should vest as soon as practicable following the participant's death.	Awards normally lapse in full. If the Committee decides in exceptional circumstances that the awards should vest after the participant's cessation of employment, awards will vest subject to performance and pro rating for time and other conditions may be imposed.

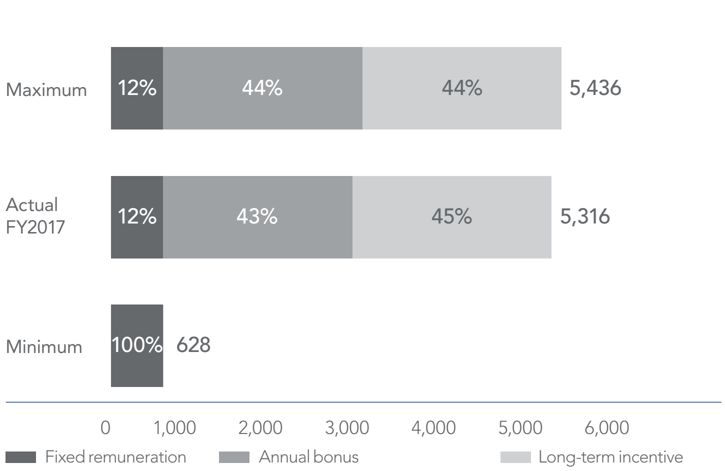
1 The treatments set out in the table above apply to all employees and are expected to operate in the vast majority of cases. The Plan rules retain discretion for the Committee to reduce awards in exceptional circumstances to Good Leavers or permit vesting (in whole or in part) of awards which would otherwise lapse to Bad Leavers. The Committee will report on the use of this discretion if it is exercised in relation to any Executive Director.

Change of control

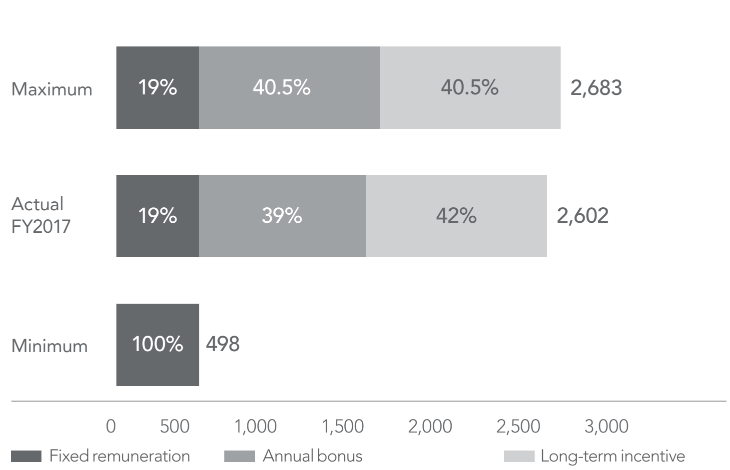
If there is a takeover or winding up of the Company, awards will vest to the extent determined by the Committee.

Scenarios

Chief Executive (£000s)



Finance Director (£000s)



Directors' remuneration report

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The assumptions made in preparing these graphs are that:

- Minimum – this includes only the fixed elements of pay, being base salary, benefits and pension;
- Actual – this represents the remuneration received by each Executive Director for their performance in the year;
- Maximum – this is calculated as the fixed elements and the maximum Annual Bonus and Long-term Incentive Plan awards; and
- Remuneration arising as a result of share price movements or rights to dividends and other distributions have been excluded.

Consideration of wider employee pay

As part of the annual Committee agenda, the Committee reviews the overall pay and bonus decisions in aggregate for the Group. This ensures that the pay and conditions in the wider Group are taken into account when determining Directors' pay. In particular:

- Salary increases awarded over time to other employees are taken into account when considering salary increases for the Executive Directors; and
- The bonus awards made to Directors are considered and made in the context of discretionary bonus awards made within the business. These are based upon Company performance, and are closely correlated to the Executive Director bonus awards.

The Company does not consult with employees when preparing the Executive Director remuneration policy. However, a number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

Consideration of shareholder views

The Committee has remained engaged with shareholders during the period since 2014, and will continue to be mindful of shareholder views when evaluating and setting ongoing remuneration strategy, and commits to consulting with shareholders prior to any significant changes to remuneration policy.

By Order of the Board

Jonathan Asquith
Chairman, Remuneration Committee
17 May 2017

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