

**CIT BANK LIMITED  
UNAUDITED PILLAR 3 DISCLOSURE**

**DISCLOSURES AND COMMENTARY IN THIS SECTION NOT COVERED BY AUDIT REPORT**

**Interim Disclosure under Remuneration Code at 31 December 2011**

**Decision-making process for remuneration policy**

The Bank does not have a separate Remuneration Committee but the Board has appointed a Governing body which meets to consider human resource issues relating to terms and conditions of employment, remuneration and retirement benefits. The Governing Body examines the consequences of setting bonus levels and the impact on the business. In doing so it takes into account any risk and compliance issues that may have occurred during the year. The Board is responsible for approving remuneration policy and in doing so takes into account the pay and conditions set by the ultimate shareholder CIT Group Inc. This includes the terms of bonus plans, share plans, other long-term incentive plans and the individual remuneration packages of executive Directors and other senior Group employees, including all in positions of significant influence and those having an impact on the Bank's risk profile.

The Bank's Non Executive Directors will meet with the Bank's Human Resources Manager on 25 January 2012 to discuss the proposed variable compensation for the Executive Directors and key employees.

**External consultants**

The Bank received independent advice on executive remuneration issues from PricewaterhouseCoopers. Other consultants are used from time to time to advise on specific issues.

No individual is involved in decisions relating to his or her own remuneration.

**Role of the relevant stakeholders**

The Board takes full account of the Bank's strategic objectives in setting remuneration policy and is mindful of its duties to shareholders and other stakeholders. The Board seeks to preserve shareholder value by ensuring the successful retention, recruitment and motivation of employees.

**Code Staff criteria**

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

All Executive Directors

Chief Legal Counsel – CIT Bank Ltd

Head of Human Resources – CIT Bank Ltd

Head of Operations – CIT Bank Ltd

Director – Originations – CIT Bank Ltd

The categories above include all senior level management across the Bank as well as those responsible for the management of the Originations Business.

**The link between pay and performance for Code Staff**

Remuneration is made up of fixed pay (ie salary and benefits) and performance-related pay (annual and long-term incentives).

Annual incentives are designed to reward performance in line with the business strategy, objectives, values and long term interests of the Bank.

The annual incentive earned by an individual is dependent on the achievement of financial and non-financial objectives, including adherence to effective risk management.

The Bank provides long-term incentives which are designed to link reward with the long-term success of the Company and recognise the responsibility participants have in driving its future success and delivering value for shareholders. Long-term incentive awards are conditional on the satisfaction of corporate performance measures.

The structure of the remuneration package is such that the fixed element is sufficiently large to enable the Bank to operate a truly flexible bonus policy.

**Design and structure of remuneration for Code Staff**

**Salary and fees**

All Code Staff receive a salary (executives/staff) to reflect their market value, responsibility and contribution to the Company.

## Annual Incentives

Code Staff receive an Annual Discretionary Bonus based on;

- 1) Individual performance against agreed objectives;
- 2) The financial performance of the local business including the Bank and
- 3) The performance of the overall CIT Group as a whole.

Under the wider Group policy any variable (or performance related) remuneration in excess of \$50,000 is paid in the form of Restricted Stock Units ('RSU's') which are deferred.

## Risk adjustment

The Parent Company reserves the right to terminate, amend, modify or suspend the RSU plan and the RSU's are forfeit if the staff leave the company prior to them vesting. The Chief Risk Officer performs a review to ensure that there has been no material change in the risk profile of the Bank and that the arrangements for variable remuneration are consistent with the Bank's Capital and Liquidity needs.

## Aggregate remuneration cost for Code Staff by business area in 2011

There were 3 Code Staff categorised as Senior Management and 4 other Code Staff. Aggregate remuneration expenditure in respect of Code Staff was as follows.

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£
2,259,509

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## Fixed/variable remuneration paid during 2011

Fixed remuneration consists of base salaries for executives/staff and fees for non-executive directors and benefits. Variable remuneration consists of [annual bonus, deferred bonus payable in shares and long-term incentive awards in shares].

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	Senior Management	Other Code Staff
Number of Code Staff	3	4
Fixed remuneration	£609,760	£459,220
Variable remuneration	£935,529	£255,000

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## Original 2010 Pillar 3 Disclosure

### 1. 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. 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 in the Bank's annual report. The current disclosures are based on the position as at 31 December 2010, to coincide with the closing date of the annual report and accounts of the Bank.

### **3. 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. 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. 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 three 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 to the Credit Committee. Review of risk maps, internal audit reports, and business continuity plans are also referred to the Audit Committee. The Bank's compensation of senior management 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 three 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 and the Head of Portfolio (the first two 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) Liquidity risk
- 2) Credit risk:
- 3) Operational risk
- 4) Concentration risk: (Industry, Geographic and Large Counterparty exposures)
- 5) Interest rate risk
- 6) Currency mismatch risk
- 7) Market risk/Business risk/Competition risk
- 8) Parent company reliance

#### **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.

### **Credit Risk**

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 2010 this amounted to £0.8million. 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 2010 the risk weighted assets amounted to £59.5mn. 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 £75.4mn as at December 31st 2010.

### **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 2010 the capital allocated to cover operational risk was £2.9M which equates to 15% of audited operating income for the past 3 years of the Bank's operations plus a £0.5mn disaster recovery reserve. 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.

#### **Concentration Risk**

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 31 December 2010 the designations 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 31 December 2010 is as follows:

<b>INDUSTRY SECTOR</b>	<b>%</b>
MANUFACTURING	38.20%
SERVICES	15.64%
LUXURY GOODS	14.90%
SPORTS & GAMING	8.58%
AVIATION	6.76%
COMMUNICATIONS	5.91%
RETAIL & RELATED	6.63%
HEALTHCARE	3.39%
	<b>100.00%</b>

An analysis of the domicile of risk is provided in note 23 (page 24 of the Bank's Financial Statements).

### **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 2010 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 +/-£144,879

**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 +/-£1,622,778.

**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 +/-£514,332. The breakdown by currency of these estimates is as follows:

<b>Currency</b>	<b>Reprice Impact</b>	<b>Spread Valuation Impact</b>	<b>Earnings Shock Impact</b>
AUD	(20,331)	(477,951)	56,173
EUR	196,010	1,548,870	(30,069)
GBP	(43,817)	(365,832)	558,742
JPY	0	0	0
NOK	0	0	0
NZD	0	0	0
SEK	0	0	0
USD	13,017	917,691	(70,514)
	<b>144,879</b>	<b>1,622,778</b>	<b>514,332</b>

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

### **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 Euro, Sterling, USD and a small percentage in AUD. 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.

### **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.

### **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).

## **6. Capital Resources**

The following table provides a breakdown of the capital resources available to meet the Bank's regulatory obligations at 31 December 2010

	(£m)
Core Tier 1 capital (ordinary shares)	
Share capital	127.2
Retained earnings	(43.2)
Deductions from Tier 1 capital	-
Total Tier 1 capital after deductions	<u>84.0</u>
Lower Tier 2 –	
Long-term subordinated debt	<u>41.0</u>
Lower Tier 2 - capital after deductions	41.0
Total capital resources	<u>125.0</u>

### **Tier 1 Capital**

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

### **Tier 2 Capital**

Tier 2 capital comprises lower Tier 2 long-term subordinated debt. The subordinated loan bears interest at 6 month Libor plus spreads ranging from 0.69% to 2.81%, payable biannually. 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 entire subordinated debt is denominated in Euros for the purposes of improved currency exposure hedging of the Bank's capital base.

## **7. Capital Adequacy and Allocation of Capital**

### **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.

### **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 2010 the ICAAP calculation had the following components:

**Risk Classification**

**Capital Assessed**

	<b>£m</b>
Pillar 1 Corporate Credit Risk	4.9
Pillar 1 Short Term Deposits with Institutions	1.4
Pillar 1 Operational Risk	2.9
Pillar 1 Market Risk	0.5
Additional Scalar	1.3

**Credit risk - 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 2010 the Bank had a specific provision of £6.65mm in respect of two of its names.

**8. Further enquiries**

Should you have any queries, please contact:

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