Pillar 3 disclosures

3I GROUP PLC

As at 31 March 2016

1. Overview

The Capital Requirements Directive IV ("CRD IV") and the Alternative Investment Fund Managers Directive ("AIFMD") created a revised regulatory capital framework across Europe governing the amount and nature of capital that financial services firms must retain. In the United Kingdom, CRD IV and AIFMD are implemented by the Financial Conduct Authority ("FCA") and Prudential Regulatory Authority ("PRA"), which maintains rules and guidance through the General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the Investment Funds Sourcebook ("FUND"). 3i is regulated by the FCA.

The specific provisions that are required to be made under Pillar 3 are set out in Chapter 11 of BIPRU.

The framework consists of three Pillars:

- Pillar 1: this sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2: this requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3: requires disclosure of specified information about the underlying risk management controls and capital position

These disclosures are reviewed and updated on an annual basis and published on the firm's website following publication of the 3i Group plc's ("3i or "the Group") Annual report and accounts ("ARA"). This disclosure will be published more frequently if there are significant changes to the business. This document has not been verified independently, does not constitute any form of financial statement and should not be relied upon in making any judgement about the financial position of the Group.

The Group's ARA for the year ended 31 March 2016 can be accessed at **www.3i.com**.

Brexit

The Pillar 3 disclosures have been prepared as at 31 March 2016 before the UK's referendum on its membership of the EU. The Group reviewed the impact of a potential leave vote at its Group Risk Committee meeting in February 2016 and concluded that, although we cannot be immune to wider market volatility, we have a portfolio of international companies which are not overly exposed to UK trade and concentrated towards more defensive sectors.

Whilst it is too early to judge the impact of the outcome of the EU referendum, in the short term sterling weakness is positive for 3i although the currency volatility could have some impact on the performance of a small number of portfolio companies. We highlighted in our 2016 ARA that reduced M&A activity and capital investment was likely to persist while the uncertainty surrounding the referendum remains. Having sold a large number of our more challenged and older assets in the last 2 years, we are now realising some of our stronger investments which should remain attractive in these more challenging and uncertain markets. In addition we have a strong balance sheet and will continue to seek attractive investment opportunities.

2. Scope of application

The disclosures in this document are made in respect of 3i and its consolidated subsidiaries that together form the Group. 3i is an investment company with three complementary businesses, Private Equity, Infrastructure and Debt Management. The Group includes a number of regulated subsidiaries - 3i Investments plc, 3i Debt Management Investments Limited, 3i BIFM Investments Limited, 3i Nordic plc and 3i Europe plc, which are subject to regulation by the FCA.

This document details the Group's Pillar 3 disclosures as at 31 March 2016 and has been prepared in accordance with the articles of the Capital Requirements Regulation ("CRR") which came into force as of 1 January 2014 and BIPRU 11. It provides details on capital, risk exposures, risk assessment processes, capital adequacy and the remuneration policy. It is consistent with the way in which senior management, including the Board, assess and manage the risks faced by the Group.

The Group's UK regulatory firms are described in the table below:

Group company	Regulatory classification
3i Investments plc	BIPRU €125k limited license firm / CPMI / Full scope AIFM
3i Debt Management Investments Limited	IFPRU €50k limited license firm
3i BIFM Investments Limited	IPRU (INV) Chapter 5 firm
3i Europe plc	Exempt CAD firm
3i Nordic plc	Exempt CAD firm

The regulated entities within the Group are subject to both individual and consolidated reporting and minimum regulatory capital requirements. The Group, as well as each of the regulated entities on a standalone basis, have sufficient capital resources in relation to its minimum regulatory capital requirements.

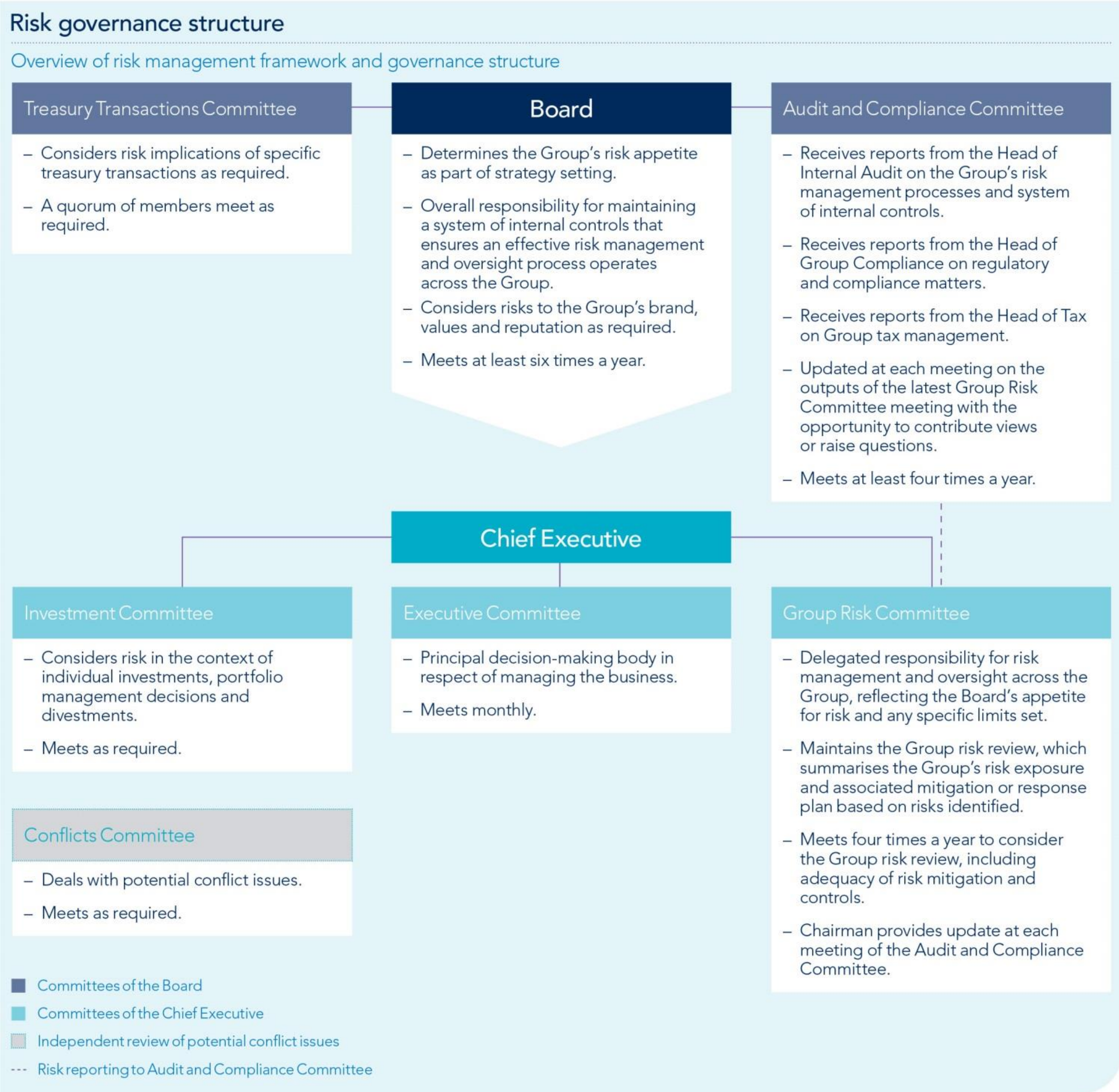
Internal Capital Adequacy Assessment Process (ICAAP)

The Group is required, as part of CRD IV, to prepare an internal assessment of its capital adequacy, referred to as an ICAAP. The purpose of the ICAAP is to determine, on an ongoing basis, whether 3i and its subsidiaries are adequately capitalised in relation to the risk they bear. The ICAAP applies to the Group's BIPRU and IFPRU subsidiaries.

3. Governance and Risk management

3.1 GOVERNANCE STRUCTURE

An overview of the Group's Risk Governance Structure is provided below. Further details on the activity of the Board and Committees shown, can be found on page 28 of 3i Group plc's 2016 ARA.



3. Governance and Risk management continued

3.2 THE BOARD

The Board of the Group is appointed in accordance with national law, and is empowered to set the Group's strategy, objectives and overall direction.

The Board at 31 March 2016 consisted of:

Name	Number of directorships held[1]
Simon Thompson (Chairman)	4
Simon Borrows (Chief Executive)	5
Julia Wilson (Group Finance Director)	8
Jonathan Asquith (Non-executive Director)	3
Caroline Banszky (Non-executive Director)	31
Peter Grosch (Non-executive Director)	7
David Hutchison (Non-executive Director)	5
Martine Verluyten (Non-executive Director)	4

[1]Directorships in UK and non-UK companies including 3i Group plc as at 31 March 2016 as declared by the relevant Director.

3.3 RECRUITMENT POLICY

The Company has a formal, rigorous and transparent process for the appointment of Directors with the objective of identifying the skills and experience profile required of new Directors and identifying suitable candidates. The procedure includes the appraisal and selection of potential candidates by the Nominations Committee, including (in the case of non-executive Directors) whether they have sufficient time to fulfil their roles. Specialist recruitment consultants assist the Nominations Committee to identify suitable candidates for appointment. The Nominations Committee's recommendations for appointment are put to the full Board for approval.

3.4 DIVERSITY POLICY

Further to the publication of the Davies Report on Women on Boards, and Code Provision B.2.4, the Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. The Board's aim is to have a diverse Board in terms of gender, industry experience, skills and educational background, and nationality. The Board makes appointments on merit and against objective criteria. External search consultancies engaged by the Company are instructed to put forward for all Board positions a diversity of candidates including women candidates. External search consultancies engaged by the Committee during the year were Egon Zehnder and The Zygos

Partnership. Egon Zehnder also provided other recruitment services to the Group during the year. The Zygos Partnership had no other connections with the Company during the year.

3.5 RISK MANAGEMENT

As both an investor and asset manager, 3i is in the business of taking risk in order to seek to achieve its targeted returns for investors and shareholders. The Board approves the strategic objectives that determine the level and types of risk that 3i is prepared to accept. The Board reviews 3i's strategic objectives and risk appetite at least annually.

In order to support its institutional asset management capability, 3i's risk appetite policy is built on rigorous and comprehensive investment procedures and conservative capital management.

3.6 CULTURE

Integrity, rigour and accountability are central to our values and culture and are embedded in our approach to risk management. Our Investment Committee which has oversight of the investment pipeline development and approves new investments, significant portfolio changes and divestments, is integral to embedding our institutional approach across the business. It ensures consistency and compliance with 3i's financial and strategic requirements, cultural values and appropriate investment behaviours. Members of the Executive Committee have responsibility for their own business or functional areas and the Group expects individual behaviours to meet the Group's high standards of conduct. All employees share the responsibility for upholding 3i's strong control culture and supporting effective risk management. Senior managers, typically those who report to Executive Committee members, are required to confirm their individual and business area compliance. In addition, all staff are assessed on their compliance with the Group values as part of their annual appraisal.

The following sections explain how we control and manage the risks in our business. It outlines the key risks, our assessment of their potential impact on our business in the context of the current environment and how we seek to mitigate them.

3.7 RISK APPETITE

3i's risk appetite is defined by its objective to invest proprietary capital in assets that generate sufficient proceeds to fund new opportunities and allow material shareholder distributions as well as good levels of cash income.

3.8 INVESTMENT RISK

The substantial majority of the Group's capital is invested in Private Equity. Private Equity investments are subject to a range of factors which include:

- Return objective: individually assessed but subject to a target 2x money multiple over three to five years
- Geographic focus: core markets of northern Europe and North America
- Sector expertise: focus on Business Services, Consumer and Industrials
- Vintage: invest c.€500 million–€750 million per annum in four to seven new investments in companies with an enterprise value range of €100 million–€500 million at investment

Our other two businesses are more modest users of proprietary capital but each investment is subject to rigorous review.

3. Governance and Risk management continued

3.9 CAPITAL MANAGEMENT

3i adopts a conservative approach to managing its capital resources. There is no appetite for significant structural gearing at the Group level although short-term tactical gearing will be used. In addition, we have a limited appetite for the dilution of capital returns as a result of operating and interest expenses. All three of our business lines, Private Equity, Infrastructure and Debt Management also generate cash income to mitigate this risk.

3.10 APPROACH TO RISK GOVERNANCE

The Board is responsible for risk assessment, the risk management process and for the protection of the Group's reputation and brand integrity. It considers the most significant risks facing the Group and uses quantitative analyses, such as the vintage control which considers the portfolio concentration by revenue, geography and sector, and liquidity reporting, where appropriate.

Non-executive oversight is also exercised through the Audit and Compliance Committee which focuses on upholding standards of integrity, financial reporting, risk management, going concern and internal control. The Audit and Compliance Committee's activities are discussed on pages 75 to 78 of 3i Group plc's 2016 ARA.

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The risk review is updated quarterly and the Chief Executive provides quarterly updates to each Audit and Compliance Committee meeting where the Committee members contribute views and raise questions. The last risk review was completed in May 2016.

The risk framework is further augmented by a separate Risk Management Function which has specific responsibilities under the European Alternative Investment Fund Managers Directive ("AIFMD"). It meets ahead of the GRC meetings to consider the key risks impacting the Group, and any changes in the relevant period where appropriate. It also considers the separate risk reports for each AIF managed by the Group, including areas such as portfolio composition, portfolio valuation, operational updates and team changes, which are then considered by the GRC.

Assurance over the robustness and effectiveness of the Group's overarching risk management processes and compliance with relevant policies is provided to the Audit and Compliance Committee through the independent assessment by Internal Audit and the work of Group Compliance on regulatory risks.

Assurance over the robustness of the Group's valuation policy is provided by the Valuations Committee whose report can be found on pages 79 to 81 of 3i Group plc's 2016 ARA.

The Corporate Governance statement and Principal risks and mitigations section in 3i Group plc's 2016 ARA set out how the Board has oversight of the Group's risk management framework and internal control.

3.11 RISK MANAGEMENT FRAMEWORK

The Group's risk management framework is designed to support the delivery of the Group's strategic objectives.

The key principles that underpin risk management in the Group are:

- The Board and the Executive Committee promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner; and
- The over-riding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns.

Managing the Group's Environmental, Social and Governance ("ESG") risks is central to how we do business and a key part of our risk management framework. It also forms part of our half yearly portfolio company reviews as described in the Valuations Committee report on page 79 of 3i Group plc's 2016 ARA.

In practice, the Group operates a "three lines of defence" framework for managing and identifying risk. The first line of defence against outcomes outside our risk appetite is the business function and the respective Managing Partners across Private Equity, Infrastructure and Debt Management. Line management is supported by oversight and control functions such as finance, human resources and legal which constitute the second line of defence. The Compliance function is also in the second line of defence; its duties include reviewing the effective operation of our processes in meeting regulatory requirements.

Internal Audit provides independent assurance over the operation of controls and is the third line of defence. The internal audit programme includes the review of risk management processes and recommendations to improve the internal control environment.

3.12 RISK REVIEW PROCESS

The Group risk review process includes the monitoring of key strategic and financial metrics considered to be indicators of potential changes in the Group's risk profile. The review includes, but is not limited to, the following reference data:

- Financial performance and strategic dashboards
- Vintage control and asset allocation analysis
- Macro-economic and M&A market overview
- Liquidity management
- Capital adequacy, including stress testing
- Operating expenses
- Portfolio performance reports for Private Equity, Infrastructure and Debt Management
- Risk reports for managed AIFs
- Quarterly Group risk log

3. Governance and Risk Management continued

In addition to the above, the GRC considers the impact of any changes and developments in its risk profile, strategic delivery and reputation quarterly.

The GRC uses the above to identify a number of key risks. It then evaluates the impact and likelihood of each key risk, with reference to associated measures and key performance indicators. The adequacy of the mitigation plans is then assessed and, if necessary, additional actions are agreed and then reviewed at the subsequent meeting.

A number of focus topics are also agreed in advance of each meeting. In FY2016, the GRC covered the update to the Group's IT strategy; 3i's approach to ESG especially with respect to its portfolio companies; business continuity and cyber security; an update on the implementation of Infrastructure's revised strategy, as well as the changes to the UK Corporate Governance Code and relevant risks for 3i associated with the UK EU referendum.

There were no significant changes to the Group's approach to risk governance or its operation in FY2016 but we have continued to refine our framework for risk management and reporting where appropriate.

Further details on 3i's approach as a responsible investor are available at **www.3i.com**

3.13 **PRINCIPAL RISKS**

The disclosures on the following pages are not an exhaustive list of risks and uncertainties faced by the Group, but rather a summary of those principal risks which are under active review by the GRC and Board, and are believed to have the potential to affect materially the achievement of the Group's strategic objectives and impact its financial performance, reputation and brand integrity.

The Group's risk profile and appetite remain broadly stable. Although the economic outlook deteriorated and market volatility and uncertainty increased in the second half of our financial year, the Group's overall risk profile has not changed significantly. The Group believes that its consistent strategy of focusing on core sectors and geographies, its institutional process-led approach to investment and strong culture have helped it to maintain its stable risk profile. A number of risks have been consolidated year on year in the Principal risks and mitigations table to best reflect their impact on the Group.

3.14 **STRATEGIC RISKS**

An overview of 3i's strategic objectives and progress against these is provided in the Strategic Report section of the Group's 2016 ARA. There were no fundamental changes in the Group's strategy in the prior year. Accordingly, the Group's risk profile has not been impacted by any significant changes in strategic direction.

3.15 EXTERNAL RISKS

The external environment remains difficult. There has been a significant amount of uncertainty in the Eurozone and the wider emerging markets' economies fuelled by a challenging global macro-economic context and ongoing geo-political tensions, including the UK referendum on EU membership. In addition, there is also some evidence of softening of US and Eurozone growth rates. The Group continues to monitor all of these events closely.

The Group is subject to a range of regulatory and tax reporting requirements which continue to evolve. These include the AIFMD, regulations under the European Market Infrastructure Regulation ("EMIR"), Capital Requirements Directive IV ("CRDIV"), the FCA's Client Asset rules ("CASS"), the Foreign Account Tax Compliance Act ("FATCA") and the OECD's Common Reporting Standard. These developments have resulted in increased reporting requirements, operational complexity and operational cost to the business. Managing these regulatory requirements is a key priority and they are the subject of regular updates to Executive Committee and the Board. To date, they have had limited practical impact on 3i's ability to deliver its strategy.

Looking forward, although the Base Erosion and Profit Shifting ("BEPS") proposals have now been published, it is not clear how individual countries will implement these proposals and the timing and extent of implementation as they do. The UK is already in the process of changing its domestic tax rules and implementing certain BEPS actions such as country-by-country reporting and limiting the tax deductibility for interest expense. The OECD has indicated that further detail on some of the proposals will be published in 2016. The Group continues to monitor developments carefully and intends to comply with new rules as and when they are implemented.

3.16 INVESTMENT RISKS

Being an investment company, there are a number of significant risks that impact our ability to achieve our strategic objectives. Firstly our ability to source attractive investment opportunities at the right price is critical. The investment case presented at the outset will include the expected benefit of operational improvements, growth initiatives and M&A activity that will be driven by our active management approach, together with the portfolio company's management team. It will also include a view on the likely exit strategy and timing. The execution of this investment case is monitored through our monthly portfolio monitoring and our semi-annual reviews which focus on longer term and strategic developments. Alongside this we need to recognise the need to plan and execute a successful exit at the optimum time for the portfolio company's development after taking account of market conditions. These risks are closely linked to the economic environment noted above. To mitigate these risks, we focus on sectors and geographies where our expertise and network can drive significant outperformance.

In addition, there are a number of risks specific to each business line as follows:

Private Equity
Regular and robust portfolio monitoring procedures remain critical given the volatile economic backdrop and as the investment portfolio becomes more concentrated. The Private Equity partners hold a detailed monthly portfolio monitoring meeting that is attended by the Group Chief Executive and the Group Finance Director. In addition, the Valuations Committee reviews the valuation assumptions of our more material assets quarterly. Individual portfolio company failures could have adverse reputational consequences for the Group, even though the value impact may not be material.

Infrastructure
3iN announced an amended total return target of 8% – 10% per annum over the medium term in May 2015 (previously a 10% annual target) as strong investor demand for yield was impacting the business' ability to maintain investment rates in quality assets. Infrastructure remains focused on investing selectively within its target sectors and developing both organic and inorganic growth opportunities. In addition, its engaged asset management approach supports many of the investments in the economic infrastructure and project portfolios.

Debt Management
The principal risks are the ability to grow AUM profitably in line with its business plan and to mitigate negative impact on returns. The business is exposed to volatility in the credit markets and the challenging market conditions in the US have negatively impacted valuations of our CLO equity in FY2016. Our teams manage the underlying credit portfolios very actively which, in some cases, might include taking early losses in volatile markets, if appropriate. Due to the introduction of risk retention rules in Europe (effective 2011) and the US (effective December 2016), we are required, as managers, to take minimum positions in the CLO funds we manage. In addition, during the warehouse phase of establishing CLOs, the Group is exposed to market volatilities and the potential for further capital calls.

3.17 OPERATIONAL RISKS

One of the key areas of increased potential operational risk is cyber security. In response to this growing threat, management engaged KPMG to conduct an independent review of the adequacy of the Group's ability to prevent, detect and respond to cyber security threats. In addition, the Group rolled out a cyber security training course for all staff and refreshed information security policies and incident management processes. The Group also conducted a wider review of its business continuity and resilience capabilities. The findings and proposed enhancements from these various workstreams were discussed at GRC and are being implemented across the Group.

The Board also received regular updates on ESG risks and whether our investors' skill sets and business development capabilities could support the Group's strategic delivery. Detailed resource plans are in place at the business line level and the Board conducts an annual review of the Group's organisational capability and succession plans (which include contingencies against loss of key staff). The last review was conducted in September 2015.

3.18 CHANGES TO THE GROUP'S RISK PROFILE DURING THE FINANCIAL YEAR

Section 3.10 sets out the Group's key risks and details the movements in each risk exposure during the year.

3.19 KEY RISK FACTORS AND RISK MITIGATION

The table below summarises the key risks faced by 3i Group plc, which are under active review by the Group Risk Committee.

Key risk factors		Potential impact	Risk management and mitigation
EXTERNAL			
Economic growth and investor and market confidence is vulnerable to ongoing challenges, including geo-political developments, in the global economy	◀▶	– Limited growth or reduction in NAV owing to contraction of earnings and/or valuation multiples in Private Equity or Infrastructure – Impact on investment rates and realisations – Impacts general market confidence and lowers risk appetite – Leads to reduced M&A volumes, economic instability and lower growth	– Monthly portfolio monitoring to address any portfolio issues promptly – Regular monitoring of liquidity and balance sheet – Regular assessment of exposures to geo-political risk across the Group's investment portfolio and investment pipeline
Significant currency movements and volatility	◀▶	– Unhedged foreign exchange rate movements impact total return and NAV – May impact portfolio performance	– Consideration of FX exposures in investment cases – Monitoring of asset exposures by currency at Group and portfolio company level – Specific short-term hedging on entry or exit of investments considered on a case by case basis
Increased volatility in equities and fixed income	◀▶	– Increases risks with IPO exit route and bank financing – Potential for large equity market fall to impact valuations and performance	– Focus on exit pipeline and refinancing strategies – Dedicated banking team to manage and monitor bank relationships – Close monitoring of Private Equity performance and valuations and capital at risk in Debt Management
Subdued M&A activity and high pricing in 3i's core markets	◀▶	– Investment and realisation levels fall – Reduces capacity to invest and pay enhanced shareholder distributions – Results in lack of primary deal flow in the US and European debt markets	– Active management of exit strategies by Investment Committee to adapt to market conditions – Regular monitoring of new investment work in progress and market activity
Impact of new regulations on 3i's new and existing business	▼	– Regulatory constraints on possible future business development and increased operating costs – Complexity increases risk of non-compliance, with possible financial or reputational consequences	– Detailed evaluation of business impact and alternate structures – Appropriate processes, procedures and additional resource as required to support compliance – Direct engagement with regulators' consultations

3. Governance and Risk management continued

Key risk factors		Potential impact	Risk management and mitigation
INVESTMENT			
Investment rate or quality is lower than expected due to low M&A volumes or high levels of uninvested capital leading to high prices	◀▶	– Impacts longer-term returns and capital management and therefore ability to deliver strategic plan – Poor investment impacts Group's reputation and ability to attract investors	– Regular monitoring of investment and divestment pipeline – Close oversight by management and early involvement of Investment Committee when key targets identified – Disciplined approach to sourcing investment opportunities – Regular review of asset allocation
Portfolio performance is weak or is impacted by a significant ESG incident	▼	– Reduction in NAV and realisation potential – Increased covenant risk in weaker companies	– Focus on ESG in investment case and at semi-annual Portfolio Company Reviews – Active management of new portfolio company chairman, CEO and CFO appointments – Dedicated banking team to manage and monitor bank relationships
OPERATIONAL			
Organisational development, for example people changes	◀▶	– Poor execution of changes impacts delivery of strategic objectives – Potential to undermine investor and/or 3 shareholder confidence	– Capability and succession planning reviews – Regular updates on progress of change projects to GRC and/or the Board
Increase in cyber security threats		– Potential loss of operation of core systems or sensitive data – Disruption to our business and that of our portfolio companies – Inability to deliver strategic plan	– Regular monitoring and engagement with external advisers to determine best practice

KEY

▲Risk exposure has increased in the year
◀▶No significant change in risk exposure in the year
▼Risk exposure has reduced in the year

4 Remuneration

This section includes disclosures for 3i Investments plc and 3i Debt Management Investments Limited (being Proportionality Level 3 firms under the CRD IV FCA Remuneration Code) regarding remuneration policy and practices, as well as aggregate quantitative information for those defined as Material Risk Takers for the year to 31 March 2016.

4.1 REMUNERATION COMMITTEE

During the year to 31 March 2016, the Remuneration Committee comprised Mr J P Asquith (Chairman from 9 May 2011), Mr A R Cox (until November 2015), Ms C J Banszky (from November 2015) and Mr D A M Hutchison. All the current members of the Committee are independent non-executive Directors.

The Committee held six meetings during the year (which were attended by all members of the Committee) to consider remuneration matters and to determine, on behalf of the Board, the specific remuneration packages and co-investment and carried interest arrangements for those individuals within its mandate, including CRD IV Material Risk Takers ("MRT's"). The Company's Chairman also attends Committee meetings although he / she is not a Committee member and does not vote / count in the Committee's quorum. The Committee also approves the principal terms of the Group's annual variable reward arrangements and makes recommendations concerning the level and structure of senior management's reward. The Committee's terms of reference, which are regularly reviewed and updated, are available on the Company's website. Those reward decisions which are the responsibility of executive management (i.e. because they fall outside the Committee's mandate) are made with the involvement of the Human Resources team working with the relevant executive management.

The Chief Executive, the Remuneration Director and the General Counsel, Company Secretary & Head of HR attend Committee meetings by invitation, other than when their personal remuneration is being discussed. The Committee also receives advice from Deloitte LLP, its retained remuneration consultants.

4.2 MRT IDENTIFICATION

The following groups of staff have been identified as meeting the FCA's criteria for MRTs:

- Chairman, executive and non-executive Directors of 3i Group plc;
- Those Executive Committee and Investment Committee members (who do not form part of the Board);
- The Board members of 3i Debt Management Investments Limited; and
- The Heads of Compliance and Internal Audit.
- Those employees whose remuneration is above €500,000 are considered to meet the criteria of being an MRT.

4 Remuneration continued

4.3 REMUNERATION POLICY

The remuneration policy, as set out in the 2014 Directors' remuneration report, was formally approved by shareholders at the 2014 Annual General Meeting held on 17 July 2014. There have been no amendments to this policy this year. The policy can be found in the 2014 ARA on our website at **www.3i.com/investor-relations/results-and-reports/reports**.

4.4 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. In order to comply with the requirements of AIFMD, 60% of Executive Directors' annual bonuses are delivered in 3i Group plc shares deferred for four years (and which vest one quarter per annum over those four years). The remaining 40% is delivered half in cash and half in 3i Group plc shares which are subject to a six-month retention period. Other AIFMD Identified Staff (which includes all members of the Executive Committee) are subject to the same bonus deferral and retention arrangements as the Executive Directors.

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 / or its clients' investments through co-investment carried interest schemes or similar arrangements.

4.5 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.

4.6 CHAIRMAN AND NON-EXECUTIVE DIRECTORS

NON-EXECUTIVE DIRECTORS

Purpose and link to strategy	Operation	Opportunity
NON-EXECUTIVE DIRECTORS – FEES		
▪ 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.

4.7 HEADS OF COMPLIANCE AND INTERNAL AUDIT

Bonuses for these jobholders are decided by the Remuneration Committee, and are impacted by both the Group and personal performance.

4.8 PAY AND PERFORMANCE LINK

The 3i package as a whole recognises individual, business line and firm performance. During the year to 31 March 2016, Group performance was recognised through 3i's various share based arrangements. Group and business line performance was recognised under the Group's annual bonus arrangements. Business line performance was also recognised through 3i's various asset-linked arrangements. Personal performance was specifically reflected in salary levels and in the size of individual awards made under the Group's annual bonus, share, and asset-linked arrangements.

The Company seeks to align staff with the 3i share price by: ensuring that many of the firm's asset-linked plans are driven by investment returns which are a prime determinant of the 3i share price; ensuring senior team members receive deferred bonuses in the form of restricted shares; and applying a shareholding requirement to the Executive Directors and other senior employees within each of our three businesses.

4 Remuneration continued

Wherever practical and appropriate, the Company operates cash to cash carried interest arrangements subject to a co-investment requirement. Under such arrangements performance is normally measured over a number of years, and distributions are often made (if at all) after 5 or more years.

4.9 QUANTITATIVE DISCLOSURE

3i Group is required to disclose quantitative remuneration disclosure for its material risk takers in a manner that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

The following table discloses aggregate reward and related information broken down by senior management and other material risk takers for the year to 31 March 2016.

	Senior management	Other material risk takers	Total
Number of beneficiaries	16	24	40
Fixed remuneration (£m)	5	6	11
Variable remuneration (£m)	12	10	22
Total remuneration (£m)	**17**	**16**	**33**

5 Capital resources

The Group calculates capital resources in accordance with CRD IV and the FCA handbook and reports its capital requirements on a consolidated basis. The Group actively manages its capital requirement on a monthly basis. This is reviewed by the Board when required and submitted to the FCA on a quarterly basis.

The consolidated regulatory capital requirement under Pillar I for the Group was £743m. The actual consolidated capital held was £3,738m, giving a surplus of £2,995m.

The following table shows the Group's consolidated capital resources at 31 March 2016, based on audited results:

	£m
Common equity tier one capital	
Paid up capital instruments	719
Share premium account	784
Retained earnings	622
Accumulated other comprehensive income	97
Other reserves	2,287
	4,509
Deductions from tier one capital	
Own common equity tier 1 capital	(54)
Goodwill and intangible assets[1]	(12)
Defined benefit pension fund assets	(132)
CET1 instruments of financial sector entities where the institution has a significant investment[2]	(573)
Total tier one capital deductions	(771)
Total tier one capital	3,738
Pillar I capital requirement	743
Surplus capital resources[3]	**2,995**

[1] Intangibles per Annual Accounts are £12m. There was no Deferred tax liability associated with intangible assets as per Article 37 point (a) of CRR for calculating Own funds requirement.
[2] The Investment Portfolio per the Annual Accounts is £4,220m. However, provisions of Art Articles 4(27); 36(1) point (i); 43, 45; 47; 48(1) point (b); 49(1) to (3) and 79 of CRR have been applied for calculating Own funds requirement.
[3] Surplus capital resources include audited profits for the year ended 31 March 2016.

5 Capital resources continued

In accordance with CRR Article 437, 1(a) all amounts shown in the table above can be reconciled back to the face of the statement of financial position in the ARA of the Group. Any differences are explained in the footnote to the table above.

A description of the main features of Common Equity Tier I, Additional tier 1 and Tier 2 instruments can be found in Group's ARA, along with any material terms and conditions.

CAPITAL ADEQUACY

The firm maintains sufficient capital in order to meet the FCA regulatory requirements and maintain capital above the Pillar 2 requirement. The capital adequacy of the firms is considered as part of the Individual Capital Adequacy Assessment Process (ICAAP). The following table discloses the Group's consolidated Pillar 1 requirement as at 31 March 2016:

	March 2016 £m
Credit risk	487
Market risk	256
Total credit and market risk	743
Fixed overhead requirement	26
Pillar I capital requirement (higher of credit risk plus market risk and fixed overhead requirement)	**743**

5.1 PILLAR 1

Pillar 1 risks are reviewed and reported to the FCA in accordance with the FCA handbook reporting timetable, and in accordance with GENPRU 2.1.45 the firms Pillar 1 requirement is the higher of:

- Credit risk plus market risk requirement; and
- Fixed overhead requirement.

5.2 CREDIT RISK

The Group measures credit risk by assessing its Regulated Group and applying the risk weightings in line with IFPRU 4.2 on a line by line basis. The Regulated Group differs from the IFRS accounting definition and applies proportional consolidation in line with IFPRU 8.1.3 to holding company structures within the Group that are deemed to be financial institutions where the underlying investment is not a financial institution.

The appropriate risk weightings are then applied to the exposures within the Group. The following table details the calculation of credit risk as at 31 March 2016:

Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliverables	Exposure £m	Risk factor	Capital requirement £m
Institutions	199		
Corporates	652		
Items associated with particular high risk	4,272		
Equity	885		
Other	80		
Total	**6,088**	**8%**	**487**

When calculating credit risk, the ECAI used was Standard & Poor. ECAI ratings were used when assessing the credit risk associated with Institutions and Corporates.

All investment in equity exposures are long term investments and therefore are not deemed to be subject to the trading book reporting requirements of Article 447 of the CRR.

5.3 MARKET RISK

Market risk is calculated in accordance with IFPRU 6 and CRR. The Group’s exposure to foreign exchange is calculated in accordance with CRR Article 352, which states a firm must calculate its open currency position by:

- calculating the net position in each currency
- converting each net position into the base currency
- summing all short net positions and summing all long net positions
- select higher of the longs or shorts
- multiply by 8%

The result of this calculation is a market risk capital requirement of £256m.

5.4 FIXED OVERHEADS REQUIREMENT

As per CRR Article 95(2), the Groups capital requirement is the higher of the sum of credit risk and market risk or the fixed overhead requirement. The fixed overheads requirement is calculated as equal to one quarter of the Group's preceding year’s relevant fixed expenditure calculated in accordance with CRR Article 97.

5 Capital resources continued

This results in a fixed overheads requirement for the Group of £26m. This is less than the total of credit and market risk and, therefore, the Pillar 1 requirement is £743m.

5.5 OPERATIONAL RISK

The Group does not have any Pillar I operational risk, as per CRR Article 95 (2). However, the Group does calculate an operational risk in accordance with CRR Article 315 (Basic Indicator Approach) and includes this in its Pillar 2 charge.

PILLAR 2 (ICAAP)

The Group's ICAAP is the result of the risk management processes in place, as described in the risk management section, and determines the Group's Pillar 2 requirement.

The assessment of the risk factors faced by the Group are identified, monitored and managed through the risk management processes in place, which drives the ICAAP. The risks assessed are as prescribed in CRD IV and result in the Group's Pillar 2 capital requirement. This is reviewed appropriately throughout the year.

5.6 NON-TRADING BOOK EXPOSURES

The Group's non-trading book exposures in equities and interest rate risk are disclosed in its 2016 ARA.