CIT BANK LIMITED
PILLAR 3 DISCLOSURE

1.0 Overview

These disclosures provide additional information about CIT Bank Limited in accordance with Pillar 3 of the revised capital adequacy framework agreed by the Basel Committee on Banking Supervision commonly referred to as Basel II.
Pillar 3 is the requirement for firms to publish specified information on the basis on which Basel II applies to them, their capital resources and capital requirements and their risk exposures and risk management.
FSA rules for implementing Pillar 3 are contained in Chapter 11 of BIPRU, the Prudential Sourcebook for Banks, Building Societies and Investment Firms.

2.0 Frequency and location of disclosure

The Board of Directors of CIT Bank Ltd ("the Board") has determined that Pillar 3 disclosures should be made annually unless there has been a material change in the approaches or permissions used to calculate regulatory capital. These disclosures will be made by publication on the Bank's website at www.cit.com
The current disclosures are based on the position as at 31 December 2008, to coincide with the closing date of the annual report and accounts of the Bank.

3.0 Verification

These disclosures have been reviewed by the Bank's Executive Committee but have not been reviewed or audited by the Bank's auditors.

4.0 Scope of disclosure

The disclosures in this document are made in respect of CIT Bank Limited (the "Bank"), which is authorised and regulated by the Financial Services Authority ("FSA") to accept wholesale deposits, and to provide advisory services in connection with corporate finance business.

The Bank is a wholly-owned subsidiary of CIT Group Inc., a Delaware corporation but, for regulatory purposes, the Bank complies with its obligations under BIPRU on an individual basis.

5.0 Risk management objectives and policies

The Bank seeks to take risk through its lending activities in exchange for an appropriate return. In all other aspects the Bank looks to identify the risks that are present and then to understand, mitigate and control them. The Bank's process in relation to lending risks is summarised in "credit risk" below. For other areas of risk, including operational risk, the management of the bank has developed a risk map which identifies the risks that are present and gives these a score based upon their potential impact. The mitigants (which would include agreed procedures and insurance) are also identified and where these are a material offset to a significant risk the risk map brings these to the attention of the Board and also Internal Audit who will review them to see if they are being applied in practice.
The Bank has a process to allocate capital for specific risks as described in section 7 below. Not all of the risks described in this paper are offset by specific amounts of capital as management believe that these are managed in other ways. The risks faced by the Bank are monitored and controlled by a combination of the Board, Audit Committee, Executive Committee (Executive Directors), Credit Committee, Compliance Officer, Money Laundering Reporting Officer and Internal Audit.

The Board meets bi monthly and comprises two non executive Directors and four executive Directors. The Bank's General Counsel, (who is also the Compliance Officer and the Company Secretary and a member of senior management) also attends. The Board is responsible for reviewing the business condition of the Bank (including capital and liquidity) and the strategy and plans proposed by senior management. The Board has delegated responsibility for lending approvals, risk maps, review of internal audit reports, and business continuity plans to the Credit Committee and the Audit Committee. The Bank's compensation is not controlled by the Board as this is a matter reserved to the Parent.

The Audit Committee comprises both of the non executive Directors and one executive. One of the non executive directors chairs the Committee. The Audit Committee receives and discusses the reports of the Internal Audit team and the external auditors. It also reviews the Bank's risk maps and its Business Continuity plans.

Membership of the Executive Committee is made up of the four Executive Directors and the Bank's General Counsel, (who is also the Compliance Officer) attends the meetings. The Committee meets in those months when there is not a Board Meeting. Outside of this Committee structure members of senior management meet regularly to discuss the affairs of the Bank.

Credit Committee comprises the Head of Risk, the Chief Executive, the Head of Origination and the Head of Portfolio (the first three are executive Directors). The Credit Committee reviews and decides upon all new lending proposals and is chaired by the Head of Risk.

The Compliance Officer monitors legal and regulatory matters and works with the Money Laundering Reporting Officer on AML measures and controls.

The Operations and Finance functions report to the Chief Financial Officer who takes immediate responsibility for ensuring that the procedures that have been developed to mitigate risk are applied in practice. Important issues are brought to the attention of the Board and Executive Committee via a monthly Operations Control Log.

Significant risk types to which the Bank is exposed

Management consider the most prominent risks to be:

1. Credit risk:
2. Concentration risk: (Industry, Geographic and Large Counterparty exposures)
3. Market risk/Business risk/Competition risk
4. Liquidity risk
5. Currency mismatch risk
6. Parent company reliance
7. Interest rate risk
8. Operational risk

<u>Credit Risk</u>

Advancing credit to companies that are owned and controlled by private equity sponsors is the core business of the Bank. Therefore, the Bank's business strategy is to concentrate on one particular type of lending, leveraged finance. Its core competencies, its risk appraisal and management approach and the expertise of management and staff are all geared to manage such a portfolio.

The Bank's procedures and policies require a robust review of each credit assessment. This is consistent with the ethos of the Parent (CIT Group Inc.) and guidance is given to the business through predetermined and important credit criteria. Any deviation from these criteria is required to be fully disclosed in a paper seeking credit approval and will be the subject of particular scrutiny.

The Bank has a Credit Committee which gives guidance on new opportunities through an initial screening of a proposed transaction. If reaction to the screening is positive the deal team analyses the opportunity in greater depth. An investment paper will include an assessment of the terms of the transaction, a business and industry review, historical financial data and analysis, forward looking financials and sensitivities, and a valuation assessment.

Prior to a transaction being closed a "closing memorandum" is prepared which requires sign off by Credit, Legal and Tax which confirms, inter alia, that the specific conditions of the approval have been met and the documentation is "fit for purpose". The Bank is usually a secured lender, although on occasion such security may have more "control" value than intrinsic value The security it takes will vary from transaction to transaction. The enforceability of the security is considered during the legal review.

Once booked the loan is monitored on a monthly basis by the portfolio team. This involves the use of trend cards to highlight borrower performance. These assessments are reviewed monthly by the Head of Portfolio and specific concerns are discussed with the Head of Credit. On a quarterly basis the whole portfolio is reviewed by senior management and a full review of each credit is conducted at least once a year. The portfolio and expected loss is reviewed each month either by the Board or by the Executive Committee. Particular attention is paid to movements in Probability of Default and Loss Given Default grades.

The Bank has a general reserve for loan losses equal to 1.7% of funds advanced. At December 31st 2008 this amounted to £9.5M. This reserve does not form part of the Bank's capital: nor is it taken into account when considering the capital required by the ICAAP calculation (see Section 7.2 below).

The Group's Pillar 1 credit risk capital requirement (for corporate risk) is based on 8% of its risk-weighted assets (RWAs). As at December 31st 2008 the risk weighted assets amounted to £654.3M. The Bank uses external credit assessments provided by eligible external credit assessment institutions (ECAIs), where these are available, for the purpose of calculating Pillar 1 risk weighted assets. Moody's, Standard and Poor's and Fitch are the ECAIs. However, the greater majority of the loans in the Bank's portfolio do not have such a rating. Under Pillar 2 the Bank adds additional capital for credit risks that it does not believe are adequately covered by the 8% measure (whether or not there is an ECAI evaluation). This additional capital is determined through an expected loss calculation which takes into account "probability of default" (PD) and "loss given default" (LGD) grades for each loan.

Short term liquid resources deposited with various financial institutions are subject to internal concentration risk limits and these are reported regularly to the Board. These amounted to £42.2 million as at December 31st 2008.

<u>Concentration Risk</u>

The Bank has three main areas of risk concentration – counterparty, industry and geography. Of these counterparty concentration is the most significant

The Bank has developed a methodology for the assessment of capital required to buffer concentration risk which follows the approach suggested by the FSA in assessing each area of concentration as "High", "Medium High", Medium Low" and "Low". Management have used an approach not dissimilar to that taken by a peer group of banks to arrive at a percentage of total Pillar I assets for each designation and for each area of concentration which represents the amount of capital required. As at December 31 2008 the designations and percentages of Pillar I assets were as follows:

Counterparty	High
Industry	Medium Low
Geography – Country	Medium Low
Geography – Region	Medium Low

The Bank's breakdown of corporate risk exposure by industry and geography as at December 31st 2008 is as follows:

Industry Sector	**%**
Cable	18.6
Manufacturing	14.6
Communications	11.9
Healthcare	9.8
Sports & Gaming	9.8
Publishing	6.8
Tower	4.6
Luxury Goods	4.5
Foods	4.3
Waste Management	3.9
Aviation	3.3
Paper & Packaging	3.3
Information Services & Tech	3.0
Retail & Related	1.6
Total	**100%**

Domicile of Risk	**Commitment**
United Kingdom	249,125,061
France	103,399,148
Netherlands	70,737,688
Ireland	52,763,430
Germany	52,361,643
Denmark	28,255,051
Sweden	25,973,595
Belgium	19,516,378
Spain	18,387,873
Italy	17,865,329
Australia	11,684,835
Switzerland	10,475,005
New Zealand	4,013,995
Total Commitment	**664,559,031**

Market Risk

The Bank does not maintain a trading book. Nor does it trade in any other area of the financial markets. It has neither bought nor sold protection via credit derivatives. Therefore, Market Risk is not a material factor for the Bank and no capital is allocated.

Business Risk/Competition Risk

The Bank is affected by the overall conditions in the leverage market which impact (among other things) the Bank's ability to obtain satisfactory lending business carrying the requisite rate of return. Management has addressed business risk and competition risk through stress testing. There is no specific allocation of capital in respect of these risks.

Liquidity Risk
This is the risk that the Bank could have difficulty raising funds or realising assets to meet its commitments, liabilities or financial obligations The Bank could be exposed to liquidity risk through high levels of drawings under committed facilities, or failure of clients to service debts when due. In addition, some risk arises from the decision by depositors not to renew their deposits. However, since deposits are only accepted on a fixed term basis, this risk is already anticipated and accounted for in the Bank's liquidity calculations. The Bank's Liquidity Policy requires that it maintains minimum liquidity levels, consistent with the expectations of the FSA. The Bank does not have a "liquidity insurance" line available from another bank. It does however have a policy of maintaining sufficient cash to at least meet all deposits in full plus an amount equal to amounts which might be drawn under committed lines over the next 60 days based upon historic patterns of activity. As noted below the Bank relies upon its Parent to provide further liquidity when required. No specific capital allocation is made for liquidity risk as the Bank relies upon the liquidity of certain of its assets coupled with stress testing to ensure that in adverse circumstances it can meet its obligations to parties outside the CIT Group.

Currency Mismatch Risk
All of the Bank's issued share capital is denominated in Sterling, and the subordinated debt in its Tier 2 capital is denominated in Euros. The majority of the book is denominated in Euros (with a significant minority in Sterling) and a small percentage in US$ and other liquid currencies. This gives rise to exchange risk in terms of net interest margin and fees and specific bad debt provisions. Management has taken the view that this does not deserve a specific capital allocation as currency mismatch risk is already taken into account when stress testing the Bank's capital.

Parent Company Reliance
The majority of the Bank's funding comes from its Parent. It also relies on the Parent for additions to capital as well as a number of operational functions including support for information technology systems. The Bank's biggest exposure is to the availability and cost of ongoing funding to meet drawings under committed facilities as well as funds to repay depositors. The risk is partially mitigated by a cautious approach to liquidity risk. In stress testing it is assumed that there will be an increase in the overall cost of funding from CIT Group Inc and liquidity stress tests assume there is no fresh funding available from the Parent. There is no specific capital allocation for this risk for the reasons set out under liquidity above. Capital for operational risk aspects is separately provided (see below).

Interest Rate Risk in the Banking Book
Interest Rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Bank is exposed to interest rate risk due to the sensitivity of the Bank's financial assets and liabilities to movements in interest rates. To limit the exposure to interest rate risk, to the extent that the Bank's interest earning assets are not funded through equity, the Bank endeavours to match fund its interest paying liabilities with its interest earning assets.

The Bank's Interest Rate Risk Management process is geared towards assessing overall earnings risk and as such is focused on capturing key elements of the re-pricing effects on values and earnings. The model used by the Bank allows the Bank to identify the following –

- Interest rate re-pricing effect on value and earnings.
- Spread valuation and interest rate changes to value.
- Earnings sensitivity to interest rate shocks.

As at 31 December 2008 we performed the following calculations on the Bank's balance sheet –

Interest Rate Repricing: We performed a duration calculation based upon time to next re-price date. The time weighted cash flow estimate is performed only on the underlying index interest rate which ignores the spread on the loan. The valuation of the repricing duration is then calculated based upon the product's historical LIBOR rate to current LIBOR rate, adjusted for the time until next price reset. The duration is used to approximate the difference between today's interest rate and the rate locked in per last reset date. We then analysed the impact of interest rate shock on the estimated reset valuations. As at 31 December the value impact of +/- 200 basis point shock on this valuation was +/- £2,374,545.

Spread Valuation: We performed a spread duration calculation based upon spread reset life to estimated behavioural maturity. The spread duration assumes a constant spread to behavioural estimated maturity. We then performed a valuation based upon current spread earned as compared to current offer spreads, applied to the estimated spread duration. We then examined interest rate shock impacts on the estimated spread valuations. As at 31 December the value impact of +/- 200 basis point shock on this valuation was +/-£4,457,969.

Earnings Sensitivity Estimate – We performed a calculation of an immediate 200 basis point shock to interest earnings based on a period of six months. As practically the entire portfolio of financial instruments reprices within six months it was not deemed necessary to go out longer than this period. From this calculation the impact on earnings was estimated as +/-£775,122.

The breakdown by currency of these estimates is as follows:

Currency	Reprice Impact	Spread Valuation Impact	Earnings Shock Impact
AUD	(33,331)	415,281	(1,173)
CHF	8,108	383,077	830
EUR	2,662,301	1,219,294	225,385
GBP	(149,311)	2,029	606,475
JPY	(23,111)	119,588	(67)
NOK	685	15,929	0
NZD	(31)	73,955	(0)
SEK	655	10,904	(0)
USD	(91,420)	2,217,911	(56,327)
	2,374,545	**4,457,969**	**775,122**

Our model also provides the Bank with the ability to measure the impact on earnings from different interest rate shocks to different tenors. A range of scenarios were run and no significant variances were noted from the straight 200 basis pint shock calculation.

At present we run our interest rate risk assessments on a quarterly basis.

Operational Risk

Operational risk is the risk of loss to the Bank resulting from inadequate or failed internal processes, people and systems or from external factors such as regulation and key suppliers; it includes legal and financial crime risks. The Bank presents a relatively simple operational environment given that it has a limited range of clients and depositors and it processes only a small number of transactions on any day. The Bank operates from a single site where the executive Directors can monitor compliance with policies and procedures. The Bank is heavily reliant upon information technology systems for functions which include accounting, cash management, and portfolio administration and monitoring

The Bank does not handle notes and coin and management believe the risk of fraud is relatively low.

The Bank has a detailed business recovery plan which addresses disruption to the business in the event of a fire, flood, terrorist attack or analogous event.

The Bank's personnel are crucial to its operations and the Bank has developed a succession plan for key positions.

The Bank uses four lines of defence against Operational Risk as follows;

1. Management have developed an Operational Risk Map through which the Directors assess the main Business Risks, Control Factors and Policies.

2. Day to Day Risk Management and Control – Senior staff have direct responsibility for the management of risk within their functional area.

3. Risk Oversight Function – In addition to ongoing monitoring and reporting by the Operations Manager and the Head of Finance – overseen by the CFO - the Bank has adopted a set of written procedures focussed on controlling Operational Risk. It also has a qualified lawyer responsible for compliance oversight.

4. Internal Audit –the Board and its Audit Committee works closely with the Parent's Internal Audit department ("IAD") to ensure IAD's annual review encompasses those Operational Risk areas which the Board is most concerned about.

The Board and Audit Committee review the adequacy of resources and skills.

The Bank has adopted the 'basic indicator' approach to calculating the Pillar 1 capital requirements for operational risk. As at December 31st 2008 the capital allocated to cover operational risk was £1.9M which equates to 15% of operating profit for the past 3 years of the bank's operations. In light of the mitigants put in place to offset and control risk and the nature of the Bank's operations the Board and management believe this allocation is adequate and does not require adjustment under Pillar 2.

6.0 Capital Resources

The following table provides a breakdown of the capital resources available to meet the Bank's regulatory obligations at 31 December 2008

	(£m)	
Core Tier 1 capital (ordinary shares)		
Share capital	86.0	
Retained earnings	(6.7)	
Deductions from Tier 1 capital		
Total Tier 1 capital after deductions		79.3
Lower Tier 2 –		
Long-term subordinated debt	43.0	
Lower Tier 2 - capital after deductions		43.0
Total capital resources		122.3

6.1 Tier 1 Capital

Tier 1 Capital comprises share capital, other audited reserves and retained earnings. The Bank has no 'innovative Tier 1' instruments.

6.2 Tier 2 Capital
Tier 2 capital comprises lower Tier 2 long-term subordinated debt. The subordinated loan bears interest at 6 month Libor plus 0.69%, payable quarterly. Any claims in respect of it are subordinated to the claims of all other creditors of the Bank.

The subordinated liabilities may be redeemed in whole or in part at their principal amount plus accrued interest to the date of redemption. Early repayment may only occur provided prior written consent has been obtained from the UK Financial Services Authority and at least 5 years' notice given by the lender or adequate notice by the borrower. Neither of such notices has been given.

The subordinated liability was denominated in Sterling at the year end but on 10 January 2009, the entire subordinated debt of £43 million was redenominated into Euros for the purposes of improved currency exposure hedging of the Bank's capital base.

7.0 Capital Adequacy and Allocation of Capital

7.1 Capital Management
The Bank's objectives for managing capital are to ensure that the Bank maintains a strong capital base to support its business and at a minimum to comply with the capital requirements set by the FSA.

7.2 Internal Capital Adequacy Assessment Process
The Bank undertakes an Internal Capital Adequacy Assessment Process (ICAAP) annually or more frequently if required. The outcome of the ICAAP is presented as an Internal Capital Assessment (ICA) document. The ICA covers all material risks to determine the capital requirement including a projection of capital adequacy over a three-year horizon and includes stressed scenarios. The capital required by the approved ICAAP is calculated at least monthly and is presented to the Board at each bi-monthly meeting.

As at December 31 2008 the ICAAP calculation had the following components:

Risk Classification	Capital Assessed
	£M
Pillar 1 Corporate Credit Risk	52.3
Pillar 1 Short Term Deposits with Institutions	0.6
Pillar 1 Operational Risk	1.9
Additional Capital for Corporate Credit Risk	19.9
Interest Rate Risk (non trading book)	1.4
Concentration Risk	29.0
Total Capital Assessed	105.1
Bank Capital	122.3
Headroom	16.4%

7.3 Credit risk

7.3.1 Impairment of financial assets
For accounting purposes, specific provisions are raised against impaired loans where, in the opinion of the Directors, it is likely that some of the principal will not be repaid or, where the loan is secured, recovered through enforcement of security. No specific provision is made where the estimated value of the security after realisation costs is in excess of the secured debt. The specific provision is determined

on a case by case basis from a review of the financial condition of the counterparty and any guarantor and takes into account the nature and value of any security held.

A loan is considered past due for financial reporting purposes if default of contractual principal or interest exists for a period of 30 days or more. Past due loans consist of both loans that are still accruing interest as well as loans on non-accrual status. Loans that are past due are not necessarily treated as impaired.

As at 31st December 2008 the Bank had made specific provisions of £23.3 million against assets with a face value of £37.9 million.

8.0 Further enquiries

Should you have any queries, please contact:

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