Pillar 3 disclosures

3I GROUP PLC

As at 31 March 2021

1. Overview

The Capital Requirements Directive ("CRD") and the Alternative Investment Fund Managers Directive ("AIFMD") establish a regulatory capital framework across the UK and 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 Prudential Sourcebook for Investment Firms ("IFPRU"). 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; 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 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 2021 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 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 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

The Group's UK regulated firms 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 2021. 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.

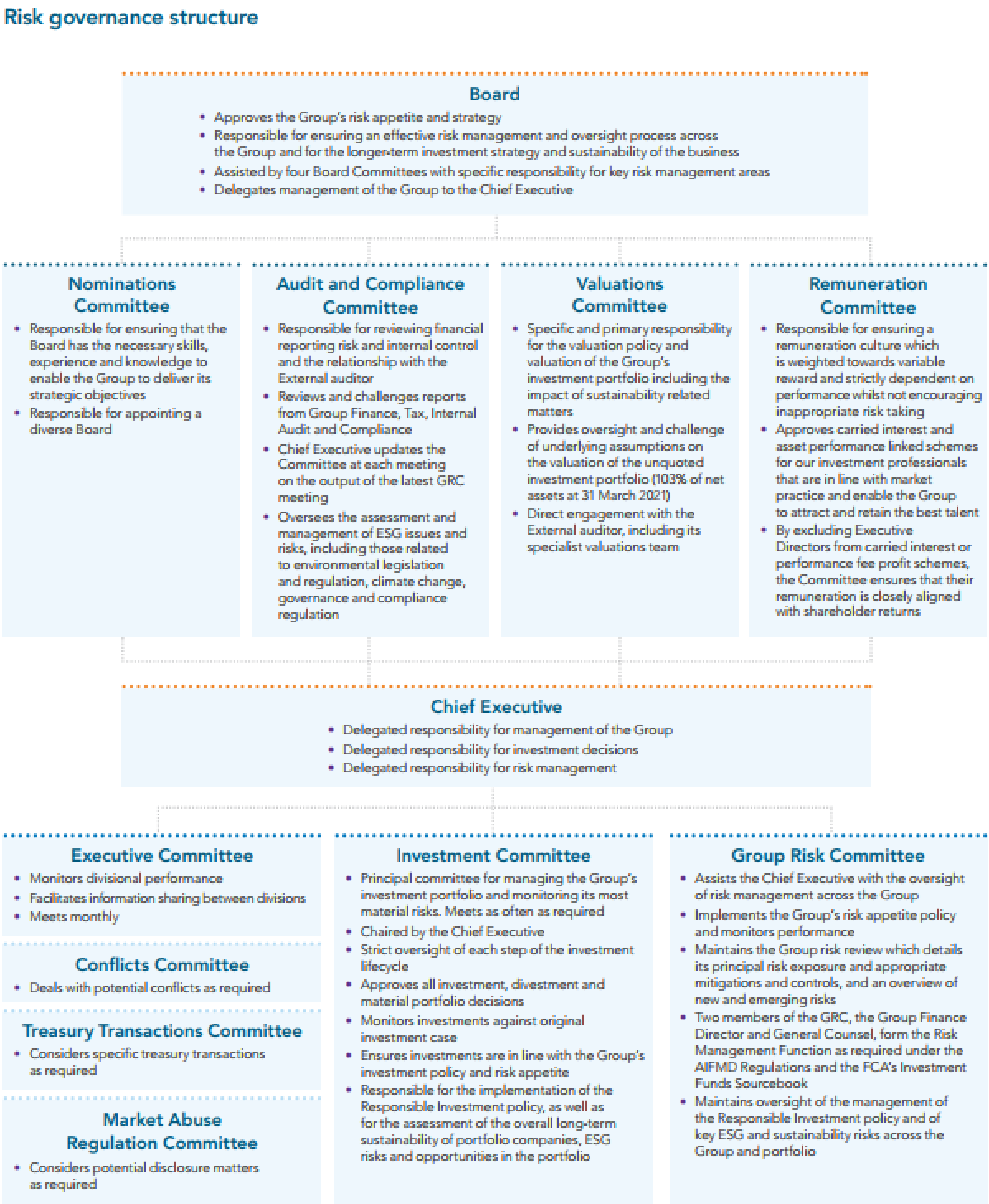
Internal Capital Adequacy Assessment Process ("ICAAP")

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 face.

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 50 of 3i Group plc's 2021 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 51 of the Group's 2021 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 2021 ARA on pages 50 to 62.

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 94 to 98 of the Group's 2021 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 2021.

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 103 to 106 of the Group's 2021 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, Infrastructure and corporate assets.

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 part of 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 FY2021 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**.

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 AIFM Remuneration Code staff for the year to 31 March 2021. Additional remuneration information, including remuneration for 3i non-executive directors, can be found in the Remuneration Committee's report in the 2021 ARA on pages 107 to 117.

4.1 REMUNERATION COMMITTEE

During the year to 31 March 2021, the Remuneration Committee comprised Ms C McConville (Chairman from June 2020), Ms C J Banszky, Mr D A M Hutchison and Mr J P Asquith (Member until December 2020). 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**.

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 2021 Directors' remuneration report, will be formally approved by shareholders at the 2021 Annual General Meeting to be held on 1 July 2021. 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 2021 ARA at **2021 | Report library | Investor relations | 3i Group**.

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 the aggregate quantitative information on remuneration required by BIPRU 11.5.18 R (7) of the FCA's handbook.

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 2021., indicating the following:

(a) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries

	Senior management	Others having a material impact on risk	Total
Number of beneficiaries	7	4	11
Fixed remuneration (£m)	4	1	5
Variable remuneration (£m)	31	4	35
Total remuneration (£m)	**35**	**5**	**40**

(b) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;

	Senior management	Others having a material impact on risk	Total
Variable remuneration			
Cash	19	2	21
Shares and shares linked instrument	11	2	13
Total	**31**	**4**	**35**

(c) the amounts of outstanding unvested deferred remuneration as at 31 March 2021 was £35million

(d) the amounts of deferred remuneration awarded during the financial year was £13million and the amount paid/ exercised was £13million

(e) The amount paid for new sign-on and severance payments made during the financial year was nil

5. Capital resources

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 £1,688m. The actual consolidated capital held was £8,223m, giving a surplus of £6,535m.

The following table shows the Group's consolidated capital resources at 31 March 2021, based on audited results:

	£m
Common equity tier one capital[1]	
Paid up capital instruments	719
Share premium account	788
Revenue reserve	908
Capital reserve	6,741
Other reserves	72
	9,228
Deductions from tier one capital	**(1,005)**
Total tier one capital	**8,223**
Pillar I capital requirement	**1,688**
Surplus capital resources[2]	**6,535**

[1] Note 22 on page 154 to 155 of the Group's 2021 ARA includes more detailed information on the Group's capital structure and capital constraints.

[2] Surplus capital resources include the audited profits for the year ended 31 March 2021.

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 2021:

	£m
Credit risk	1,021
Market risk	667
Total credit and market risk	**1,688**
Fixed overhead requirement	23
Pillar I capital requirement (higher of credit risk plus market risk and fixed overhead requirement)	**1,688**

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 2021:

Credit risk exposures	Risk weighted assets £m	Risk factor	Capital requirement £m
Equity	**12,399**		
Fund and investment commitments	**183**		
Other	**176**		
Total	**12,758**	8%	**1,021**

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 2021 ARA on pages 4 and 5.

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 £667m.

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 £23m. This is less than the total of credit and market risk and, therefore, the Pillar 1 requirement is £1,688m.

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 2021 ARA on pages 127 and 163 respectively.