



Pillar 3 disclosures  
3i Investments plc  
As at 31 March 2011

## Background

3i is an international investor focused on private equity, infrastructure and debt management, investing in Europe, Asia and the Americas. The development of our infrastructure and debt management activities, combined with the continued progress of our private equity business, is changing the overall balance of 3i and strengthening our financial profile.

3i Investments plc is a BIPRU 125k limited license firm required to disclose its Pillar 3 requirements in accordance with BIPRU 11.5. 3i Investments plc, 3i Nordic plc and 3i Europe plc are the entities within the consolidated 3i Group plc structure, which are subject to regulation by the Financial Services Authority (FSA).

This document details the Group's Pillar 3 disclosure at 31 March 2011 and comprises a detailed update of the required quantitative disclosures (see Capital resources on page 13).

## Scope

3i Investments plc is the regulated entity within the 3i Group and is subject to consolidated reporting requirements. The firm is subject to solo and consolidated minimum regulatory capital requirements. The same principles are followed to determine the consolidated group for accounting and prudential purposes. It is worth noting that the Group does not operate a trading book; details of non-trading book exposures are included within this document. There are no impediments to the prompt transfer of capital resources or repayment of liabilities among the Group and its subsidiaries.

## Risk Management

This section provides a review of the evolution and management of 3i's key risks during the year, together with an overview of the main elements of 3i's risk governance framework. This is followed by a description of the main inherent risks factors facing the Group.

### **Risk governance framework**

3i's risk governance framework provides a structured process to oversee the identification, assessment and approach to mitigation in respect of those risks which could materially impact the Group's strategic objectives or execution.

Risk management operates at all levels throughout the Group, across business lines, geographies and professional functions. The Board is ultimately responsible for risk management, which includes the Group's risk governance or oversight structure and maintaining an appropriate internal control framework. Management's responsibility is to manage risk on behalf of the Board.

By reporting regularly to Audit and Compliance Committee, the Group's Risk Committee provides support to the Board in maintaining oversight of the effectiveness of risk management across the Group. The risk governance framework and the responsibilities of the main committees involved are stated on the following page.

## **Group Risk Committee**

**Chairman:** Chief Executive

- Oversight of the Group's overall risk management processes
- Monitors changes in the Group's external and strategic risk profile
- Reviews risk update reports from each of the Treasury Management, Portfolio and Operating Committees
- Assesses the adequacy of risk mitigation steps put in place in respect of higher level risks
- Reports to the Audit and Compliance Committee

## **Treasury Management Committee**

**Chairman:** Chief Executive

- Oversees management of funding, gearing, liquidity, interest rate and foreign exchange exposures in relation to policies agreed by the Board

## **Operating Committee**

**Chairman:** Group Finance Director

- Oversees the key operational risks facing the Group, including changes to the operational risk profile and new and emerging risks

## **Portfolio Committee**

**Chairman:** Chief Investment Officer

- Oversees risks arising from investment portfolio concentration by vintage, geography, sector and size

## **Operation during the year**

The formation of a new Leadership Team and Committee structure required some changes to 3i's overall risk governance framework to ensure proper alignment and effectiveness. The remit of the former Portfolio Risk Committee was subsumed by the new Portfolio Committee, reporting into the Leadership Team. Similarly, the remit of the Operational Risk Committee was assumed by the Operating Committee supported by an operational risk forum of 3i senior managers. Risk reviews are generally carried out on a quarterly basis and aligned with the Group Risk Committee meetings, which are held at the start of the Leadership Team meetings.

## **Related committees**

The Corporate Responsibility Committee considers and reviews corporate responsibility issues relevant to 3i's business, reporting to the Board. This includes identifying and assessing the significant risks and opportunities for 3i arising from corporate responsibility issues. Any reported risks are also considered by the Operating Committee or Group Risk Committee as appropriate.

## **Risk factors**

The table on pages 5 and 6 sets out the definitions of each key risk type, inherent risks, risk mitigation and key developments for risk factors affecting the Group. Further information can be found in the 3i Group plc Report and Accounts for the period ended 31 March 2011.

## Risk factors

	External	Strategic
<b>Risk type</b>	Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Group's operations	Risks arising from the analysis, design and implementation of the Group's business model, and key decisions on the investment levels and capital allocations
<b>Inherent risks</b>	<ul style="list-style-type: none"> <li>– Changes in macroeconomic variables, eg rates of growth</li> <li>– General health of capital markets, eg conditions for initial public offerings</li> <li>– Exposure to new and emerging markets</li> <li>– Regulatory developments</li> <li>– Changes in government policy, eg taxation</li> <li>– Reputational risk in portfolio companies</li> </ul>	<ul style="list-style-type: none"> <li>– Understanding and analysis of risks and rewards</li> <li>– Appropriateness of business model</li> <li>– Changes in the Group's operating environment</li> <li>– Unanticipated outcomes versus assumptions</li> <li>– Potential loss of key staff in certain areas</li> </ul>
<b>Risk mitigation</b>	<ul style="list-style-type: none"> <li>– Diversified investment portfolio in a range of sectors, with different economic cycles, across geographical markets</li> <li>– Close monitoring of regulatory and fiscal developments in main markets</li> <li>– Due diligence when entering new markets or business areas</li> </ul>	<ul style="list-style-type: none"> <li>– Periodic strategic reviews</li> <li>– Regular monitoring of key risks by Group Risk Committee and the Board</li> <li>– Monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions</li> <li>– Disciplined management of key strategic projects</li> </ul>
<b>Key developments</b>	<ul style="list-style-type: none"> <li>– Continuing adverse economic and market conditions</li> <li>– Regulatory developments which may be unfavourable</li> </ul>	<ul style="list-style-type: none"> <li>– Acquisition of debt management business</li> <li>– Geographical expansion</li> </ul>

	Investment	Treasury	Operational
<b>Risk type</b>	Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolios	Risks in relation to changes in market prices and rates; access to capital markets and third-party funds; and the Group's capital structure	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these
<b>Inherent risks</b>	<ul style="list-style-type: none"> <li>– Market competition, eg number of participants and availability of funds</li> <li>– Asset pricing and access to deals, eg on a proprietary basis</li> <li>– Investor experience and key man retention</li> <li>– Alignment of remuneration</li> <li>– Underlying asset performance, eg earnings growth; cash headroom, environmental, social and governance (ESG) issues</li> <li>– Asset valuations</li> <li>– Overexposure to a particular sector, geography or small number of assets</li> <li>– Investment performance track record</li> <li>– Reputational risks arising from portfolio related events</li> </ul>	<ul style="list-style-type: none"> <li>– Liquidity</li> <li>– Level of gearing</li> <li>– Debt levels and maturity profile</li> <li>– Credit rating and access to funds</li> <li>– Counterparty risk</li> <li>– Foreign exchange exposure</li> <li>– Interest rate exposure</li> <li>– Impact of volatility of investment valuations</li> </ul>	<ul style="list-style-type: none"> <li>– Resource balance, including recruitment and retention of capable people</li> <li>– Appropriate systems, processes and procedures</li> <li>– Adherence to tax regulations, including permanent establishment risk</li> <li>– Complexity of regulatory operating environment</li> <li>– Potential exposure to litigation</li> <li>– Reputational risks arising from operational risk incidents</li> <li>– Exposure to fraud</li> <li>– Business disruption</li> </ul>
<b>Risk mitigation</b>	<ul style="list-style-type: none"> <li>– In-depth market and competitor analysis, supported by an international network of sector and industry specialists</li> <li>– Rigorous investment appraisal and approval process</li> <li>– Guidelines on responsible investing incorporated into investment procedures</li> <li>– Regular asset reviews, including risk assessment, based on up to date management accounts and reporting</li> <li>– Consistent application of detailed valuation guidelines and review processes</li> <li>– Representation by a 3i executive on the boards of investee companies</li> <li>– Setting of investment concentration limits</li> <li>– Periodic portfolio reviews to monitor exposure to sectors, geographies and larger assets</li> </ul>	<ul style="list-style-type: none"> <li>– Weekly detailed cash flow forecasts, tracked against a minimum liquidity headroom</li> <li>– Gross and net debt target limits and monitoring of gearing range</li> <li>– Monitoring of material maturities within a 12 month rolling period</li> <li>– Use of currency borrowings to reduce structural currency exposures</li> <li>– Use of 'plain vanilla' derivatives where appropriate eg interest rate swaps</li> <li>– Regular reviews of liquidity, gearing, net debt and large currency exposures</li> <li>– Regular Board reviews of the Group's financial resources and treasury policy, eg currency hedging</li> </ul>	<ul style="list-style-type: none"> <li>– Framework of core values, global policies, a code of business conduct and delegated authorities</li> <li>– Procedures and job descriptions setting out line management responsibilities for identifying, assessing, controlling and reporting operational risks</li> <li>– Rigorous staff recruitment, vetting, review and appraisal processes</li> <li>– Appropriate remuneration structures</li> <li>– Succession planning</li> <li>– Close monitoring of legal, regulatory and tax developments by specialist teams</li> <li>– Internal Audit and Compliance functions carry out independent periodic reviews</li> <li>– Business continuity and contingency planning</li> <li>– Controls over information security, confidentiality and conflicts of interest</li> <li>– Anti-fraud programme</li> </ul>
<b>Key developments</b>	<ul style="list-style-type: none"> <li>– Recovery in investment levels</li> <li>– Impact of current economic environment on portfolio companies' earnings causing valuations to lag public markets</li> <li>– Increased diversification through the addition of the debt management business</li> </ul>	<ul style="list-style-type: none"> <li>– Strong liquidity position maintained</li> </ul>	<ul style="list-style-type: none"> <li>– Integration of debt management business</li> <li>– Outsourcing of main UK data centre</li> <li>– Regulatory developments</li> <li>– Changing people risks, eg as recruitment market recovers</li> </ul>

## **Review of risks**

### **External**

The key external risks identified by 3i over the course of the financial year have centred on the impact of the continuing adverse economic conditions in some markets.

The current economic uncertainty continues to impact the market in which 3i operates in a number of ways. Fundraising conditions, for example, remain challenging. Although M&A activity has shown modest recovery over the past year, there remains a significant private equity funding overhang which, together with improved availability in debt terms, underpins high prices for transactions. The climate for investment realisations has therefore remained favourable whilst that for new investments has been more challenging.

Economic conditions also present varying degrees of risk for the operations and growth of 3i's portfolio companies and therefore overall performance and valuations, as described under Investment risk below. The key factors include the risk of below trend economic growth and the impact and uncertainties of sovereign debt refinancing and government deficit reduction programmes.

The reputation of the wider financial services sector remains low. In this context, there is a trend towards closer scrutiny of the integrity and transparency of firms and a greater emphasis on responsible investing. Firms that are able to differentiate themselves in these areas are likely to be at an advantage in the future. In recognition of this, 3i initiated a wide-ranging strategic review of responsible investing and is building on its current policies and processes.

Regulatory developments continue to be monitored closely. The key developments affecting 3i include: the European AIFM Directive, which will have a number of consequences, including higher levels of disclosure; the implementation of the UK Bribery Act; and US financial reform, which may require certain 3i entities to be registered with the Securities and Exchange Commission. Although it is difficult to assess the combined impact of these changes, the effect on 3i's overall business is not expected to be disproportionate in the context of the wider financial services industry.

### **Strategic**

3i continues to anticipate and to respond to market conditions, risks and opportunities. Following improvements to the Group's financial position, the strategic focus has been on performance improvement and growth.

To support this, 3i took steps to simplify its business structure, bringing together the former Growth Capital and Buyouts business lines. 3i also completed the purchase of Mizuho Investment Management (UK) Limited ("MIM") from Mizuho Bank. MIM specialises in managing funds that are invested in senior and subordinated debt. This was a significant step, providing the basis for a new Debt Management business line. This business line has a distinct risk profile, which is being integrated into 3i's overall risk assessment.

### **Investment**

The Group's key investment risks remain closely linked to the adverse economic and market conditions, described earlier. Risks included the pricing of investment

opportunities and potential underperformance of portfolio companies, impacting valuations. As part of the investment assessment and portfolio company review process, ESG risks are also considered.

The overall health of the portfolio has been relatively stable over the year, but with some sectors and geographies more exposed than others and, accordingly, some valuation reductions were required. Although it remains well diversified, the Group's investment portfolio has become relatively more concentrated over time, which increases its exposure to the performance of a smaller number of large investments and, therefore, the potential for material individual valuation movements.

The portfolio company review process includes both the identification of risks that might affect a substantial proportion of the portfolio and the assessment of significant exposures to specific known risks. Examples of the latter include the impact of higher oil prices and potential disruption to the Japanese economy following the earthquake and tsunami in March 2011. The exposure of the portfolio to reductions in government expenditure has been reviewed in depth with the conclusion that direct exposure is limited to a small number of portfolio companies, although the indirect impact is more complex to assess.

Refinancing of debt by portfolio companies has generally been easier than in 2008 and 2009, albeit that costs may be higher or debt terms less favourable. The majority of European financing transactions were structured at the peak of the market in 2006 and 2007, with tenors of between seven and nine years. This means that refinancing requirements will increase substantially, peaking in 2013 and 2014. The market, therefore, is likely to become increasingly focused on this risk in the run up to 2013. At this stage it is difficult to predict how this will unfold, particularly given the wider fundamental economic uncertainties, fragile confidence, and refinancing of corporate and sovereign debt. This will require continued focus on this area of risk management.

### **Treasury and funding**

The Group maintains a conservative financial structure and has tight controls and targets to support this, for example, in relation to the proportion of debt maturing in any one year for future refinancing.

The Group's bond refinancing strategy continues to focus on material maturities within a 12 month rolling period. Bond markets have been active for strong credits; however Euro sovereign debt concerns are still creating general investor caution leading to a preference by investors for corporate issuance in sectors regarded as stable. 3i's rating is BBB+/Baa1 with stable outlook.

The Group uses core currency borrowing to hedge foreign exchange exposures in the portfolio, which are primarily in euro and US dollars. In cases where there is limited availability of currency funding, the Group's US dollar and euro positions may be exposed to the impact of adverse currency movements. As gross debt is reduced, and potentially a greater proportion of the portfolio is invested outside of the UK, the exposure to foreign exchange risk could also increase. Following a Board review during the year, it was agreed to use forward contracts to supplement core hedging through debt where appropriate, subject to a maximum overall derivative limit.

### **Operational**

The key operational risks facing the Group during the year relate mainly to people. In common with many other businesses, cost pressures, lower levels of investment

activity and change in the external business environment have all contributed to a degree of uncertainty for staff. However, the latest staff survey shows high levels of employee engagement and commitment to 3i's strategy. During the year, we also reviewed our Critical Incident Plan and made a number of changes to the composition and processes of our Incident management team. More specific risks include key man retention (specifically in relation to managed funds), alignment to a different and difficult operating environment and the balance of skills and resources to meet these challenges. A people plan is in place to enable 3i to deliver its business strategy and vision by addressing these and other people risks.

In response to the provisions of the UK Bribery Act, the Group has undertaken an extensive review of its current policies and processes with the conclusion that, although no substantive changes were required, some refinements should be implemented as a matter of good practice, together with a refresh of related policy statements.

## Remuneration

In accordance with BIPRU 11.5.18 this section includes disclosures for 3i plc and 3i Debt Management Limited (being Tier 4 firms under the FSA Remuneration Code) regarding remuneration policy and practices, as well as aggregate quantitative information for those defined as Code Staff.

### Remuneration Committee

During the year the Remuneration Committee comprised Mr J M Allan (Committee Chairman until 30 April 2011), Baroness Hogg (until 7 July 2010), Mr J P Asquith (from 31 March 2011), Mr W Mesdag and Mme C J M Morin-Postel, all of whom were independent non-executive Directors, save for Baroness Hogg (Chairman of the Board until 7 July 2010) who was independent on appointment. In addition, Sir Adrian Montague attended Committee meetings following his appointment as Chairman of the Board (on 7 July 2010). Mr Allan stepped down as Committee Chairman on 30 April 2011 on leaving the Board and Mr Asquith was appointed as Committee Chairman on 9 May 2011.

The Committee held six regular scheduled meetings during the year (which were attended by all members of the Committee, save for one meeting which Mme Morin-Postel was unable to attend) to consider remuneration policy 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 Code Staff. The Committee's terms of reference, which were updated following publication of the FSA Remuneration Code, are available on the Company's website. All individual reward decisions which fall outside the Committee's mandate are made with the involvement of the Human Resources team, on (as a minimum) a grandfathered basis (i.e. a proposal is made by the relevant jobholder's manager and reviewed and if appropriate approved by the manager's manager).

The Committee was materially assisted with advice in the year by Kepler Associates (external remuneration advisers appointed by the Committee), Sir Adrian Montague (Chairman of the Board) and Mr M J Queen (Chief Executive). Neither the Chairman of the Board, nor the Chief Executive advised the Committee on their own remuneration. Kepler Associates did not provide any services to the Group during the year other than to the Remuneration Committee.

### Code Staff criteria

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

- Chairman, executive and non-executive Directors of 3i Group plc;
- Those Leadership Team and Investment Committee members (who do not form part of the Board); and
- The Heads of Compliance and Internal Audit.

## **Reward Policy**

The primary commercial objective underlying 3i's approach to reward is to ensure that the performance of the Group is sustainable over the long-term, and that our shareholders and fund investors are well rewarded for their investment.

The key principles that underpin 3i's approach to reward are that:

- Reward is structured to support Group strategy and sound risk and conflict management;
- Employees' interests are aligned with the long term interests and returns of shareholders and fund investors;
- 3i will attract, retain and incentivise the required quality of staff by offering a market competitive total package which taken in the round:
  - o Reflects the individual's current and potential value to 3i; and
  - o Recognises Group, business unit and individual financial and non financial performance.
- Particular consideration will therefore be given to the use (as and when appropriate) of:
  - o Investment staff performance metrics based on cash-to-cash returns;
  - o The deferral of some elements of variable pay; and
  - o The requirement for staff in some situations to "co-invest" in shares or in one of 3i's funds (which is in effect an additional form of deferral).

## **Reward practice**

### **Chairman and non-executive Directors**

Fees, some of which are delivered in the form of 3i Group plc shares, are reviewed regularly by the Board (or, in the case of the Chairman's fee, by the Committee) and are intended to be competitive with fees paid by FTSE 100 companies and FTSE 100 financial services companies of broadly similar size. The Chairman and non-executive Directors are not eligible for bonuses, long-term incentives, pensions or performance-related remuneration.

### **Executive Directors and Leadership Team**

The Company's policy for Executive Directors and other Leadership Team members during the year is that:

- remuneration and other benefits should be sufficient to attract, retain and motivate executives of the calibre required; and
- variable remuneration linked to performance (currently comprising discretionary annual cash bonuses, deferred share bonuses and long-term incentives) is intended to form a substantial component of total remuneration.

The Group's Discretionary Share Plan, under which share based long-term incentives for Executive Directors are awarded, came to the end of its 10 year life in the Current Year. For the year to 31 March 2012 Executive Directors' annual bonuses will be determined based on a balanced scorecard with 70% of the award based on performance against budgeted indicators, 15% against strategic deliverables, and 15% against personal objectives.

The Remuneration Committee has agreed a "clawback" policy which it intends to apply to future incentive awards for the Executive Directors (and certain other senior executives). Such awards will be subject to forfeiture or reduction (prior to vesting) in such exceptional circumstances as the Committee considers fair, reasonable and proportionate. Such circumstances would include material misstatement of Group financial statements, dismissal for cause, or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.

The Company's share ownership and retention policy requires executive Directors to build up over time, and thereafter maintain, a shareholding equivalent to at least 1.5 times salary in the Company's shares.

#### **Heads of Compliance and Internal Audit**

In future bonuses for these jobholders will be decided by the Remuneration Committee, will not be impacted by Group performance, and will be driven entirely by personal performance.

#### **Pay and Performance Link**

The 3i package as a whole recognises individual, business line and firm performance.

During the Year, Group performance was recognised through 3i's various share based arrangements. Group and business line performance were 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 Leadership Team members and senior professional services staff receive deferred bonuses in the form of restricted shares; and applying a shareholding requirement to the Executive Directors.

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.

## Quantitative disclosure

The following table discloses aggregate reward and related information allocated by business line for Code Staff. This includes salary, bonus, pension, carried interest and share-based payments.

£m	Private Equity	Debt Management	Infrastructure	Total
	25	2	4	31

## Capital resources

3i Investments plc reports to the FSA at the consolidated and solo level. 3i Investments plc calculates capital resources in accordance with GENPRU 2 Annex 4 “the capital resources calculation for an investment firm deducting material holdings”. The consolidated regulatory capital requirement under Pillar I for 3i Investments plc at 31 March 2011 was £766m. The actual consolidated capital held by the Group at 31 March 2011 was £3,140m, giving a surplus of £2,374m.

The following table shows the Group’s consolidated capital resources at 31 March 2011:

	£m
Tier one capital	
Permanent share capital	717
Profit and loss account	1,619
Share premium account	779
Other reserves	328
	3,443
Deductions from tier one capital	
Investments in own shares	(86)
Intangible assets <sup>1</sup>	(21)
Total tier one capital after deductions	3,336
Tier two capital	-
Deductions from tiers one and two capital	
Material holdings <sup>2</sup>	(196)
Total tier one plus tier two capital after deductions	3,140
Surplus capital resources	2,374

1. Fund management contracts acquired as part of the Mizuho Investment Management transaction

2. Material holdings relate to the credit and financial institutions included within the Group’s investment portfolio.

The 3i Investments plc solo return can be found in appendix 1.

## Capital adequacy

The firm maintains sufficient capital in order to meet the FSA regulatory requirements and maintains capital above the Pillar 2 requirement. The capital adequacy of the firm is considered as part of the annual Individual Capital Adequacy Assessment Process (ICAAP). The following table discloses the Group's Pillar 1 requirement as at 31 March 2011:

	<b>March 2011</b>
	<b>£m</b>
Credit risk	498
Market risk	268
Total credit and market risk	766
Fixed overhead requirement	33
<b>Pillar I capital requirement</b>	<b>766</b>
<b>Excess capital resources – Pillar 1</b>	<b>2,374</b>

### Pillar 1

Pillar 1 risks are reviewed and reported to the FSA in accordance with the FSA handbook reporting timetable, and in accordance with GENPRU 2.1.45 the firm's Pillar 1 requirement is the higher of:

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

### Credit risk

Credit risk is calculated in accordance with the standardised approach given in BIPRU 3, and disclosed here in accordance with BIPRU 11.5.4. The following table details the calculation of credit risk as at 31 March 2011:

	Exposure	Risk factor	Risk weighting	Capital requirement
	£m			£m
- Investment portfolio*	3,797	8%	150%	456
- Derivatives and other assets	224	8%	100%	18
- Cash and deposits	1,521	8%	20%	24
<b>Credit risk requirement</b>				<b>498</b>

\*Excluding credit and financial institutions of £196 million

## **Market risk**

Market risk is calculated in accordance with the standardised approach in BIPRU 7 and determined by the Group's exposure to foreign exchange and calculate in accordance with 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%

## **Fixed overheads requirement**

The fixed overheads requirement is calculated as equal to one quarter of the firm's relevant fixed expenditure calculated in accordance with GENPRU 2.1.54 R. Per the calculations above the fixed overheads requirement is £33m, which is less than credit and market risk and therefore the Pillar 1 requirement is £766m.

## **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 GENPRU 1.2.30 and result in the Group's Pillar 2 capital requirement. This is reviewed appropriately throughout the year.

## **Non-trading book exposures**

The Group's non-trading book exposures in equities and interest rate risk are disclosed in the 3i Group plc Annual Report and Accounts 2011.

**Appendix 1 – 3i Investments plc solo capital resources and requirement as at 31 March 2011**

The Group manages risk at the group level and as such 3i Investments plc is subject to the same risk management processes. For 3i Investments plc's solo return the following table discloses its capital resources and requirement as at 31 March 2011:

	£'000s
Tier one capital	
Permanent share capital	10,000
Profit and loss account and other reserves	7,000
	17,000
Deductions from tier one and two capital	-
Total tier one plus tier two capital after deductions	17,000
Credit risk	461
Market risk	42
Total credit and market risk (A)	503
Fixed overhead requirement (B)	5,404
Total variable capital requirement (Higher of (A) or (B))	5,404
Excess capital resources	11,596