



# Pillar 3 disclosures

3I GROUP PLC

As at 31 March 2020



# 1. Overview

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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 the Prudential Regulatory Authority, which maintains prudential 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”). In the United Kingdom, 3i is regulated by the FCA.

The framework consists of three Pillars:

- Pillar 1: sets out the minimum capital amount that meets the firm’s credit, market and operational risk;
- Pillar 2: requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks or whether additional capital is required FCA; and
- Pillar 3: requires disclosure of specified information about the underlying risk management controls and capital position. The specific disclosures that are required to be made under Pillar 3 are set out in Chapter 11 of BIPRU.

These Pillar 3 disclosures are reviewed and updated on an annual basis and published on the 3i Group plc’s (“3i”) website following publication of 3i’s 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 2020 can be accessed at [www.3i.com](http://www.3i.com).

## 2. Scope of Application

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The disclosures in this document are made in respect of 3i and its consolidated subsidiaries that together form and are referred to in this document as the Group. 3i is an investment company with three complementary businesses, Private Equity, Infrastructure and Corporate Assets. The Group includes a number of regulated subsidiaries - 3i Investments plc, 3i BIFM Investments Limited, 3i Europe plc, 3i Investments (Luxembourg) SA and 3i Corporation, which are subject to regulation by their local regulators.

The Group's UK regulated firms are identified in the table below:

| Group Company               | Prudential Classification                                 |
|-----------------------------|---|
| 3i Investments plc          | Collective Portfolio Management Investment and BIPRU firm |
| 3i BIFM Investments Limited | IPRU (INV) Chapter 5 firm                                 |
| 3i Europe plc               | Exempt CAD firm   |

The UK regulated firm 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, has sufficient capital resources in relation to its minimum regulatory capital requirements.

This document details the Group's Pillar 3 disclosures as at 31 March 2020. It has been prepared in accordance with BIPRU 11 and provides details on capital, risk exposures, risk assessment processes, capital adequacy and remuneration policy and practices. It is consistent with the way in which senior management, including the 3i Board ("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 risks 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 48 of 3i Group plc’s 2020 ARA.

### Risk governance structure



### **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 49 of the Group's 2020 ARA.

### **3.3 APPROACH TO RISK GOVERNANCE**

The below sections are a summary of the Group's approach to risk governance as disclosed in its 2020 ARA on pages 48 to 59.

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 86 to 89 of the Group's 2020 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 2020.

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 risks is central to how it does business and a key part of its risk management framework. It also forms part of the half-yearly portfolio company reviews as described in the Valuations Committee report on page 90 to 91 of the Group's 2020 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 of Private Equity and Infrastructure.

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 our 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 Alternative Investment Funds; and
- quarterly Group risk log.

There were no significant changes to the Group's approach to risk governance or its operation in FY2020 but we have continued to refine our framework for risk management where appropriate.

Further details on 3i's approach as a responsible investor are available at [www.3i.com](http://www.3i.com)

## 4. Remuneration

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This section includes disclosures for 3i Investments plc regarding remuneration policy and practices, as well as aggregate quantitative information for those defined as AIFM Remuneration Code staff for the year to 31 March 2020. Additional remuneration information, including remuneration for 3i non-executive directors, can be found in the Remuneration Committee's report in the 2020 ARA on pages 95 to 105.

### 4.1 REMUNERATION COMMITTEE

During the year to 31 March 2020, the Remuneration Committee comprised Mr J P Asquith (Chairman from 9 May 2011), Ms C J Banszky, Mr D A M Hutchison and Ms C McConville. All the current members of the Committee are independent non-executive Directors.

The Committee considers remuneration matters and determines, on behalf of the Board, the specific remuneration packages and co-investment and carried interest arrangements for those individuals within its mandate, including AIFM Remuneration Code staff. The Committee's terms of reference, which are regularly reviewed and updated, are available at [www.3i.com](http://www.3i.com).

### 4.2 AIFM REMUNERATION CODE STAFF

The following groups of staff have been identified as meeting the FCA's criteria for AIFM Remuneration Code Staff:

- executive directors of 3i;
- Executive Committee and Investment Committee members (who do not otherwise form part of the Board); and
- the Heads of Compliance and Internal Audit.

### 4.3 IMPLEMENTATION OF THE REMUNERATION POLICY

The implementation of the remuneration policy for the coming year, as set out in the 2020 Directors' remuneration report, was formally approved by shareholders at the 2020 Annual General Meeting held on 25 June 2020. There have been no major changes to the remuneration policy from that which was applied during the year, other than the new shareholding requirement of the non-executive Directors of 100% of base fee. The policy can be found in the 2020 ARA at <https://www.3i.com/investor-relations/report-library/2020/>.

### 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 3i's 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

The Group's executive directors, the Chief Executive and Group Finance Director, do not benefit from any carried interest plans and similar 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 AIFM Remuneration Code Staff 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 2020.

|                                | Senior management | Others having a material impact on risk | Total     |
|--------------------------------|-------------------|---|-----------|
| Number of beneficiaries        | 15                | 4                                       | 19        |
| Fixed remuneration (£m)        | 5                 | 1                                       | 6         |
| Variable remuneration (£m)     | 24                | 4                                       | 28        |
| <b>Total remuneration (£m)</b> | <b>29</b>         | <b>5</b>                                | <b>34</b> |

## 5. Capital resources

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The Group calculates capital resources in accordance with BIPRU and GENPRU and reports its capital requirements on a consolidated basis in line with GENPRU 2 Annex 4. 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 disclosure below was prepared in line with BIPRU 11.5. and includes all applicable information relevant to the Group. The consolidated regulatory capital requirement under Pillar I for the Group was £1,768m. The actual consolidated capital held was £6,844m, giving a surplus of £5,076m.

The following table shows the Group's consolidated capital resources at 31 March 2020, based on audited results:

|  | £m           |
|--|--------------|
| Common equity tier one capital <sup>1</sup>  |              |
| Paid up capital instruments                  | 719          |
| Share premium account                        | 788          |
| Revenue reserve                              | 822          |
| Capital reserve                              | 5,430        |
| Other reserves                               | 76           |
|  | <b>7,835</b> |
|  |              |
| Deductions from tier one capital             | <b>(991)</b> |
|  |              |
| Total tier one capital                       | <b>6,844</b> |
|  |              |
| Pillar I capital requirement                 | <b>1,388</b> |
|  |              |
| <b>Surplus capital resources<sup>2</sup></b> | <b>5,456</b> |

<sup>1</sup> Note 22 on page 149 of the Group's 2020 ARA includes more detailed information on the Group's capital structure and capital constraints.

<sup>2</sup> Surplus capital resources include the audited profits for the year ended 31 March 2020.

## CAPITAL ADEQUACY

### 5.1 PILLAR 1

Pillar 1 risks are reviewed and reported to the FCA in accordance with the FCA handbook reporting timetable. In accordance with GENPRU 2.1.45R the Group's 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 2020:

|  | £m           |
|--|--------------|
| Credit risk  | 846          |
| Market risk  | 542          |
| Total credit and market risk   | <b>1,388</b> |
| Fixed overhead requirement   | 24           |
| Pillar I capital requirement (higher of credit risk plus market risk and fixed overhead requirement) | <b>1,388</b> |

The Group 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").

### 5.2 CREDIT RISK

The Group measures credit risk by assessing its subsidiaries and applying the risk weightings in line with BIPRU 3.4 on a line by line basis. The 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 2020:

| Credit risk exposures           | Risk weighted assets<br>£m | Risk factor | Capital requirement<br>£m |
|---------------------------------|----------------------------|-------------|---------------------------|
| Equity                          | <b>10,018</b>              |             |                           |
| Fund and investment commitments | <b>203</b>                 |             |                           |
| Other                           | <b>360</b>                 |             |                           |
| <b>Total</b>                    | <b>10,581</b>              | 8%          | <b>846</b>                |

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. There are no credit risk mitigation applied as per BIPRU 11.5.10.

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 1.2.10R. The details of geographic and industry distribution of the Group's investments, which constitute the majority of risk exposure, can be found in the Group's 2020 ARA on pages 2 and 3.

The credit risk disclosure above covers all applicable requirements to the Group within BIPRU 11.5.8R.

### **5.3 MARKET RISK**

Market risk is calculated in accordance with GENPRU 2.1.52R. The Group's exposure to foreign exchange is calculated in accordance with BIPRU 7.5.1R and BIPRU 7.5.19R, 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 £542m.

### **5.4 FIXED OVERHEADS REQUIREMENT**

As per GENPRU 2.1.45R, 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 2.1.54R.

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 £1,388m.

#### **Pillar 2 (ICAAP)**

The Group's ICAAP is the result of the risk management processes in place, as described in the Governance and 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 2020 ARA on pages 120 and 157 respectively.