Pillar 3 disclosures

3I GROUP PLC

As at 31 March 2017

1. Overview

The Capital Requirements Directive (“CRD”) and the Alternative Investment Fund Managers Directive (“AIFMD”) established a regulatory capital framework across Europe governing the amount and nature of capital that financial services firms must retain. In the United Kingdom, CRD 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 2017 can be accessed at **www.3i.com**.

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 two complementary businesses, Private Equity and Infrastructure. The Group includes a number of regulated subsidiaries - 3i Investments plc, 3i BIFM Investments Limited, 3i Nordic plc and 3i Europe plc, which are subject to regulation by the FCA.

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 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.

This document details the Group's Pillar 3 disclosures as at 31 March 2017. It has been prepared in accordance with BIPRU 11 and 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.

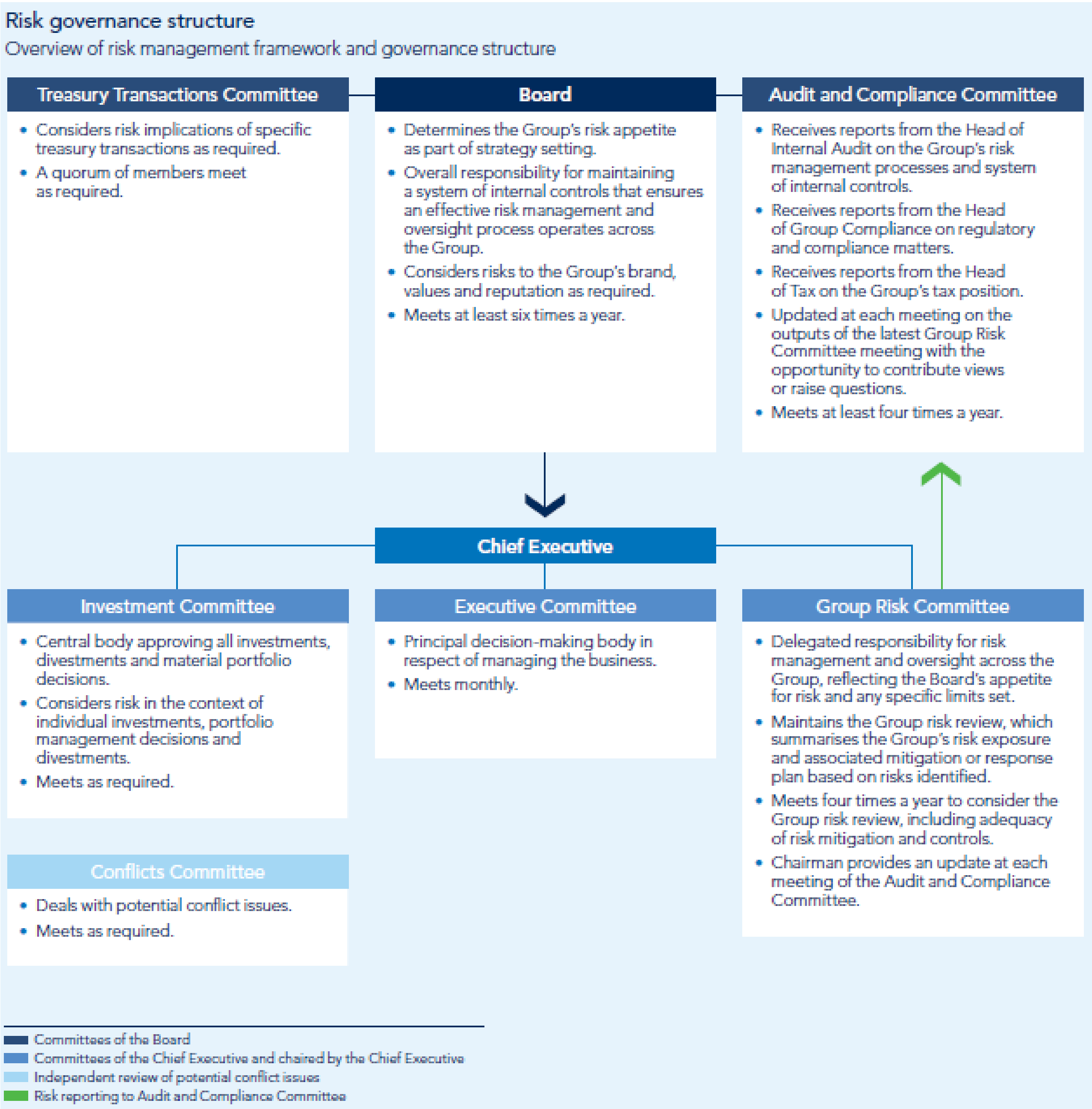
Internal Capital Adequacy Assessment Process (ICAAP)

The Group has an Internal Capital Adequacy Assessment Process ("ICAAP") which is formally reviewed by the Board on at least an annual basis. 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.

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 45 of 3i Group plc's 2017 ARA.



3.2 RISK APPETITE STATEMENT

3i's risk appetite policy, which is consistent with previous years, is built on rigorous and comprehensive investment procedures and conservative capital management. The detailed statement can be found on page 44 of the Group's 2017 ARA

3.3 APPROACH TO RISK GOVERNANCE

The below sections are a summary of the Group's approach to risk governance as disclosed its 2017 ARA on pages 44 – 53.

The Board is responsible for risk assessment, the risk management process and for the protection of the Group's reputation and brand integrity. Non-executive oversight for risk governance is also exercised through the Audit and Compliance Committee. 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. The Audit and Compliance Committee's activities are discussed further on pages 69 to 73 of 3i Group plc's 2017 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, and 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 last risk review was completed in May 2017.

The risk framework is augmented by a separate Risk Management Function which has specific responsibilities under the FCA's Investment Funds Sourcebook. It meets ahead of the GRC meetings to consider the key risks impacting the Group, and any changes in the relevant period where appropriate.

3.4 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;
- the Investment Committee ensures a centralised process-led approach to investment; 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 74 of 3i Group plc's 2017 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 and Infrastructure, and Debt Management (until 3 March 2017).

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.

3.5 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:

- Group and business line KPIs;
- portfolio analysis;
- risk reports for managed AIFs; and
- quarterly Group risk log.

There were no significant changes to the Group's approach to risk governance or its operation in FY2017 but we have continued to refine our framework for risk management where appropriate, including further steps to monitor our investment in Action.

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

4. Remuneration

This section includes disclosures for 3i Investments plc regarding remuneration policy and practices, as well as aggregate quantitative information for those defined as Material Risk Takers for the year to 31 March 2017. Additional remuneration information, including remuneration for the non-executive Directors, can be found in the Remuneration Committee's report in the 2017 ARA on pages 77 to 94.

4.1 REMUNERATION COMMITTEE

During the year to 31 March 2017, the Remuneration Committee comprised Mr J P Asquith (Chairman from 9 May 2011), Ms C J Banszky and Mr D A M Hutchison. All the current members of the Committee are independent non-executive Directors.

The Committee considers 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 III Material Risk Takers ("MRT's"). The Committee's terms of reference, which are regularly reviewed and updated, are available at www.3i.com.

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 Heads of Compliance and Internal Audit.

4.3 REMUNERATION POLICY

The new remuneration policy for the coming year, as set out in the 2017 Directors' remuneration report, was formally approved by shareholders at the 2017 Annual General Meeting held on 29 June 2017. 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. The policy can be found in the 2017 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, 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.

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 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.

4.7 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 2017. It is also disclosed on page 97 of the Group's 2017 Annual report and accounts.

	Senior management	Other Material Risk Takers	Total
Number of beneficiaries	16	4	20
Fixed remuneration (£m)	5	1	6
Variable remuneration (£m)	17	0	17
Total remuneration (£m)	**22**	**1**	**23**

5. Capital resources

The Group calculates capital resources in accordance with BIPRU and GENPRU 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 £930m. The actual consolidated capital held was £5,836m, giving a surplus of £4,906m.

The following table shows the Group's consolidated capital resources at 31 March 2017, based on audited results:

	£m
Common equity tier one capital	
Paid up capital instruments	719
Share premium account	785
Retained earnings	689
Accumulated other comprehensive income	218
Other reserves	3,463
	5,874
Deductions from tier one capital	
Own common equity tier 1 capital	(38)
Total tier one capital deductions	(38)
Total tier one capital	5,836
Pillar I capital requirement	930
Surplus capital resources[1]	**4,906**

[1] Surplus capital resources include audited profits for the year ended 31 March 2017.

CAPITAL ADEQUACY

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.

The following table discloses the Group's consolidated Pillar 1 requirement as at 31 March 2017:

	March 2017 £m
Credit risk	576
Market risk	354
Total credit and market risk	930
Fixed overhead requirement	24
Pillar I capital requirement (higher of credit risk plus market risk and fixed overhead requirement)	**930**

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 Group is considered as part of the Individual Capital Adequacy Assessment Process (ICAAP).

5.1 CREDIT RISK

The Group measures credit risk by assessing its Regulated Group and applying the risk weightings in line with BIPRU 3.4 on a line by line basis. The Regulated Group differs from the IFRS accounting definition and applies proportional consolidation in line with BIPRU 8.5.5 to holding company structures within the Group.

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 2017:

Credit risk exposures	Exposure £m	Risk factor	Capital requirement £m
Institutions	194		
Corporates	335		
Items associated with particular high risk	1,411		
Investments	4,635		
Fund and investment commitments	437		
Other	190		
Total	**7,202**	**8%**	**576**

When calculating credit risk, the ECAI used was Standard & Poor's. 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 BIPRU 1.2.10.

5.2 MARKET RISK

Market risk is calculated in accordance with GENPRU 2.1.52. The Group's exposure to foreign exchange is calculated in accordance with BIPRU 7.5.1 and BIPRU 7.5.19, 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 £354m.

5.3 FIXED OVERHEADS REQUIREMENT

As per GENPRU 2.1.45, 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 GENPRU 2.1.54.

This results in a fixed overheads requirement for the Group of £24m. This is less than the total of credit and market risk and, therefore, the Pillar 1 requirement is £930m.

5.4 OPERATIONAL RISK

The Group does not have any Pillar I operational risk, however, the Group does calculate an operational risk in accordance with BIPRU 6.3 (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 BIPRU 2 and result in the Group’s Pillar 2 capital requirement. This is reviewed as appropriate throughout the financial year.

5.5 NON-TRADING BOOK EXPOSURES

The Group’s non-trading book exposures in equities and interest rate risk are disclosed in its 2017 ARA.