

CIT GROUP INC
Form 10-Q
May 07, 2015

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

65-1051192
(IRS Employer Identification Number)

11 West 42nd Street New York, New York
(Address of Registrant's principal executive offices)

10036
(Zip Code)

(212) 461-5200
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of 'large accelerated filer,' 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Edgar Filing: CIT GROUP INC - Form 10-Q

As of April 30, 2015 there were 174,050,771 shares of the registrant's common stock outstanding.

Table of Contents

CONTENTS

Part One Financial Information:

<u>ITEM 1.</u>	Consolidated Financial Statements	2
	Consolidated Balance Sheets (Unaudited)	2
	Consolidated Statements of Operations (Unaudited)	3
	Consolidated Statements of Comprehensive Income (Loss) (Unaudited)	4
	Consolidated Statements of Stockholders' Equity (Unaudited)	5
	Consolidated Statements of Cash Flows (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations and	38
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk	38
ITEM 4.	Controls and Procedures	81

Part Two Other Information:

<u>ITEM 1.</u>	Legal Proceedings	82
ITEM 1A	Risk Factors	82
	Unregistered Sales of Equity Securities and	
ITEM 2.	Use of Proceeds	82
ITEM 4.	Mine Safety Disclosure	83
ITEM 6.	Exhibits	83
Signatures		89

Table of Contents 1

Table of Contents

Part One Financial Information

ITEM 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited) (dollars in millions, except share data)

March 31, 2015	December 31, 2014
-------------------	----------------------

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015	December 31, 2014
Assets		
Cash and due from banks, including restricted balances of \$223.2 and \$374.0 at March 31, 2015 and December 31, 2014 ⁽¹⁾ , respectively	\$ 913.6	\$ 878.5
Interest bearing deposits, including restricted balances of \$597.1 and \$590.2 at March 31, 2015 and December 31, 2014 ⁽¹⁾ , respectively	5,393.3	6,241.2
Securities purchased under agreements to resell	450.0	650.0
Investment securities	1,347.4	1,550.3
Assets held for sale ⁽¹⁾	1,051.9	1,218.1
Loans (see Note 7 for amounts pledged)	19,429.3	19,495.0
Allowance for loan losses	(356.5)	(346.4)
Total loans, net of allowance for loan losses ⁽¹⁾	19,072.8	19,148.6
Operating lease equipment, net (see Note 7 for amounts pledged) ⁽¹⁾	14,887.8	14,930.4
Unsecured counterparty receivable	537.1	559.2
Goodwill	563.6	571.3
Other assets, including \$199.4 and \$168.0 at March 31, 2015 and December 31, 2014 ⁽¹⁾ , respectively, at fair value	2,198.5	2,132.4
Total Assets	\$46,416.0	\$47,880.0
Liabilities		
Deposits	\$16,758.1	\$15,849.8
Credit balances of factoring clients	1,505.3	1,622.1
Other liabilities, including \$67.5 and \$62.3 at March 31, 2015 and December 31, 2014, respectively, at fair value	2,735.2	2,888.8
Long-term borrowings, including \$1,848.0 and \$3,053.3 contractually due within twelve months at March 31, 2015 and December 31, 2014, respectively	16,658.3	18,455.8
Total Liabilities	37,656.9	38,816.5
Stockholders Equity		
Common stock: \$0.01 par value, 600,000,000 authorized		
Issued: 204,251,175 and 203,127,291 at March 31, 2015 and December 31, 2014, respectively	2.0	2.0
Outstanding: 174,279,787 and 180,920,575 at March 31, 2015 and December 31, 2014, respectively		
Paid-in capital	8,598.0	8,603.6
Retained earnings	1,692.3	1,615.7
Accumulated other comprehensive loss	(163.1)	(133.9)
Treasury stock: 29,971,388 and 22,206,716 shares at March 31, 2015 and December 31, 2014, respectively, at cost	(1,370.6)	(1,018.5)
Total Common Stockholders Equity	8,758.6	9,068.9
Noncontrolling minority interests	0.5	(5.4)
Total Equity	8,759.1	9,063.5
Total Liabilities and Equity	\$46,416.0	\$47,880.0

⁽¹⁾ The following table presents information on assets and liabilities related to Variable Interest Entities (VIEs) that are consolidated by the Company. The difference between VIE total assets and total liabilities represents the Company's interest in those entities, which were eliminated in consolidation. The assets of the consolidated VIEs will be used to settle the liabilities of those entities and, except for the Company's interest in the VIEs, are not available to the creditors of CIT or any affiliates of CIT.

Assets		
Cash and interest bearing deposits, restricted	\$ 380.3	\$ 537.3
Assets held for sale	132.5	
Total loans, net of allowance for loan losses	3,398.5	3,619.2
Operating lease equipment, net	4,266.0	4,219.7

Edgar Filing: CIT GROUP INC - Form 10-Q

Other	6.5	10.0
Total Assets	\$ 8,183.8	\$ 8,386.2
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	\$ 4,966.9	\$ 5,331.5
Total Liabilities	\$ 4,966.9	\$ 5,331.5

The accompanying notes are an integral part of these consolidated financial statements.

2 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (dollars in millions except per share data)

	Quarters Ended March 31,	
	2015	2014
Interest income		
Interest and fees on loans	\$ 272.4	\$ 293.4
Interest and dividends on interest bearing deposits and investments	8.6	8.8
Interest income	281.0	302.2
Interest expense		
Interest on long-term borrowings	(202.3)	(220.0)
Interest on deposits	(69.0)	(51.9)
Interest expense	(271.3)	(271.9)
Net interest revenue	9.7	30.3
Provision for credit losses	(34.6)	(36.7)
Net interest revenue, after credit provision	(24.9)	(6.4)
Non-interest income		
Rental income on operating leases	530.6	491.9
Other income	86.4	71.1
Total non-interest income	617.0	563.0
Total revenue, net of interest expense and credit provision	592.1	556.6
Other expenses		
Depreciation on operating lease equipment	(156.8)	(148.8)
Maintenance and other operating lease expenses	(46.1)	(51.6)
Operating expenses	(241.6)	(233.5)
Total other expenses	(444.5)	(433.9)
Income from continuing operations before provision for income taxes	147.6	122.7
Provision for income taxes	(44.0)	(13.5)
Income from continuing operations, before attribution of noncontrolling interests	103.6	109.2
Net loss attributable to noncontrolling interests, after tax	0.1	5.7
Income from continuing operations	103.7	114.9
Discontinued Operation		

Edgar Filing: CIT GROUP INC - Form 10-Q

	Quarters Ended March 31,	
	2015	2014
Income from discontinued operation, net of taxes		2.3
Net Income	\$ 103.7	\$ 117.2
Basic income per common share		
Income from continuing operations	\$ 0.59	\$ 0.59
Income from discontinued operation		0.01
Basic income per share	\$ 0.59	\$ 0.60
Diluted income per common share		
Income from continuing operations	\$ 0.59	\$ 0.58
Income from discontinued operation		0.01
Diluted income per share	\$ 0.59	\$ 0.59
Average number of common shares (thousands)		
Basic	176,260	196,089
Diluted	177,072	197,047
Dividends declared per common share	\$ 0.15	\$ 0.10

The accompanying notes are an integral part of these consolidated financial statements.

Item 1. Consolidated Financial Statements 3

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited) (dollars in millions)

	Quarters Ended March 31,	
	2015	2014
Income from continuing operations, before attribution of noncontrolling interests	\$ 103.6	\$ 109.2
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(28.4)	(4.3)
Net unrealized gains (losses) on available for sale securities	(0.4)	0.3
Changes in benefit plans net gain (loss) and prior service (cost)/credit	(0.4)	1.6
Other comprehensive loss, net of tax	(29.2)	(2.4)
Comprehensive income before noncontrolling interests and discontinued operation	74.4	106.8
Comprehensive income attributable to noncontrolling interests	0.1	5.7
Income from discontinued operation, net of taxes		2.3
Comprehensive income	\$ 74.5	\$ 114.8

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CIT GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)** (dollars in millions)

	Common Stock	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2014	\$ 2.0	\$ 8,603.6	\$ 1,615.7	\$ (133.9)	\$ (1,018.5)	\$ (5.4)	\$ 9,063.5
Net income (loss)			103.7			(0.1)	103.6
Other comprehensive loss, net of tax				(29.2)			(29.2)
Dividends paid			(27.1)				(27.1)
Amortization of restricted stock, stock option and performance shares expenses and shares withheld to cover taxes upon vesting		20.5			(20.4)		0.1
Repurchase of common stock					(331.7)		(331.7)
Employee stock purchase plan		0.4					0.4
Purchase of noncontrolling interest and distribution of earnings and capital		(26.5)				6.0	(20.5)
March 31, 2015	\$ 2.0	\$ 8,598.0	\$ 1,692.3	\$ (163.1)	\$ (1,370.6)	\$ 0.5	\$ 8,759.1
December 31, 2013	\$ 2.0	\$ 8,555.4	\$ 581.0	\$ (73.6)	\$ (226.0)	\$ 11.2	\$ 8,850.0
Net income (loss)			117.2			(5.7)	111.5
Other comprehensive loss, net of tax				(2.4)			(2.4)
Dividends paid			(19.8)				(19.8)
Amortization of restricted stock, stock option and performance shares expenses and shares withheld to cover taxes upon vesting		14.0			(16.5)		(2.5)
Repurchase of common stock					(135.6)		(135.6)
Employee stock purchase plan		0.3					0.3
Distribution of earnings and capital						0.3	0.3
March 31, 2014	\$ 2.0	\$ 8,569.7	\$ 678.4	\$ (76.0)	\$ (378.1)	\$ 5.8	\$ 8,801.8

The accompanying notes are an integral part of these consolidated financial statements.

Item 1. Consolidated Financial Statements 5

Table of Contents**CIT GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)** (dollars in millions)

	Quarters Ended March 31,	
	2015	2014
Cash Flows From Operations		
Net income	\$ 103.7	\$ 117.2
Adjustments to reconcile net income to net cash flows from operations:		
Provision for credit losses	34.6	36.7
Net depreciation, amortization and (accretion)	166.6	163.2
Net gains on equipment, receivable and investment sales	(29.2)	(14.4)
Provision for deferred income taxes	21.2	3.4
Increase in finance receivables held for sale	(74.7)	(12.8)
Increase in other assets	(59.9)	(4.2)
Decrease in accrued liabilities and payables	(95.1)	(62.2)
Net cash flows provided by operations	67.2	226.9
Cash Flows From Investing Activities		
Loans originated and purchased	(3,034.0)	(4,044.4)
Principal collections of loans	2,980.6	3,618.9
Purchases of investment securities	(3,108.0)	(3,262.4)
Proceeds from maturities of investment securities	3,510.8	3,642.7
Proceeds from asset and receivable sales	544.9	484.1
Purchases of assets to be leased and other equipment	(408.2)	(734.6)
Net decrease in short-term factoring receivables	(112.3)	(118.3)
Acquisitions, net of cash received		(245.5)
Net change in restricted cash	143.8	(1,365.2)
Net cash flows provided by (used in) investing activities	517.6	(2,024.7)
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	519.8	1,136.7
Repayments of term debt	(2,294.8)	(578.5)
Net increase in deposits	908.4	663.4
Collection of security deposits and maintenance funds	165.2	137.5
Use of security deposits and maintenance funds	(173.0)	(128.5)
Repurchase of common stock	(331.7)	(135.6)
Dividends paid	(27.1)	(19.8)
Purchase of noncontrolling interest	(20.5)	
Net cash flows (used in) provided by financing activities	(1,253.7)	1,075.2
Decrease in unrestricted cash and cash equivalents	(668.9)	(722.6)
Unrestricted cash and cash equivalents, beginning of period	6,155.5	5,081.1
Unrestricted cash and cash equivalents, end of period	\$ 5,486.6	\$ 4,358.5
Supplementary Cash Flow Disclosure		
Interest paid	\$ (324.3)	\$ (299.5)
Federal, foreign, state and local income taxes paid, net	\$ (14.0)	\$ (6.6)

Quarters Ended March 31,

Supplementary Non Cash Flow Disclosure

Transfer of assets from held for investment to held for sale	\$ 239.4	\$ 464.4
Transfer of assets from held for sale to held for investment	\$ 0.7	\$ 31.0

The accompanying notes are an integral part of these consolidated financial statements.

6 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively "CIT" or the "Company"), has provided financial solutions to its clients since its formation in 1908. The Company provides financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. CIT became a bank holding company ("BHC") in December 2008 and a financial holding company ("FHC") in July 2013. CIT is regulated by the Board of Governors of the Federal Reserve System ("FRB") and the Federal Reserve Bank of New York ("FRBNY") under the U.S. Bank Holding Company Act of 1956. CIT Bank (the "Bank"), a wholly-owned subsidiary, is a Utah state chartered bank located in Salt Lake City, and is regulated by the Federal Deposit Insurance Corporation ("FDIC") and the Utah Department of Financial Institutions ("UDFI"). The Company operates primarily in North America, with locations in Europe and Asia.

BASIS OF PRESENTATION
Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT Group Inc. and its majority-owned subsidiaries and those variable interest entities ("VIEs") where the Company is the primary beneficiary.

In preparing the consolidated financial statements, all significant inter-company accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly do not include all information and note disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. The financial statements in this Form 10-Q have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of CIT's financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with our current Form 10-K on file.

The accounting and financial reporting policies of CIT Group Inc. conform to GAAP and the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions. Some of the more significant estimates include: allowance for loan losses, loan impairment, fair value determination, lease residual values, liabilities for uncertain tax positions, realizability of deferred tax assets and goodwill assets. Additionally where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

Discontinued Operation

On April 25, 2014, the Company completed the sale of its student lending business. As a result, the student lending business is reported as a discontinued operation for all periods. The business had been included in the Non-Strategic Portfolios segment and consisted of a portfolio of U.S. Government-guaranteed student loans. The portfolio was in run-off and had been transferred to assets held for sale ("AHFS") at the end of

2013. See Note 2 *Discontinued Operation*.

Revision

In preparing the financial statements for the quarter ended March 31, 2015, the Company discovered and corrected an immaterial error impacting the disclosure of Unearned income in the amount of approximately \$170 million as of December 31, 2014.

NEW ACCOUNTING PRONOUNCEMENTS

Customer s Accounting for Fees Paid in a Cloud Computing Arrangement

The FASB issued an amendment to U.S. GAAP on April 15, 2015, to explain how businesses and other organizations should account for the fees for purchasing cloud computing services. The changes in Accounting Standards Update (ASU) No. 2015-05, *Intangibles: Goodwill and Other: Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*, add to the guidance for intangible assets to help businesses and other organizations determine whether a cloud computing agreement includes a software license or should be considered as a service agreement.

The amendments to FASB ASC 350-40, *Intangibles: Goodwill and Other: Internal-Use Software: Scope and Scope Exceptions*, formerly AICPA Statement of Position (SOP) No. 98-1, state that the portion of a cloud computing agreement that includes a software license should be accounted for in a manner that is consistent with other software licenses. An arrangement that does not include a software license should be accounted for as a service contract.

Public companies have to apply the amendment for fiscal years that start after December 15, 2015. Companies will have to apply the changes in their first-quarter reports for 2016, but can elect to early adopt ahead of the effective date. CIT is currently evaluating the impact of adopting this ASU.

Item 1. Consolidated Financial Statements 7

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Debt Issuance Costs

On April 7, 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

Debt issuance costs are specific incremental costs, other than those paid to the lender, that are directly attributable to issuing a debt instrument (i.e., third party costs). Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (i.e., an asset).

For public business entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The new guidance will be applied on a retrospective basis. The adoption of this guidance is not expected to have a significant impact on CIT s financial statements or disclosures.

Amendments to the Consolidation Analysis

The FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, in February 2015 to improve targeted areas of the consolidation standard and reduce the number of consolidation models. The new guidance changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities.

Edgar Filing: CIT GROUP INC - Form 10-Q

The Board changed the way the voting rights characteristic in the VIE scope determination is evaluated for corporations, which may significantly impact entities for which decision making rights are conveyed through a contractual arrangement.

Under ASU 2015-02:

- n More limited partnerships and similar entities will be evaluated for consolidation under the revised consolidation requirements that apply to VIEs.
- n Fees paid to a decision maker or service provider are less likely to be considered a variable interest in a VIE.
- n Variable interests in a VIE held by related parties of a reporting enterprise are less likely to require the reporting enterprise to consolidate the VIE.
- n There is a new approach for determining whether equity at-risk holders of entities that are not similar to limited partnerships have power to direct the entity's key activities when the entity has an outsourced manager whose fee is a variable interest.
- n The deferral of consolidation requirements for certain investment companies and similar entities of the VIE in ASU 2009-17 is eliminated.

The anticipated impacts of the new update include:

- n A new consolidation analysis is required for VIEs, including many limited partnerships and similar entities that previously were not considered VIEs.
- n It is less likely that the general partner or managing member of limited partnerships and similar entities will be required to consolidate the entity when the other investors in the entity lack both participating rights and kick-out rights.
- n Limited partnerships and similar entities that are not VIEs will not be consolidated by the general partner.
- n It is less likely that decision makers or service providers involved with a VIE will be required to consolidate the VIE.
- n Entities for which decision making rights are conveyed through a contractual arrangement are less likely to be considered VIEs.
- n Reporting enterprises with interests in certain investment companies and similar entities that are considered VIEs will no longer evaluate those entities for consolidation based on majority exposure to variability.

The guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015 (i.e. January 1, 2016). Early adoption is allowed, including early adoption in an interim period. A reporting enterprise is permitted to apply either a modified retrospective approach or full retrospective application. CIT is currently evaluating the impact of adopting this ASU.

Extraordinary and Unusual Items

The FASB issued ASU 2015-01, *Extraordinary and Unusual Items*, in January 2015 as part of FASB's simplification initiative, which eliminates the concept of extraordinary item and the need for entities to evaluate whether transactions or events are both unusual in nature and infrequently occurring.

The ASU precludes (1) segregating an extraordinary item from the results of ordinary operations; (2) presenting separately an extraordinary item on the income statement,

8 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

net of tax, after income from continuing operations; and (3) disclosing income taxes and earnings-per-share data applicable to an extraordinary item. However, the ASU does not affect the reporting and disclosure requirements for an event or transaction that is unusual in nature or that occurs infrequently. So, although the Company will no longer need to determine whether a transaction or event is both unusual in nature and infrequently occurring, CIT will still need to assess whether items are unusual in nature or infrequent to determine if the additional presentation and disclosure requirements for these items apply.

For all entities, ASU 2015-01 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. Early adoption is permitted if the guidance is applied as of the beginning of the annual period of adoption. Adoption of this guidance is not expected to have a significant impact on CIT's financial statements or disclosures.

Revenue Recognition

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, in June 2014, which will supersede virtually all of the revenue recognition guidance in GAAP, except as it relates to lease accounting.

The core principle of the five-step model is that a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In doing so, many companies will have to make more estimates and use more judgment than they do under current GAAP. The five-step analysis of transactions, to determine when and how revenue is recognized, includes:

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognize revenue when or as each performance obligation is satisfied.

Companies can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Under the modified approach, financial statements will be prepared for the year of adoption using the new standard, but prior periods will not be adjusted. Instead, companies will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the company and disclose all line items in the year of adoption as if they were prepared under today's revenue guidance.

The FASB has set an effective date of fiscal years beginning after December 15, 2016 for public entities. Public companies that choose full retrospective application will need to apply the standard to amounts they report for 2015 and 2016 on the face of their 2017 financial statements. In April 2015, the FASB voted to release a proposal to offer an extra year for public companies and two years for private companies to comply with the standard. CIT is required to adopt the ASU and is currently reviewing the impact of adoption and has not determined the effect of the standard on its ongoing financial reporting.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

The FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, in June 2014.

The ASU directs that a performance target that affects vesting and can be achieved after the requisite service period is a performance condition. That is, compensation cost would be recognized over the required service period if it is probable that the performance condition would be achieved. The total amount of compensation cost recognized during and after the requisite service period would reflect the number of awards that are expected to vest and would be adjusted to reflect those awards that ultimately vest.

Edgar Filing: CIT GROUP INC - Form 10-Q

The ASU does not require additional disclosures. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost.

The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted. CIT is currently evaluating the impact of adopting this ASU and is reviewing existing awards for applicability.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

The FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, in August 2014. This ASU describes how entities should assess their ability to meet their obligations and sets disclosure requirements about how this information should be

Item 1. Consolidated Financial Statements 9

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

communicated. The standard will be used along with existing auditing standards, and provides the following key guidance:

1. Entities must perform a going concern assessment by evaluating their ability to meet their obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued).
2. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management's plans.
3. Pursuant to the ASU, substantial doubt about an entity's ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the annual or interim financial statements are issued or available to be issued (assessment date).

The new standard applies to all entities for the first annual period ending after December 15, 2016. Company management is responsible for assessing going concern uncertainties at each annual and interim reporting period thereafter. The adoption of this guidance is not expected to have a significant impact on CIT's financial statements or disclosures.

NOTE 2 DISCONTINUED OPERATION

Student Lending Business Disposition

On April 25, 2014, the Company completed the sale of its student lending business, along with certain secured debt and servicing rights. As a result, the student lending business is reported as a discontinued operation for 2014.

The operating results are presented separately in the Company's Consolidated Financial Statements. There were no assets or liabilities related to the discontinued operation at March 31, 2015 or December 31, 2014.

Interest expense allocated to the discontinued operation corresponded to debt of approximately \$3.2 billion, net of \$224 million of Fresh Start Accounting (FSA) discount. Salaries and general operating expenses included in discontinued operation consisted of direct expenses of the student lending business that were separate from ongoing CIT operations and did not continue subsequent to disposal.

Summarized financial information for the discontinued business is shown below.

Operating Results of Discontinued Operation (dollars in millions)

	Quarter Ended March 31, 2014
Interest income	\$ 21.2
Interest expense	(19.0)
Other income	3.0
Operating expenses	(2.2)
Income from discontinued operation before provision for income taxes	3.0
Provision for income taxes	(0.7)
Income from discontinued operation, net of taxes	\$ 2.3

NOTE 3 LOANS

Finance receivables consist of the following:

Finance Receivables by Product (dollars in millions)

	March 31, 2015	December 31, 2014
Loans	\$ 14,384.9	\$ 14,398.2
Direct financing leases and leveraged leases	5,044.4	5,096.8
Finance receivables	19,429.3	19,495.0
Finance receivables held for sale	773.2	779.9
Finance receivables and held for sale receivables ⁽¹⁾	\$ 20,202.5	\$ 20,274.9

⁽¹⁾ Assets held for sale on the Balance Sheet includes finance receivables and operating lease equipment. As discussed in subsequent tables, since the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, the aggregate amount is presented in this table.

10 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents finance receivables by segment, based on obligor location:

Finance Receivables (dollars in millions)

	March 31, 2015			December 31, 2014		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Transportation & International Finance	\$ 797.1	\$ 2,771.4	\$ 3,568.5	\$ 812.6	\$ 2,746.3	\$ 3,558.9

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015			December 31, 2014		
North American Commercial Finance	14,666.0	1,194.8	15,860.8	14,645.1	1,290.9	15,936.0
Non-Strategic Portfolios					0.1	0.1
Total	\$15,463.1	\$3,966.2	\$19,429.3	\$15,457.7	\$4,037.3	\$19,495.0

The following table presents selected components of the net investment in finance receivables.

Components of Net Investment in Finance Receivables (dollars in millions)

	March 31, 2015	December 31, 2014
Unearned income	\$ (1,026.8)	\$ (1,037.8)
Unamortized (discounts)	(20.3)	(22.0)
Net unamortized deferred costs and (fees)	53.1	48.5

Certain of the following tables present credit-related information at the class level in accordance with ASC 310-10-50, *Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses*. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

Credit Quality Information

The following table summarizes finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. Customer risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers' ability to fulfill their obligations.

The definitions of these ratings are as follows:

- n **Pass** – finance receivables in this category do not meet the criteria for classification in one of the categories below.
- n **Special mention** – a special mention asset exhibits potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.
- n **Classified** – a classified asset ranges from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

Item 1. Consolidated Financial Statements 11

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Finance and Held for Sale Receivables By Risk Rating (dollars in millions)

Edgar Filing: CIT GROUP INC - Form 10-Q

Grade:	Transportation & International Finance		North American Commercial Finance				Subtotal	Non-Strategic Portfolios	Total
	Transportation Finance	International Finance	Corporate Finance	Equipment Finance	Real Estate Finance	Commercial Services			
March 31, 2015									
Pass	\$ 2,902.1	\$ 804.3	\$ 6,000.1	\$ 4,146.5	\$ 1,770.5	\$ 2,064.6	\$ 17,688.1	\$ 241.4	\$ 17,929.5
Special mention	36.4	78.4	702.9	323.7	43.4	310.3	1,495.1	13.7	1,508.8
Classified accruing	24.6	76.8	138.1	164.8		167.8	572.1	8.6	580.7
Classified non-accrual	0.1	39.1	44.5	71.1			154.8	28.7	183.5
Total	\$ 2,963.2	\$ 998.6	\$ 6,885.6	\$ 4,706.1	\$ 1,813.9	\$ 2,542.7	\$ 19,910.1	\$ 292.4	\$ 20,202.5
December 31, 2014									
Pass	\$ 2,895.9	\$ 820.2	\$ 6,199.0	\$ 4,129.1	\$ 1,692.0	\$ 2,084.1	\$ 17,820.3	\$ 288.7	\$ 18,109.0
Special mention	12.8	107.9	561.0	337.8	76.6	278.8	1,374.9	18.4	1,393.3
Classified accruing	44.1	58.0	121.8	180.4		197.3	601.6	10.5	612.1
Classified non-accrual	0.1	37.1	30.9	70.0			138.1	22.4	160.5
Total	\$ 2,952.9	\$ 1,023.2	\$ 6,912.7	\$ 4,717.3	\$ 1,768.6	\$ 2,560.2	\$ 19,934.9	\$ 340.0	\$ 20,274.9

Past Due and Non-accrual Loans

The table that follows presents portfolio delinquency status, regardless of accrual/non-accrual classification:

Finance and Held for Sale Receivables Delinquency Status (dollars in millions)

	30 59 Days Past Due	60 89 Days Past Due	90 Days or Greater	Total Past Due 30 Days or Greater	Current	Total Finance Receivables
March 31, 2015						
Transportation Finance	\$ 5.4	\$ 7.7	\$ 2.9	\$ 16.0	\$ 2,947.2	\$ 2,963.2
International Finance	26.2	7.4	34.1	67.7	930.9	998.6
Corporate Finance			2.0	2.0	6,883.6	6,885.6
Equipment Finance	88.1	21.6	13.7	123.4	4,582.7	4,706.1
Real Estate Finance					1,813.9	1,813.9
Commercial Services	34.1	1.3	0.9	36.3	2,506.4	2,542.7
Sub-total	153.8	38.0	53.6	245.4	19,664.7	19,910.1
Non-Strategic Portfolios	10.7	4.0	17.5	32.2	260.2	292.4
Total	\$ 164.5	\$ 42.0	\$ 71.1	\$ 277.6	\$ 19,924.9	\$ 20,202.5
December 31, 2014						
Transportation Finance	\$ 5.2	\$ 1.9	\$ 4.3	\$ 11.4	\$ 2,941.5	\$ 2,952.9
International Finance	43.9	7.0	21.6	72.5	950.7	1,023.2
Corporate Finance	4.4		0.5	4.9	6,907.8	6,912.7
Equipment Finance	93.7	32.9	14.9	141.5	4,575.8	4,717.3
Real Estate Finance					1,768.6	1,768.6
Commercial Services	62.2	3.3	0.9	66.4	2,493.8	2,560.2
Sub-total	209.4	45.1	42.2	296.7	19,638.2	19,934.9
Non-Strategic Portfolios	16.4	6.9	9.6	32.9	307.1	340.0
Total	\$ 225.8	\$ 52.0	\$ 51.8	\$ 329.6	\$ 19,945.3	\$ 20,274.9

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table sets forth non-accrual loans and assets received in satisfaction of loans (repossessed assets). Non-accrual loans include loans that are individually evaluated and determined to be impaired (generally loans with balances greater than \$500,000), as well as other, smaller balance loans placed on non-accrual due to delinquency (generally 90 days or more).

Finance Receivables on Non-accrual Status (dollars in millions)

	March 31, 2015			December 31, 2014		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total
Transportation Finance	\$ 0.1	\$	\$ 0.1	\$ 0.1	\$	\$ 0.1
International Finance	23.5	15.6	39.1	22.4	14.7	37.1
Corporate Finance	43.0	1.5	44.5	30.9		30.9
Equipment Finance	71.1		71.1	70.0		70.0
Sub-total	137.7	17.1	154.8	123.4	14.7	138.1
Non-Strategic Portfolios		28.7	28.7		22.4	22.4
Total	\$ 137.7	\$ 45.8	\$ 183.5	\$ 123.4	\$ 37.1	\$ 160.5
Repossessed assets			0.6			0.8
Total non-performing assets			\$ 184.1			\$ 161.3
Total Accruing loans past due 90 days or more			\$ 21.5			\$ 10.3

Payments received on non-accrual financing receivables are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis.

Impaired Loans

The Company's policy is to review for impairment finance receivables greater than \$500,000 that are on non-accrual status. Small-ticket loan and lease receivables that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 90-150 days past due.

The following table contains information about impaired finance receivables and the related allowance for loan losses, exclusive of finance receivables that were identified as impaired at the Convenience Date for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*), which are disclosed further below in this note.

Item 1. Consolidated Financial Statements 13

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Impaired Loans (dollars in millions)

	March 31, 2015			Three Months Ended March 31,	
				2015	2014
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Recorded Investment
With no related allowance recorded:					
International Finance	\$ 8.1	\$ 11.4	\$	\$ 9.2	\$ 6.0
Corporate Finance	0.6	0.6		0.9	130.6
Equipment Finance	4.4	5.4		5.0	6.3
Commercial Services	4.0	4.0		4.1	8.8
Non-Strategic Portfolios					8.4
With an allowance recorded:					
Transportation Finance					14.9
International Finance	8.1	8.1	1.4	7.1	
Corporate Finance	42.5	43.6	13.4	36.1	50.4
Commercial Services					3.1
Total Impaired Loans ⁽¹⁾	67.7	73.1	14.8	62.4	228.5
Total Loans Impaired at Convenience Date ⁽²⁾	0.1	14.7		0.7	54.4
Total	\$67.8	\$87.8	\$ 14.8	\$63.1	\$282.9

	December 31, 2014			Year Ended December 31, 2014	
				Average Recorded Investment	Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Recorded Investment
With no related allowance recorded:					
International Finance	\$ 10.2	\$ 17.0	\$	\$ 10.1	
Corporate Finance	1.2	1.2			104.9
Equipment Finance	5.6	6.8			5.8
Commercial Services	4.2	4.2			6.9
Non-Strategic Portfolios					3.4
With an allowance recorded:					
Transportation Finance					9.0
International Finance	6.0	6.0	1.0	3.4	
Corporate Finance	29.6	34.3	11.4	43.5	
Equipment Finance					0.8
Commercial Services					2.8
Total Impaired Loans ⁽¹⁾	56.8	69.5	12.4	190.6	
Total Loans Impaired at Convenience date ⁽²⁾	1.2	15.8	0.5	26.4	
Total	\$ 58.0	\$ 85.3	\$ 12.9	\$ 217.0	

⁽¹⁾ Interest income recorded for the three months ended March 31, 2015 and 2014 while the loans were impaired was \$0.4 million and \$0.7 million, respectively, of which \$0 and \$0.4 million was interest recognized using the cash-basis method of accounting. Interest income recorded for the year ended December 31, 2014 while the loans were impaired was \$10.1 million, of which \$0.7 million was interest recognized using the cash-basis method of accounting.

⁽²⁾ Details of finance receivables that were identified as impaired at the Convenience Date are presented under Loans and Debt Securities Acquired with Deteriorated Credit Quality.

14 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. The Company has established review and monitoring procedures designed to identify, as early as possible, customers that are experiencing financial difficulty. Credit risk is captured and analyzed based on the Company's internal probability of obligor default (PD) and loss given default (LGD) ratings. A PD rating is determined by evaluating borrower credit-worthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. An LGD rating is predicated on transaction structure, collateral valuation and related guarantees or recourse. Further, related considerations in determining probability of collection include the following:

- n Instances where the primary source of payment is no longer sufficient to repay the loan in accordance with terms of the loan document;
- n Lack of current financial data related to the borrower or guarantor;
- n Delinquency status of the loan;
- n Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow, excessive financial leverage or business interruptions;
- n Loans secured by collateral that is not readily marketable or that has experienced or is susceptible to deterioration in realizable value; and
- n Loans to borrowers in industries or countries experiencing severe economic instability.

Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable. A specific allowance or charge-off is recorded for the shortfall. In instances where the estimated value exceeds the recorded investment, no specific allowance is recorded. The estimated value is determined using fair value of collateral and other cash flows if the finance receivable is collateralized, the present value of expected future cash flows discounted at the contract's effective interest rate, or market price. A shortfall between the estimated value and recorded investment in the finance receivable is reported in the provision for credit losses. In instances when the Company measures impairment based on the present value of expected future cash flows, the change in present value is reported in the provision for credit losses.

The following summarizes key elements of the Company's policy regarding the determination of collateral fair value in the measurement of impairment:

- n Orderly liquidation value is the basis for collateral valuation;
- n Appraisals are updated annually or more often as market conditions warrant; and
- n Appraisal values are discounted in the determination of impairment if the:

- n appraisal does not reflect current market conditions; or
- n collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, collect or subject to pilferage in a liquidation.

Loans and Debt Securities Acquired with Deteriorated Credit Quality

For purposes of this presentation, the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to finance receivables that were identified as impaired under FSA at the Convenience Date. At March 31, 2015 and December 31, 2014, the carrying amounts approximated \$0.1 million and \$1 million, respectively, and the outstanding balance approximated \$15 million and \$16 million, respectively. The outstanding balance represents the sum of contractual principal, interest and fees earned at the reporting date, calculated as pre-FSA net investment plus inception to date charge-offs. The allowance for loan losses on these loans was \$0 at March 31, 2015 and \$0.5 million at December 31, 2014. See Note 4 Allowance for Loan Losses.

Troubled Debt Restructurings

The Company periodically modifies the terms of finance receivables in response to borrowers' difficulties. Modifications that include a financial concession to the borrower are accounted for as troubled debt restructurings (TDRs).

CIT uses a consistent methodology across all loans to determine if a modification is with a borrower that has been determined to be in financial difficulty and was granted a concession. Specifically, the Company's policies on TDR identification include the following examples of indicators used to determine whether the borrower is in financial difficulty:

- n Borrower is in default with CIT or other material creditor
- n Borrower has declared bankruptcy
- n Growing doubt about the borrower's ability to continue as a going concern
- n Borrower has (or is expected to have) insufficient cash flow to service debt
- n Borrower is de-listing securities
- n Borrower's inability to obtain funds from other sources
- n Breach of financial covenants by the borrower.

If the borrower is determined to be in financial difficulty, then CIT utilizes the following criteria to determine whether a concession has been granted to the borrower:

- n Assets used to satisfy debt are less than CIT's recorded investment in the receivable
- n Modification of terms interest rate changed to below market rate

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

- n Maturity date extension at an interest rate less than market rate
- n The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- n Capitalization of interest
- n Increase in interest reserves
- n Conversion of credit to Payment-In-Kind (PIK)
- n Delaying principal and/or interest for a period of three months or more
- n Partial forgiveness of the balance.

Modified loans that meet the definition of a TDR are subject to the Company's standard impaired loan policy, namely that non-accrual loans in excess of \$500,000 are individually reviewed for impairment, while non-accrual loans less than \$500,000 are considered as part of homogenous pools and are included in the determination of the non-specific allowance.

The recorded investment of TDRs at March 31, 2015 and December 31, 2014 was \$14.6 million and \$17.2 million, of which 72% and 75%, respectively were on non-accrual. North American Commercial Finance receivables accounted for 96% of the total TDRs at March 31, 2015 and 91% at December 31, 2014, and there were \$1.0 million and \$0.8 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

Recorded investment related to modifications qualifying as TDRs that occurred during the quarters ended March 31, 2015 and 2014 were \$0.7 million and \$10.3 million, respectively. The recorded investment of TDRs that experience a payment default (payment default is one missed payment) at the time of default, during the quarters ended March 31, 2015 and 2014, and for which the payment default occurred within one year of the modification totaled \$0.3 million in each period. The March 31, 2015 defaults related to Equipment Financing and Non-Strategic Portfolios and all of the March 31, 2014 defaults related primarily to Equipment Financing and Non-Strategic Portfolios.

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on the 2015 amounts, the overall nature and impact of modification programs were comparable in the prior year.

- n The nature of modifications qualifying as TDRs based upon recorded investment at March 31, 2015 was comprised of payment deferrals for 34% and covenant relief and/or other for 66%. December 31, 2014 TDR recorded investment was comprised of payment deferrals for 35% and covenant relief and/or other for 65%.
- n Payment deferrals result in lower net present value of cash flows, if not accompanied by additional interest or fees, and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the moderate length of deferral periods;
- n Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company's restructuring programs. Additionally, in some instances, modifications improve the Company's economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers' ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the quarters ended March 31, 2015 and 2014 was not significant;
- n Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the amounts of principal forgiveness for TDRs occurring during quarters ended March 31, 2015 and 2014 was not significant, as debt forgiveness is a relatively small component of the Company's modification programs; and

Edgar Filing: CIT GROUP INC - Form 10-Q

- n The other elements of the Company's modification programs that are not TDRs, do not have a significant impact on financial results given their relative size, or do not have a direct financial impact, as in the case of covenant changes.

16 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 4 ALLOWANCE FOR LOAN LOSSES

Allowance for Loan Losses and Recorded Investment in Finance Receivables (dollars in millions)

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Corporate and Other	Total
Beginning balance December 31, 2014	\$ 46.8	\$ 299.6	\$	\$	\$ 346.4
Provision for credit losses	10.6	24.0			34.6
Other ⁽¹⁾	(0.4)	(3.2)			(3.6)
Gross charge-offs ⁽²⁾	(3.2)	(23.4)			(26.6)
Recoveries	1.7	4.0			5.7
Allowance balance March 31, 2015	\$ 55.5	\$ 301.0	\$	\$	\$ 356.5
Beginning balance December 31, 2013	\$ 46.7	\$ 303.8	\$ 5.6	\$	\$ 356.1
Provision for credit losses	12.4	23.2	1.0	0.1	36.7
Other ⁽¹⁾	(0.4)	(4.1)		(0.1)	(4.6)
Gross charge-offs ⁽²⁾	(14.3)	(22.6)	(7.5)		(44.4)
Recoveries	1.3	6.6	0.9		8.8
Allowance balance March 31, 2014	\$ 45.7	\$ 306.9	\$	\$	\$ 352.6
Allowance balance:					
At March 31, 2015					
Loans individually evaluated for impairment	\$ 1.4	\$ 13.4	\$	\$	\$ 14.8
Loans collectively evaluated for impairment	54.1	287.6			341.7
Loans acquired with deteriorated credit quality ⁽³⁾					
Allowance balance	\$ 55.5	\$ 301.0	\$	\$	\$ 356.5
Other reserves ⁽¹⁾	\$ 0.5	\$ 36.8	\$	\$	\$ 37.3
At March 31, 2014					
Loans individually evaluated for impairment	\$ 0.7	\$ 25.0	\$	\$	\$ 25.7
Loans collectively evaluated for impairment	45.0	280.9			325.9
Loans acquired with deteriorated credit quality ⁽³⁾		1.0			1.0
Allowance balance	\$ 45.7	\$ 306.9	\$	\$	\$ 352.6
Other reserves ⁽¹⁾	\$ 0.4	\$ 30.6	\$	\$	\$ 31.0
Finance Receivables:					
At March 31, 2015					
Loans individually evaluated for impairment	\$ 16.2	\$ 51.5	\$	\$	\$ 67.7
Loans collectively evaluated for impairment	3,552.3	15,809.2			\$ 19,361.5
Loans acquired with deteriorated credit quality ⁽³⁾		0.1			0.1
Loans	\$ 3,568.5	\$ 15,860.8	\$	\$	\$ 19,429.3

Edgar Filing: CIT GROUP INC - Form 10-Q

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Corporate and Other	Total
Percent of loans to total loans	18.4%	81.6%			100.0%
At March 31, 2014					
Loans individually evaluated for impairment	\$ 20.6	\$ 192.4	\$ 6.6	\$	\$ 219.6
Loans collectively evaluated for impairment	3,532.8	14,657.6	107.0		18,297.4
Loans acquired with deteriorated credit quality ⁽³⁾	0.1	52.8	1.8		54.7
Loans	\$ 3,553.5	\$ 14,902.8	\$ 115.4	\$	\$ 18,571.7
Percent of loans to total loans	19.1%	80.3%	0.6%		100.0%

⁽¹⁾ *Other reserves* represents additional credit loss reserves for unfunded lending commitments, letters of credit and for deferred purchase agreements, all of which is recorded in *Other Liabilities*. *Other* also includes changes relating to sales and foreign currency translations.

⁽²⁾ *Gross charge-offs* included \$6 million charged directly to the Allowance for loan losses for the quarter ended March 31, 2014, and none in the quarter ended March 31, 2015. In 2014, \$6 million related to NACF.

⁽³⁾ Represents loans considered impaired in FSA and are accounted for under the guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*).

Item 1. Consolidated Financial Statements 17

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 5 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

At March 31, 2015 and December 31, 2014, the Company had \$450 million and \$650 million, respectively, of securities purchased under resale agreements. Securities purchased under agreements to resell (reverse repos) generally do not constitute a sale or purchase of the underlying securities for accounting purposes and, therefore are treated as collateralized financing transactions. These agreements are recorded at the amounts at which the securities were acquired. See *Note 9 Fair Value* for discussion of fair value. These agreements are short-term securities that had maturity dates of 90 days or less and are secured by the underlying collateral, which, along with the cash investment, are maintained by a tri-party custodian.

NOTE 6 INVESTMENT SECURITIES

Investments include debt and equity securities. The Company's debt securities primarily include U.S. Government Agency securities, U.S. Treasury securities, and foreign government securities. Equity securities include common stock and warrants.

Investment Securities (dollars in millions)

	March 31, 2015	December 31, 2014
Debt securities available-for-sale	\$ 949.8	\$ 1,116.5
Equity securities available-for-sale	14.3	14.0
Debt securities held-to-maturity ⁽¹⁾	320.1	352.3
Non-marketable equity investments ⁽²⁾	63.2	67.5

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015	December 31, 2014
Total investment securities	\$ 1,347.4	\$ 1,550.3

⁽¹⁾ Recorded at amortized cost less impairment on securities that have credit-related impairment.

⁽²⁾ Non-marketable equity investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method. Non-marketable equity investments include \$19.3 million and \$19.7 million in limited partnerships at March 31, 2015 and December 31, 2014, respectively, accounted for under the equity method. The remaining investments are carried at cost and include qualified Community Reinvestment Act (CRA) investments, equity fund holdings and shares issued by customers during loan work out situations or as part of an original loan investment.

Realized investment gains totaled \$0.7 million and \$3.3 million for the quarters ended March 31, 2015 and 2014, respectively, and exclude losses from other than temporary impairments (OTTI). OTTI credit-related impairments on equity securities recognized in earnings were not material for the quarters ended March 31, 2015 and 2014. Impairment amounts in accumulated other comprehensive income (AOCI) were not material at March 31, 2015 or December 31, 2014.

In addition, the Company maintained \$5.4 billion and \$6.2 billion of interest bearing deposits at March 31, 2015 and December 31, 2014, respectively, which are cash equivalents and are classified separately on the balance sheet.

The following table presents interest and dividends on interest bearing deposits, investments and reverse repurchase agreements:

Interest and Dividend Income (dollars in millions)

	Quarters Ended March 31,	
	2015	2014
Interest income interest bearing deposits	\$ 4.0	\$ 4.6
Interest income investments / reverse repos	4.1	3.3
Dividends investments	0.5	0.9
Interest and dividends on interest bearing deposits and investments	\$ 8.6	\$ 8.8

18 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Securities Available-for-Sale

The following table presents amortized cost and fair value of securities AFS.

Securities AFS Amortized Cost and Fair Value (dollars in millions)

Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
-------------------	------------------------------	-------------------------------	---------------

Edgar Filing: CIT GROUP INC - Form 10-Q

March 31, 2015

Debt securities AFS				
U.S. government agency obligations	\$ 950.0	\$	\$(0.7)	\$ 949.3
Foreign government securities	0.5			0.5
Total debt securities AFS	950.5		(0.7)	949.8
Equity securities AFS	14.2	0.4	(0.3)	14.3
Total securities AFS	\$ 964.7	\$0.4	\$(1.0)	\$ 964.1

December 31, 2014

Debt securities AFS				
U.S. Treasury Securities	\$ 200.0	\$	\$	\$ 200.0
U.S. government agency obligations	904.2			904.2
Foreign government securities	12.3			12.3
Total debt securities AFS	1,116.5			1,116.5
Equity securities AFS	14.0	0.6	(0.6)	14.0
Total securities AFS	\$ 1,130.5	\$0.6	\$(0.6)	\$ 1,130.5

Debt Securities Held-to-Maturity

The carrying value and fair value of securities HTM were as follows:

Debt Securities HTM Carrying Value and Fair Value (dollars in millions)

	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
March 31, 2015				
Mortgage-backed securities U.S. government owned and sponsored agencies	\$ 161.2	\$ 2.5	\$(1.4)	\$ 162.3
State and municipal	43.8	0.1	(0.5)	43.4
Foreign government	8.9	0.1		9.0
Corporate Foreign	106.2	7.2		113.4
Total debt securities held-to-maturity	\$ 320.1	\$ 9.9	\$(1.9)	\$ 328.1
December 31, 2014				
Mortgage-backed securities U.S. government owned and sponsored agencies	\$ 156.3	\$ 2.5	\$(1.9)	\$ 156.9
State and municipal	48.1	0.1	(1.8)	46.4
Foreign government	37.9	0.1		38.0
Corporate Foreign	110.0	9.0		119.0
Total debt securities held-to-maturity	\$ 352.3	\$11.7	\$(3.7)	\$ 360.3

Item 1. Consolidated Financial Statements 19

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Edgar Filing: CIT GROUP INC - Form 10-Q

The following table presents the amortized cost and fair value of securities HTM by contractual maturity dates:

Securities HTM Amortized Cost and Fair Value Maturities (dollars in millions)

	March 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities				
U.S. government owned and sponsored agencies				
Due after 5 but within 10 years	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3
Due after 10 years ⁽¹⁾	159.9	161.0	155.0	155.6
Total	161.2	162.3	156.3	156.9
State and municipal				
Due within 1 year	1.1	1.1	1.2	1.2
Due after 1 but within 5 years	2.6	2.6	2.9	2.9
Due after 5 but within 10 years				
Due after 10 years ⁽¹⁾	40.1	39.7	44.0	42.3
Total	43.8	43.4	48.1	46.4
Foreign government				
Due within 1 year	6.5	6.5	10.8	10.8
Due after 1 but within 5 years	2.4	2.5	27.1	27.2
Total	8.9	9.0	37.9	38.0
Corporate Foreign				
Due within 1 year	0.9	0.9	0.9	0.9
Due after 1 but within 5 years	39.9	44.9	43.7	49.8
Due after 5 but within 10 years	65.4	67.6	65.4	68.3
Total	106.2	113.4	110.0	119.0
Total debt securities held-to-maturity	\$ 320.1	\$ 328.1	\$ 352.3	\$ 360.3

⁽¹⁾ Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.

NOTE 7 LONG-TERM BORROWINGS

The following table presents the carrying value of outstanding long-term borrowings:

Long-term Borrowings (dollars in millions)

	March 31, 2015			December 31, 2014
	CIT Group Inc.	Subsidiaries	Total	Total
Senior unsecured ⁽¹⁾	\$ 10,732.6	\$	\$ 10,732.6	\$ 11,932.4
Secured borrowings		5,925.7	5,925.7	6,523.4
Total Long-term Borrowings	\$ 10,732.6	\$ 5,925.7	\$ 16,658.3	\$ 18,455.8

⁽¹⁾

Edgar Filing: CIT GROUP INC - Form 10-Q

Senior Unsecured Notes at March 31, 2015 were comprised of \$8,243.7 million of Unsecured Notes, \$2,450.0 million of Series C Notes and \$38.9 million of other unsecured debt.

Unsecured Borrowings

Revolving Credit Facility

There were no outstanding borrowings under the Revolving Credit Facility at March 31, 2015 and December 31, 2014. The amount available to draw upon at March 31, 2015 was approximately \$1.4 billion, with the remaining amount of approximately \$0.1 billion being utilized for issuance of letters of credit.

The Revolving Credit Facility has a total commitment amount of \$1.5 billion and the maturity date of the commitment is January 27, 2017. The total commitment amount consists of a \$1.15 billion revolving loan tranche and a \$350 million revolving loan tranche that can also be utilized for issuance of letters of credit. The applicable margin charged under the facility is 2.50% for LIBOR-based loans and 1.50% for Base Rate loans.

The Revolving Credit Facility may be drawn and prepaid at the option of CIT. The unutilized portion of any commitment under the Revolving Credit Facility may be reduced permanently or terminated by CIT at any time without penalty.

20 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Revolving Credit Facility is unsecured and is guaranteed by eight of the Company's domestic operating subsidiaries. The facility was amended in January 2014 to modify the covenant requiring a minimum guarantor asset coverage ratio and the criteria for calculating the ratio. The amended covenant requires a minimum guarantor asset coverage ratio ranging from 1.25:1.0 to the current requirement of 1.5:1.0 depending on the Company's long-term senior unsecured debt rating.

The Revolving Credit Facility is subject to a \$6 billion minimum consolidated net worth covenant of the Company, tested quarterly, and also limits the Company's ability to create liens, merge or consolidate, sell, transfer, lease or dispose of all or substantially all of its assets, grant a negative pledge or make certain restricted payments during the occurrence and continuance of an event of default.

Senior Unsecured Notes

In January 2015, we filed a shelf registration that expires in January 2018 that replaced an existing shelf. The notes issued under the shelf registration rank equal in right of payment with the Series C Unsecured Notes and the Revolving Credit Facility.

The following tables present the principal amounts of Senior Unsecured Notes issued under the Company's shelf registration and Series C Unsecured Notes by maturity date.

Senior Unsecured Notes (dollars in millions)

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>Date of Issuance</u>	<u>Par Value</u>
May 2017	5.000 %	May 2012	\$ 1,250.0
August 2017	4.250 %	August 2012	1,750.0
March 2018	5.250 %	March 2012	1,500.0
April 2018*	6.625 %	March 2011	700.0
February 2019*	5.500 %	February 2012	1,750.0

Edgar Filing: CIT GROUP INC - Form 10-Q

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>Date of Issuance</u>	<u>Par Value</u>
February 2019	3.875 %	February 2014	1,000.0
May 2020	5.375 %	May 2012	750.0
August 2022	5.000 %	August 2012	1,250.0
August 2023	5.000 %	August 2013	750.0
Weighted average rate and total	5.02 %		\$ 10,700.0

* *Series C Unsecured Notes*

The Indentures for the Senior Unsecured Notes and Series C Unsecured Notes limit the Company's ability to create liens, merge or consolidate, or sell, transfer, lease or dispose of all or substantially all of its assets. Upon a Change of Control Triggering Event as defined in the Indentures for the Senior Unsecured Notes and Series C Unsecured Notes, holders of the Senior Unsecured Notes and Series C Unsecured Notes will have the right to require the Company, as applicable, to repurchase all or a portion of the Senior Unsecured Notes and Series C Unsecured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of such repurchase.

Secured Borrowings

Set forth below are borrowings and pledged assets, which are primarily owned by consolidated variable interest entities. Creditors of these entities received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT until and unless the related secured borrowings have been fully discharged. These transactions do not meet accounting requirements for sales treatment and are recorded as secured borrowings.

Item 1. Consolidated Financial Statements 21

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Secured Borrowings and Pledged Assets Summary⁽¹⁾ (dollars in millions)

	<u>March 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Secured Borrowing</u>	<u>Pledged Assets</u>	<u>Secured Borrowing</u>	<u>Pledged Assets</u>
Rail ⁽²⁾	\$ 1,125.9	\$ 1,516.1	\$ 1,179.7	\$ 1,575.7
Aerospace ⁽²⁾	2,348.6	3,790.7	2,411.7	3,914.4
International Finance	528.4	726.4	545.0	730.6
Subtotal Transportation & International Finance	4,002.9	6,033.2	4,136.4	6,220.7
Corporate Finance	86.7	149.4	129.7	141.6
Real Estate Finance		167.6	125.0	168.0
Commercial Services	334.7	1,917.4	334.7	1,644.6
Equipment Finance	1,501.4	2,089.7	1,797.6	2,352.8
Subtotal North American Commercial Finance	1,922.8	4,324.1	2,387.0	4,307.0
Total	\$ 5,925.7	\$ 10,357.3	\$ 6,523.4	\$ 10,527.7

⁽¹⁾ As part of our liquidity management strategy, we pledge assets to secure financing transactions (which include securitizations), borrowings from the FHLB and FRB, and for other purposes as required or permitted by law.

Edgar Filing: CIT GROUP INC - Form 10-Q

⁽²⁾ At March 31, 2015 the GSI TRS related borrowings and pledged assets, respectively, of \$1.2 billion and \$1.8 billion were included in TIF. The GSI TRS is described in Note 8 – Derivative Financial Instruments.

CIT Bank is a member of the FHLB of Seattle and may borrow under a line of credit that is secured by collateral pledged to FHLB Seattle. CIT Bank did not have any advances outstanding under the line at March 31, 2015 and the real estate assets pledged were in the process of being released. A subsidiary of CIT Bank is a member of FHLB Des Moines and may borrow under lines of credit that are secured by a blanket lien on the subsidiary's assets and collateral pledged to FHLB Des Moines. At March 31, 2015, \$87 million of advances were outstanding and \$149 million of collateral was pledged with FHLB Des Moines and are included in Corporate Finance in the table above.

At March 31, 2015 we had pledged assets (including collateral for the FRB discount window not in the table above) of \$12.4 billion, which included \$6.6 billion of loans (including amounts held for sale), \$4.8 billion of operating lease assets, \$0.8 billion of cash and \$0.2 billion of investment securities.

Variable Interest Entities (VIEs)

The Company utilizes VIEs in the ordinary course of business to support its own and its customers' financing needs. Each VIE is a separate legal entity and maintains its own books and records.

The most significant types of VIEs that CIT utilizes are 'on balance sheet' secured financings of pools of leases and loans originated by the Company where the Company is the primary beneficiary. The Company originates pools of assets and sells these to special purpose entities, which, in turn, issue debt instruments backed by the asset pools or sells individual interests in the assets to investors. CIT retains the servicing rights and participates in certain cash flows. These VIEs are typically organized as trusts or limited liability companies, and are intended to be bankruptcy remote, from a legal standpoint.

The main risks inherent in these secured borrowing structures are deterioration in the credit performance of the vehicle's underlying asset portfolio and risk associated with the servicing of the underlying assets.

Lenders typically have recourse to the assets in the VIEs and may benefit from other credit enhancements, such as: (1) a reserve or cash collateral account that requires the Company to deposit cash in an account, which will first be used to cover any defaulted obligor payments, (2) over-collateralization in the form of excess assets in the VIE, or (3) subordination, whereby the Company retains a subordinate position in the secured borrowing which would absorb losses due to defaulted obligor payments before the senior certificate holders. The VIE may also enter into derivative contracts in order to convert the debt issued by the VIEs to match the underlying assets or to limit or change the risk of the VIE.

With respect to events or circumstances that could expose CIT to a loss, as these are accounted for as on balance sheet, the Company records an allowance for loan losses for the credit risks associated with the underlying leases and loans. The VIE has an obligation to pay the debt in accordance with the terms of the underlying agreements.

Generally, third-party investors in the obligations of the consolidated VIEs have legal recourse only to the assets of the VIEs and do not have recourse to the Company beyond certain specific provisions that are customary for secured financing transactions, such as asset repurchase obligations for breaches of representations and warranties. In addition, the assets are generally restricted to pay only such liabilities.

22 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

As part of managing economic risk and exposure to interest rate and foreign currency risk, the Company primarily enters into derivative transactions in over-the-counter markets with other financial institutions. The Company does not enter into derivative financial instruments for speculative purposes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration

Edgar Filing: CIT GROUP INC - Form 10-Q

requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Act, the reporting and clearing obligations apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

See *Note 1 Business and Summary of Significant Accounting Policies* in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for further description of its derivative transaction policies.

The following table presents fair values and notional values of derivative financial instruments:

Fair and Notional Values of Derivative Financial Instruments⁽¹⁾ (dollars in millions)

	March 31, 2015			December 31, 2014		
	Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount	Asset Fair Value	Liability Fair Value
Qualifying Hedges						
Foreign currency forward contracts – net						
investment hedges	\$ 1,063.4	\$ 97.7	\$ (0.9)	\$ 1,193.1	\$ 74.7	\$
Total Qualifying Hedges	1,063.4	97.7	(0.9)	1,193.1	74.7	
Non-Qualifying Hedges						
Interest rate swaps	2,117.2	19.5	(27.6)	1,902.0	15.2	(23.1)
Written options	2,952.5		(1.9)	2,711.5		(2.7)
Purchased options	1,059.8	0.5		948.4	0.8	
Foreign currency forward contracts	1,518.0	81.6	(11.6)	2,028.8	77.2	(12.0)
Total Return Swap (TRS)	1,106.8		(25.5)	1,091.9		(24.5)
Equity Warrants	1.0	0.1		1.0	0.1	
Total Non-qualifying Hedges	8,755.3	101.7	(66.6)	8,683.6	93.3	(62.3)
Total Hedges	\$ 9,818.7	\$ 199.4	\$ (67.5)	\$ 9,876.7	\$ 168.0	\$ (62.3)

⁽¹⁾ Presented on a gross basis.

Total Return Swaps (TRS)

Two financing facilities between two wholly-owned subsidiaries of CIT and Goldman Sachs International (GSI) are structured as total return swaps (TRS), under which amounts available for advances are accounted for as derivatives. Pursuant to applicable accounting guidance, only the unutilized portion of the TRS is accounted for as a derivative and recorded at its estimated fair value. The size of the CIT Financial Ltd. (CFL) facility is \$1.5 billion and the CIT TRS Funding B.V. (BV) facility is \$625 million.

The aggregate notional amounts of the total return swaps of \$1,106.8 million at March 31, 2015 and \$1,091.9 million at December 31, 2014 represent the aggregate unused portions under the CFL and BV facilities and constitute derivative financial instruments. These notional amounts are calculated as the maximum aggregate facility commitment amounts, currently \$2,125.0 million, less the aggregate actual adjusted qualifying borrowing base outstanding of \$1,018.2 million at March 31, 2015 and \$1,033.1 million at December 31, 2014 under the facilities. The notional amounts of the derivatives will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying asset-backed securities (ABS) to investors. If CIT funds additional ABS under the facilities, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

Valuation of the derivatives related to the GSI facilities is based on several factors using a discounted cash flow (DCF) methodology, including:

- n CIT's funding costs for similar financings based on current market conditions;
- n Forecasted usage of the long-dated facilities through the final maturity date in 2028; and
- n Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Based on the Company's valuation, a liability of \$25.5 million and \$24.5 million was recorded at March 31, 2015 and December 31, 2014, respectively. The change in value is recorded in Other Income in the Consolidated Statements of Operations.

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Impact of Collateral and Netting Arrangements on the Total Derivative Portfolio

The following tables present a summary of our derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated balance sheet; the net amounts presented in the consolidated balance sheet; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the amount of cash collateral received or pledged. Substantially all of the derivative transactions are under an International Swaps and Derivatives Association (ISDA) agreement.

Offsetting of Derivative Assets and Liabilities (dollars in millions)

	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount Presented in the Consolidated Balance Sheet	Gross Amounts not offset in the Consolidated Balance Sheet		
				Derivative Financial Instruments ⁽¹⁾ /Pledged	Cash Collateral (Received) ⁽¹⁾⁽²⁾	Net Amount
March 31, 2015						
Derivative assets	\$ 199.4	\$	\$ 199.4	\$(13.2)	\$ (163.9)	\$ 22.3
Derivative liabilities	(67.5)		(67.5)	13.2	14.7	(39.6)
December 31, 2014						
Derivative assets	\$ 168.0	\$	\$ 168.0	\$(13.6)	\$ (137.3)	\$ 17.1
Derivative liabilities	(62.3)		(62.3)	13.6	8.7	(40.0)

⁽¹⁾ The Company's derivative transactions are governed by ISDA agreements that allow for net settlements of certain payments as well as offsetting of all contracts (Derivative Financial Instruments) with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. We believe our ISDA agreements meet the definition of a master netting arrangement or similar agreement for purposes of the above disclosure. In conjunction with the ISDA agreements, the Company has entered into collateral arrangements with its counterparties which provide for the exchange of cash depending on the change in the market valuation of the derivative contracts outstanding. Such collateral is available to be applied in settlement of the net balances upon an event of default by one of the counterparties.

⁽²⁾ Collateral pledged or received is included in Other assets or Other liabilities, respectively.

The following table presents the impact of derivatives on the statements of operations. There were no qualifying hedges for the periods disclosed.

Derivative Instrument Gains and Losses (dollars in millions)

Contract Type	Gain / (Loss) Recognized	Quarters Ended March 31,	
		2015	2014
Non Qualifying Hedges			
Cross currency swaps	Other income	\$	\$ 5.1
Interest rate swaps	Other income	(0.2)	3.8
Interest rate options	Other income	0.5	(0.1)
Foreign currency forward contracts	Other income	86.2	29.1
Equity warrants	Other income		(0.2)
Total Return Swap (TRS)	Other income	(1.0)	(1.7)
Total Non-qualifying Hedges		85.5	36.0
Total derivatives income statement impact		\$ 85.5	\$ 36.0

24 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents the changes in AOCI relating to derivatives:

Changes in AOCI Relating to Derivatives (dollars in millions)

Contract Type	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Quarter Ended March 31, 2015					
Foreign currency forward contracts net investment hedges	\$ 4.2	\$	\$ 4.2	\$ 83.8	\$ 79.6
Total	\$ 4.2	\$	\$ 4.2	\$ 83.8	\$ 79.6
Quarter Ended March 31, 2014					
Foreign currency forward contracts net investment hedges	\$ (3.1)	\$	\$ (3.1)	\$ 4.5	\$ 7.6
Cross currency swaps net investment hedges				1.8	1.8
Total	\$ (3.1)	\$	\$ (3.1)	\$ 6.3	\$ 9.4

NOTE 9 FAIR VALUE**Fair Value Hierarchy**

The Company is required to report fair value measurements for specified classes of assets and liabilities. See *Note 1 Business and Summary of Significant Accounting Policies* in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for further description of

Edgar Filing: CIT GROUP INC - Form 10-Q

its derivative transaction policies for fair value measurement policy.

The Company characterizes inputs in the determination of fair value according to the fair value hierarchy. The fair value of the Company's assets and liabilities where the measurement objective specifically requires the use of fair value are set forth in the tables below:

Assets and Liabilities Measured at Fair Value on a Recurring Basis (dollars in millions)

	Total	Level 1	Level 2	Level 3
March 31, 2015				
Assets				
Debt Securities AFS	\$ 949.8	\$ 0.5	\$ 949.3	\$
Equity Securities AFS	14.3	14.3		
Trading assets at fair value - derivatives	101.7		101.7	
Derivative counterparty assets at fair value	97.7		97.7	
Total	\$ 1,163.5	\$ 14.8	\$ 1,148.7	\$
Liabilities				
Trading liabilities at fair value - derivatives	\$ (66.6)	\$	\$ (39.5)	\$ (27.1)
Derivative counterparty liabilities at fair value	(0.9)		(0.9)	
Total	\$ (67.5)	\$	\$ (40.4)	\$ (27.1)
December 31, 2014				
Assets				
Debt Securities AFS	\$ 1,116.5	\$ 212.3	\$ 904.2	\$
Equity Securities AFS	14.0	14.0		
Trading assets at fair value - derivatives	93.3		93.3	
Derivative counterparty assets at fair value	74.7		74.7	
Total	\$ 1,298.5	\$ 226.3	\$ 1,072.2	\$
Liabilities				
Trading liabilities at fair value - derivatives	\$ (62.3)	\$	\$ (35.7)	\$ (26.6)
Total	\$ (62.3)	\$	\$ (35.7)	\$ (26.6)

Item 1. Consolidated Financial Statements 25

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents financial instruments for which a non-recurring change in fair value has been recorded in the current year:

Assets Measured at Fair Value on a Non-recurring Basis with a Change in Fair Value Recorded (dollars in millions)

	Fair Value Measurements at Reporting Date Using:				Total Gains and (Losses)
	Total	Level 1	Level 2	Level 3	
Assets					
March 31, 2015					

Edgar Filing: CIT GROUP INC - Form 10-Q

	Fair Value Measurements at Reporting Date Using:				
Assets held for sale	\$411.9	\$	\$	\$411.9	\$(10.4)
Impaired loans	21.0			21.0	(5.4)
Total	\$432.9	\$	\$	\$432.9	\$(15.8)
December 31, 2014					
Assets held for sale	\$949.6	\$	\$	\$949.6	\$(73.6)
Impaired loans	13.2			13.2	(4.9)
Total	\$962.8	\$	\$	\$962.8	\$(78.5)

Loans are transferred from held for investment (HFI) to Assets held for sale (HFS) at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off, if applicable. Once classified as HFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance.

Impaired finance receivables of \$500,000 or greater that are placed on non-accrual status are subject to periodic individual review in conjunction with the Company's ongoing problem loan management (PLM) function. Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract's effective interest rate.

Level 3 Gains and Losses

The tables below set forth a summary of changes in the estimated fair value of the Company's Level 3 financial assets and liabilities measured on a recurring basis:

Changes in Fair Value of Level 3 Financial Assets and Liabilities Measured on a Recurring Basis (dollars in millions)

	Total (all derivatives)
December 31, 2014	\$ (26.6)
Gains or losses realized/unrealized included in Other Income ⁽¹⁾	(0.5)
March 31, 2015	\$ (27.1)
December 31, 2013	\$ (9.7)
Gains or losses realized/unrealized included in Other Income ⁽¹⁾	(1.7)
March 31, 2014	\$ (11.4)

⁽¹⁾ Valuation of the derivatives related to the GSI facilities and written options on certain CIT Bank CDs.

Table of Contents

Edgar Filing: CIT GROUP INC - Form 10-Q

The carrying and estimated fair values of financial instruments presented below exclude leases and certain other assets and liabilities, which are not required for disclosure.

Financial Instruments (dollars in millions)

	Carrying Amount	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
March 31, 2015					
Financial Assets					
Derivative assets at fair value non-qualifying hedges	\$ 101.7	\$	\$ 101.7	\$	\$ 101.7
Derivative counterparty assets at fair value	97.7		97.7		97.7
Assets held for sale (excluding leases)	129.7		5.7	132.7	138.4
Loans (excluding leases)	14,217.0		1,639.0	12,301.9	13,940.9
Securities purchased under agreements to resell	450.0		450.4		450.4
Investment securities	1,347.4	227.0	996.2	132.2	1,355.4
Other assets subject to fair value disclosure and unsecured counterparty receivables ⁽¹⁾	906.7			906.7	906.7
Financial Liabilities					
Deposits ⁽²⁾	(16,809.2)			(17,129.0)	(17,129.0)
Derivative liabilities at fair value non-qualifying hedges	(66.6)		(39.5)	(27.1)	(66.6)
Derivative counterparty liabilities at fair value	(0.9)		(0.9)		(0.9)
Long-term borrowings ⁽²⁾	(16,778.8)		(14,121.8)	(3,189.1)	(17,310.9)
Credit balances of factoring clients	(1,505.3)			(1,505.3)	(1,505.3)
Other liabilities subject to fair value disclosure ⁽³⁾	(1,965.6)			(1,965.6)	(1,965.6)
December 31, 2014					
Financial Assets					
Derivative assets at fair value non-qualifying hedges	\$ 93.3	\$	\$ 93.3	\$	\$ 93.3
Derivative counterparty assets at fair value	74.7		74.7		74.7
Assets held for sale (excluding leases)	67.0			67.2	67.2
Loans (excluding leases)	14,379.5		1,585.4	12,490.8	14,076.2
Securities purchased under agreements to resell	650.0		650.0		650.0
Investment securities	1,550.3	464.9	956.0	137.4	1,558.3
Other assets subject to fair value disclosure and unsecured counterparty receivables ⁽¹⁾	886.2			886.2	886.2
Financial Liabilities					
Deposits ⁽²⁾	(15,891.4)			(16,105.7)	(16,105.7)
Derivative liabilities at fair value non-qualifying hedges	(62.3)		(35.7)	(26.6)	(62.3)
Long-term borrowings ⁽²⁾	(18,657.9)		(15,906.3)	(3,338.1)	(19,244.4)
Credit balances of factoring clients	(1,622.1)			(1,622.1)	(1,622.1)
Other liabilities subject to fair value disclosure ⁽³⁾	(2,066.8)			(2,066.8)	(2,066.8)

⁽¹⁾ Other assets subject to fair value disclosure primarily include accrued interest receivable and miscellaneous receivables. These assets have carrying values that approximate fair value generally due to the short-term nature and are classified as level 3. The unsecured counterparty receivables primarily consist of amounts owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to asset-backed securities underlying the GSI Facilities.

Edgar Filing: CIT GROUP INC - Form 10-Q

(2) *Deposits and long-term borrowings include accrued interest, which is included in Other liabilities in the Balance Sheet.*

(3) *Other liabilities subject to fair value disclosure include accounts payable, accrued liabilities, customer security and maintenance deposits and miscellaneous liabilities. The fair value of these approximate carrying value and are classified as level 3.*

Assumptions used to value financial instruments are set forth below:

Derivatives The estimated fair values of derivatives were calculated internally using observable market data and represent the net amount receivable or payable to terminate, taking into account current market rates, which represent Level 2 inputs, except for the TRS derivative and written options on certain CIT Bank CDs that utilized Level 3

Item 1. Consolidated Financial Statements 27

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

inputs. See *Note 8 Derivative Financial Instruments* for notional principal amounts and fair values.

Assets held for sale Assets held for sale are recorded at the lower of cost or fair value on the balance sheet. Of the assets held for sale above, \$3.7 million carrying amount at March 31, 2015 was valued using Level 2 inputs. As there is no liquid secondary market for the other assets held for sale in the Company's portfolio, the fair value is estimated based on a binding contract, current letter of intent or other third-party valuation, or using internally generated valuations or discounted cash flow analysis, all of which are Level 3 inputs. Commercial loans are generally valued individually, while small-ticket commercial loans are valued on an aggregate portfolio basis.

Loans Of the loan balance above, approximately \$1.6 billion at both March 31, 2015 and December 31, 2014, was valued using Level 2 inputs. As there is no liquid secondary market for the other loans in the Company's portfolio, the fair value is estimated based on discounted cash flow analyses which use Level 3 inputs at both March 31, 2015 and December 31, 2014. In addition to the characteristics of the underlying contracts, key inputs to the analysis include interest rates, prepayment rates, and credit spreads. For the commercial loan portfolio, the market based credit spread inputs are derived from instruments with comparable credit risk characteristics obtained from independent third party vendors. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of the loans. The fair value of loans at March 31, 2015 was \$13.9 billion, which was 98.1% of carrying value. The fair value of loans at December 31, 2014 was \$14.1 billion, which is 97.9% of carrying value.

Impaired Loans The value of impaired loans is estimated using the fair value of collateral (on an orderly liquidation basis) if the loan is collateralized, or the present value of expected cash flows utilizing the current market rate for such loan. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of impaired loans relative to contractual amounts owed (unpaid principal balance or UPB) from customers. As of March 31, 2015, the UPB related to impaired loans, including loans for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality), totaled \$87.8 million. Including related allowances, these loans are carried at \$53.0 million, or 60% of UPB. Of these amounts, \$21.4 million and \$17.1 million of UPB and carrying value, respectively, relate to loans with no specific allowance. As of December 31, 2014, the comparable UPB related to impaired loans totaled \$85.3 million and including related allowances, these loans were carried at \$45.1 million, or 53% of UPB. Of these amounts, \$29.2 million and \$21.2 million of UPB and carrying value relate to loans with no specific allowance. The difference between UPB and carrying value reflects cumulative charge-offs on accounts remaining in process of collection, FSA discounts and allowances. See *Note 3 Loans* for more information.

Securities purchased under agreements to resell The estimated fair values of securities purchased under agreements to resell were calculated internally based on discounted cash flows that utilize observable market rates for the applicable maturity and which represent Level 2 inputs.

Investment Securities Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1 or Level 2 inputs. Debt securities classified as AFS included investments in U.S. Treasury and federal government agency securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. Certain equity securities classified as AFS were valued using Level 1 inputs, primarily

Edgar Filing: CIT GROUP INC - Form 10-Q

quoted prices in active markets, while other equity securities used Level 2 inputs, due to being less frequently traded or having limited quoted market prices. Debt securities classified as HTM are securities that the Company has both the ability and the intent to hold until maturity and are carried at amortized cost and periodically assessed for OTTI, with the cost basis reduced when impairment is deemed to be other-than-temporary. Non-marketable equity investments are generally recorded under the cost or equity method of accounting and are periodically assessed for OTTI, with the net asset values reduced when impairment is deemed to be other-than-temporary. For investments in limited equity partnership interests, we use the net asset value provided by the fund manager as an appropriate measure of fair value.

Deposits The fair value of deposits was estimated based upon a present value discounted cash flow analysis. Discount rates used in the present value calculation are based on the Company's average current deposit rates for similar terms, which are Level 3 inputs.

28 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Long-term borrowings Unsecured debt of approximately \$10.8 billion par value and secured borrowings of approximately \$2.8 billion par value at March 31, 2015, and unsecured debt of approximately \$12.0 billion par value and secured borrowings of approximately \$3.3 billion par value at December 31, 2014 were valued using market inputs, which are Level 2 inputs. Where market estimates were not available for approximately \$3.1 billion and \$3.2 billion par value at March 31, 2015 and December 31, 2014, respectively, values were estimated using a discounted cash flow analysis with a discount rate approximating current market rates for issuances by CIT of similar debt, which are Level 3 inputs.

NOTE 10 REGULATORY CAPITAL

The Company and the Bank are each subject to various regulatory capital requirements administered by the Federal Reserve Bank (FRB) and the Federal Deposit Insurance Corporation (FDIC).

Quantitative measures established by regulation to ensure capital adequacy require that the Company and the Bank each maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets, subject to any agreement with regulators to maintain higher capital levels. We compute capital ratios in accordance with Federal Reserve capital guidelines for assessing adequacy of capital. At March 31, 2015, the regulatory capital guidelines applicable to the Company were based on the Basel III Final Rule. At December 31, 2014, the regulatory capital guidelines that were applicable to the Company were based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I).

The calculation of the Company's regulatory capital ratios are subject to review and consultation with the FRB, which may result in refinements to amounts reported at March 31, 2015.

Item 1. Consolidated Financial Statements 29

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Tier 1 Capital and Total Capital Components⁽¹⁾ (dollars in millions)

	CIT		CIT Bank	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Tier 1 Capital				
Total stockholders' equity ⁽²⁾	\$ 8,758.6	\$ 9,068.9	\$ 2,748.1	\$ 2,716.4

Edgar Filing: CIT GROUP INC - Form 10-Q

	CIT		CIT Bank	
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interest	59.8	53.0	0.3	(0.2)
Adjusted total equity	8,818.4	9,121.9	2,748.4	2,716.2
Less: Goodwill ⁽³⁾	(482.8)	(571.3)	(167.9)	(167.8)
Disallowed deferred tax assets	(358.3)	(416.8)		
Disallowed intangible assets ⁽³⁾	(9.3)	(25.7)	(2.6)	(12.1)
Investment in certain subsidiaries	NA	(36.7)	NA	
Other Tier 1 components ⁽⁴⁾		(4.1)		
Common Equity Tier 1 Capital	7,968.0	8,067.3	2,577.9	2,536.3
Tier 1 Capital	7,968.0	8,067.3	2,577.9	2,536.3
Tier 2 Capital				
Qualifying allowance for credit losses and other reserves ⁽⁵⁾	393.8	381.8	250.6	245.1
Less: Investment in certain subsidiaries	NA	(36.7)	NA	
Other Tier 2 components ⁽⁶⁾	0.1		0.1	0.1
Total qualifying capital	\$ 8,361.9	\$ 8,412.4	\$ 2,828.6	\$ 2,781.5
Risk-weighted assets	\$ 56,059.5	\$ 55,480.9	\$ 19,982.0	\$ 19,552.3
Common Equity Tier 1 Capital (to risk-weighted assets):				
Actual	14.2%	NA	12.9%	NA
Effective minimum ratios under Basel III guidelines ⁽⁷⁾	7.00%	NA	7.00%	NA
Tier 1 Capital (to risk-weighted assets):				
Actual	14.2%	14.5%	12.9%	13.0%
Effective minimum ratios under Basel III guidelines ⁽⁷⁾	8.50%	NA	8.50%	NA
Total Capital (to risk-weighted assets):				
Actual	14.9%	15.2%	14.2%	14.2%
Effective minimum ratios under Basel III guidelines ⁽⁷⁾	10.50%	NA	10.50%	NA
Tier 1 Leverage Ratio:				
Actual	17.2%	17.4%	12.1%	12.2%
Required minimum ratio for capital adequacy purposes	4.0%	4.0%	4.0%	4.0%

⁽¹⁾ The March 31, 2015 presentation reflects the risk-based capital guidelines under Basel III, which became effective on January 1, 2015. The December 31, 2014 reflects the risk-based capital guidelines under then effective Basel I.

⁽²⁾ See Consolidated Balance Sheets for the components of Total stockholders' equity.

⁽³⁾ Goodwill and disallowed intangible assets adjustments also reflect the portion included within assets held for sale.

⁽⁴⁾ Includes the Tier 1 capital charge for nonfinancial equity investments and the Tier 1 capital deduction for net unrealized losses on available-for-sale marketable securities (net of tax).

⁽⁵⁾ Other reserves represents additional credit loss reserves for unfunded lending commitments, letters of credit, and deferred purchase agreements, all of which are recorded in Other Liabilities.

⁽⁶⁾ Banking organizations are permitted to include in Tier 2 Capital up to 45% of net unrealized pretax gains on available-for-sale equity securities with readily determinable fair values.

⁽⁷⁾ Required ratios under the fully phased-in Basel III Final Rule and include the post-transition minimum capital conservation buffer effective January 1, 2019.

NA Balance is not applicable under the respective guidelines.

Edgar Filing: CIT GROUP INC - Form 10-Q

Effective January 1, 2015, CIT became subject to the risk-based capital guidelines that are based upon the Basel Committee's final framework for strengthening capital and liquidity regulation, Basel III. The Company had been subject to the guidelines under Basel I. As it currently applies to CIT, the Basel III Final Rule: (i) introduces a new capital measure called Common Equity Tier 1 (CET1) and related regulatory capital ratio of CET1 to risk-weighted assets;

30 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the deductions from and adjustments to capital as compared to existing regulations.

The Basel III Final Rule also prescribed a new approach for risk weightings that follow the Standardized approach, which applies to CIT. This approach expands the risk-weighting categories from the former four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, (ranging from 0% for U.S. government and agency securities, to as high as 1,250% for such exposures as credit-enhancing interest-only strips or unsettled security/commodity transactions). Finally, the Basel III Final Rule established new minimum capital ratios for CET1, Tier 1 capital, and Total capital of 4.5%, 6.0% and 8.0%, respectively, which are currently applicable and do not include the capital conservation buffer amounts that phase in beginning in 2016.

The Basel III Final Rule also introduced a new capital conservation buffer, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. This buffer will be implemented beginning January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. Based on our current capital structure, the overall impact on the capital ratios for CIT and the Bank is expected to be minimal.

NOTE 11 INCOME TAXES

The Company's global effective income tax rate for the first quarter was 29.8%, up from 11.3% in the year-ago quarter, primarily due to the impact of recognizing U.S. federal and state income taxes on its domestic earnings. The first quarter of 2015's tax provision reflected federal and state income taxes in the U.S. as well as taxes on earnings of certain international operations. Due to the partial release of the domestic valuation allowance on net deferred tax assets in 2014, the 2015 effective income tax rate of approximately 30% includes the recognition of U.S. federal and state income taxes.

The quarterly income tax expense will include the impact of the continuous re-assessment of the estimated annual effective tax rate, which is then applied to the interim consolidated pre-tax income to determine the interim provision for income taxes. The change in the effective tax rate each period is impacted by a number of factors, including the relative mix of domestic and international earnings, adjustments to the valuation allowances, and discrete items. The actual year-end 2015 effective tax rate may vary from the currently projected tax rate due to changes in these factors.

As of December 31, 2014, CIT had cumulative U.S. federal net operating loss carry-forwards (NOLs) of \$5.7 billion, of which \$3.0 billion was related to pre-emergence losses. These NOLs will expire between 2027 and 2033. The Company generated a modest amount of domestic taxable income in the first quarter, which marginally decreased the U.S. federal net operating loss carry-forwards. Pursuant to Section 382 of the Internal Revenue Code, the Company is generally subject to a \$264.7 million annual limitation on the use of its \$3.0 billion of pre-emergence NOLs, of which approximately \$1.0 billion is no longer subject to the limitation. NOLs arising in post-emergence years are not subject to this limitation absent an ownership change as defined by the Internal Revenue Service (IRS) for U.S. tax purposes.

As noted in our 2014 Annual Report on Form 10-K, management concluded that it was more likely than not that the Company will generate sufficient taxable income based on management's long-term forecast of future U.S. taxable income within the applicable carry-forward periods to support partial utilization of the U.S. federal and U.S. state NOLs. The forecast of future taxable income for the Company reflects a long-term view of growth and returns that management believes is more likely than not of being realized.

Edgar Filing: CIT GROUP INC - Form 10-Q

However, the Company retained a valuation allowance of \$1.0 billion against its U.S. net deferred tax assets at December 31, 2014. Of the \$1.0 billion domestic valuation allowance, approximately \$0.7 billion is against the deferred tax asset on the U.S. federal NOLs and \$0.3 billion is against the deferred tax asset on the U.S. state NOLs. No discrete reduction to the valuation allowance related to the U.S. federal or state NOLs or the capital loss carry-forwards was recorded in the quarter.

The ability to recognize the remaining valuation allowances against the U.S. federal and state NOLs, and capital loss carry-forwards net deferred tax assets will be evaluated on a quarterly basis to determine if there are any significant events that would affect our ability to utilize these deferred tax assets. If events are identified that affect our ability to utilize our deferred tax assets, the analysis will be updated to determine if any adjustments to the valuation allowances are required. Such events may include acquisitions that support the Company's long-term business strategies while also enabling it to accelerate the utilization of its net operating losses, as evidenced by the acquisition of Direct Capital Corporation and the announced definitive agreement and plan of merger to acquire OneWest Bank.

The impact of the OneWest transaction on the utilization of the Company's NOLs cannot be considered in the Company's forecast of future taxable income until the

Item 1. Consolidated Financial Statements 31

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

acquisition is consummated. The acquisition is expected to accelerate the utilization of the Company's NOLs and therefore management anticipates it will reverse the remaining U.S. federal valuation allowance after consummation of the acquisition. The Company is currently evaluating the impact of the acquisition on the U.S. state NOLs and expects the acquisition to utilize some portion of these amounts which would cause a partial reduction to the U.S. state valuation allowance.

The Company maintained a valuation allowance of \$141 million against certain international reporting entities' net deferred tax assets at December 31, 2014. In the evaluation process related to the net deferred tax assets of the Company's foreign reporting entities, uncertainties surrounding the international business plans, the recent international platform rationalizations, and the cumulative losses in recent years have made it challenging to reliably project future taxable income. The primary inputs for the forecast of future taxable income will continue to be identified as the business plans for the international operations evolve, and potential tax planning strategies are identified. Thus, as of this reporting period, the negative evidence continues to outweigh the positive evidence, and the Company continues to maintain a full valuation allowance on these entities' net deferred tax assets.

Liabilities for Uncertain Tax Positions

The Company's potential liability for uncertain tax positions totaled \$49.4 million at March 31, 2015 and \$53.7 million at December 31, 2014. Management estimates that this liability may be reduced by up to \$15 million within the next twelve months. The Company's accrued liability for interest and penalties totaled \$12.7 million at March 31, 2015 and \$13.3 million at December 31, 2014. The Company recognizes accrued interest and penalties on unrecognized tax benefits in income tax expense.

NOTE 12 STOCKHOLDERS EQUITY

Accumulated Other Comprehensive Income/(Loss)

The following table details the components of Accumulated Other Comprehensive Loss, net of tax:

Components of Accumulated Other Comprehensive Income (Loss) (dollars in millions)

	March 31, 2015			December 31, 2014		
	Gross Unrealized	Income Taxes	Net Unrealized	Gross Unrealized	Income Taxes	Net Unrealized
Foreign currency translation adjustments	\$ (84.7)	\$ (19.1)	\$ (103.8)	\$ (75.4)	\$	\$ (75.4)

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015			December 31, 2014		
Changes in benefit plan net gain/(loss) and prior service (cost)/credit	(59.4)	0.5	(58.9)	(58.7)	0.2	(58.5)
Unrealized net gains (losses) on available for sale securities	(0.6)	0.2	(0.4)			
Total accumulated other comprehensive loss	\$ (144.7)	\$ (18.4)	\$ (163.1)	\$ (134.1)	\$ 0.2	\$ (133.9)

The following table details the changes in the components of Accumulated Other Comprehensive Income (Loss), net of income taxes.

Changes in Accumulated Other Comprehensive Loss by Component (dollars in millions)

	Foreign currency translation adjustments	Changes in benefit plan net gain (loss) and prior service (cost) credit	Changes in fair values of derivatives qualifying as cash flow hedges	Unrealized net gains (losses) on available for sale securities	Total AOCI
Balance as of December 31, 2014	\$ (75.4)	\$ (58.5)	\$	\$	\$ (133.9)
AOCI activity before reclassifications	(31.9)	(0.4)		(0.4)	(32.7)
Amounts reclassified from AOCI	3.5				3.5
Net current period AOCI	(28.4)	(0.4)		(0.4)	(29.2)
Balance as of March 31, 2015	\$ (103.8)	\$ (58.9)	\$	\$ (0.4)	\$ (163.1)
Balance as of December 31, 2013	\$ (49.4)	\$ (24.1)	\$ (0.2)	\$ 0.1	\$ (73.6)
AOCI activity before reclassifications	(6.2)			0.3	(5.9)
Amounts reclassified from AOCI	1.9	1.6			3.5
Net current period AOCI	(4.3)	1.6		0.3	(2.4)
Balance as of March 31, 2014	\$ (53.7)	\$ (22.5)	\$ (0.2)	\$ 0.4	\$ (76.0)

32 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Other Comprehensive Income/(Loss)

The amounts included in the Statement of Comprehensive Income (Loss) are net of income taxes.

Foreign currency translation reclassification adjustments impacting net income were \$3.5 million and \$1.9 million for the quarters ended March 31, 2015 and March 31, 2014. The change in income taxes associated with foreign currency translation adjustments was approximately \$(19.1) million for the quarter ended March 31, 2015 and there were no income taxes associated with foreign currency translation adjustments in the prior year period.

The changes in benefit plans net gain/(loss) and prior service (cost)/credit reclassification adjustments impacting net income was insignificant for the quarter ended March 31, 2015 and was \$1.6 million for the quarter ended March 31, 2014. The change in income taxes associated with changes in benefit plans net gain/(loss) and prior service (cost)/credit was approximately \$0.3 million for the quarter ended March 31, 2015 and was not significant for the prior year quarter.

Edgar Filing: CIT GROUP INC - Form 10-Q

There were no reclassification adjustments impacting net income related to changes in fair value of derivatives qualifying as cash flow hedges for the quarters ended March 31, 2015 and March 31, 2014. There were no income taxes associated with changes in fair values of derivatives qualifying as cash flow hedges for the quarters ended March 31, 2015 and March 31, 2014.

There were no reclassification adjustments impacting net income for unrealized gains (losses) on available for sale securities for the quarters ended March 31, 2015 and 2014. The change in income taxes associated with net unrealized gains on available for sale securities was approximately \$0.2 million for the quarter ended March 31, 2015 and \$(0.1) million for the quarter ended March 31, 2014.

The Company has operations in Canada and other countries. The functional currency for foreign operations is generally the local currency. The value of assets and liabilities of these operations is translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates during the year. The resulting foreign currency translation gains and losses, as well as offsetting gains and losses on hedges of net investments in foreign operations, are reflected in AOCI. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency are recorded in Other Income.

Reclassifications Out of Accumulated Other Comprehensive Income (dollars in millions)

	Quarters Ended March 31,					
	2015			2014		
	Gross Amount	Tax	Net Amount	Gross Amount	Tax	Net Amount
Foreign currency translation adjustments gains (losses)	\$3.5	\$	\$3.5	\$1.9	\$	\$1.9
Changes in benefit plan net gain/(loss) and prior service (cost)/credit gains (losses)				1.6		1.6
Total Reclassifications out of AOCI	\$3.5	\$	\$3.5	\$3.5	\$	\$3.5

NOTE 13 COMMITMENTS

The accompanying table summarizes credit-related commitments, as well as purchase and funding commitments:

Commitments (dollars in millions)

	March 31, 2015			December 31, 2014
	Due to Expire		Total Outstanding	Total Outstanding
	Within One Year	After One Year		
Financing Commitments				
Financing assets	\$ 1,200.2	\$ 3,937.5	\$ 5,137.7	\$ 4,747.9
Letters of credit				
Standby letters of credit	20.3	319.9	340.2	360.1
Other letters of credit	26.2		26.2	28.3
Guarantees				
Deferred purchase agreements	1,643.7		1,643.7	1,854.4
Guarantees, acceptances and other recourse obligations	1.1		1.1	2.8
Purchase and Funding Commitments				
Aerospace manufacturer purchase commitments	919.8	9,918.6	10,838.4	10,820.4
Rail and other manufacturer purchase commitments	1,126.7	502.8	1,629.5	1,323.2

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Financing Commitments

Financing commitments, referred to as loan commitments or lines of credit, reflect CIT's agreements to lend to its customers, subject to the customers' compliance with contractual obligations. Included in the table above are commitments that have been extended to and accepted by customers, clients or agents, but on which the criteria for funding have not been completed of \$799 million at March 31, 2015 and \$355 million at December 31, 2014. Financing commitments also include credit line agreements to Commercial Services clients that are cancellable by us only after a notice period. The notice period is typically 90 days or less. The amount available under these credit lines, net of the amount of receivables assigned to us, was \$275 million at March 31, 2015 and \$112 million at December 31, 2014. As financing commitments may not be fully drawn, may expire unused, may be reduced or cancelled at the customer's request, and may require the customer to be in compliance with certain conditions, total commitment amounts do not necessarily reflect actual future cash flow requirements.

The table above includes approximately \$1.4 billion of undrawn financing commitments at March 31, 2015 and \$1.3 billion at December 31, 2014 for instances where the customer is not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend.

At March 31, 2015, substantially all undrawn financing commitments were senior facilities. Most of the Company's undrawn and available financing commitments are in the Corporate Finance division of NACF.

The table above excludes uncommitted revolving credit facilities extended by Commercial Services to its clients for working capital purposes. In connection with these facilities, Commercial Services has the sole discretion throughout the duration of these facilities to determine the amount of credit that may be made available to its clients at any time and whether to honor any specific advance requests made by its clients under these credit facilities.

Letters of Credit

In the normal course of meeting the needs of clients, CIT sometimes enters into agreements to provide financing and letters of credit. Standby letters of credit obligate the issuer of the letter of credit to pay the beneficiary if a client on whose behalf the letter of credit was issued does not meet its obligation. These financial instruments generate fees and involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheets. To minimize potential credit risk, CIT generally requires collateral and in some cases additional forms of credit support from the client.

Deferred Purchase Agreements

A Deferred Purchase Agreement (DPA) is provided in conjunction with factoring, whereby CIT provides a client with credit protection for trade receivables without purchasing the receivables. The trade receivable terms are generally sixty days or less. If the client's customer is unable to pay an undisputed receivable solely as the result of credit risk, then CIT purchases the receivable from the client. The outstanding amount in the table above is the maximum potential exposure that CIT would be required to pay under all DPAs. This maximum amount would only occur if all receivables subject to DPAs default in the manner described above, thereby requiring CIT to purchase all such receivables from the DPA clients.

The table above includes \$1,562 million and \$1,775 million of DPA credit protection at March 31, 2015 and December 31, 2014, respectively, related to receivables which have been presented to us for credit protection after shipment of goods has occurred and the customer has been invoiced. The table also includes \$82 million and \$79 million available under DPA credit line agreements, net of amount of DPA credit protection provided at March 31, 2015 and December 31, 2014, respectively. The DPA credit line agreements specify a contractually committed amount of DPA credit protection and are cancellable by us only after a notice period. The notice period is typically 90 days or less.

The methodology used to determine the DPA liability is similar to the methodology used to determine the allowance for loan losses associated with the finance receivables, which reflects embedded losses based on various factors, including expected losses reflecting the Company's

Edgar Filing: CIT GROUP INC - Form 10-Q

internal customer and facility credit ratings. The liability recorded in Other Liabilities related to the DPAs totaled \$4.9 million and \$5.2 million at March 31, 2015 and December 31, 2014, respectively.

Purchase and Funding Commitments

CIT's purchase commitments relate primarily to purchases of commercial aircraft and rail equipment. Commitments to purchase new commercial aircraft are predominantly with Airbus Industries (Airbus), The Boeing Company (Boeing), and Embraer S.A. (Embraer). CIT may also commit to purchase an aircraft directly from an airline. Aerospace equipment purchases are contracted for specific models, using baseline aircraft specifications at fixed prices, which reflect discounts from fair market purchase prices prevailing at the time of commitment. The delivery price of an aircraft may change depending on final specifications. Equipment purchases are recorded at the delivery date. The estimated commitment amounts in the preceding table are based on contracted purchase prices reduced for pre-delivery payments to date and exclude buyer furnished equipment selected by the lessee. Pursuant to existing contractual commitments, 154 aircraft remain to be purchased from

34 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Airbus, Boeing and Embraer at March 31, 2015. Aircraft deliveries are scheduled periodically through 2020. Commitments exclude unexercised options to order additional aircraft. Aerospace purchase commitments also include \$0.2 billion of equipment to be purchased in 2015 pursuant to sale and lease-back agreements with airlines.

The Company's rail business entered into commitments to purchase railcars from multiple manufacturers. At March 31, 2015, approximately 12,400 railcars remain to be purchased from manufacturers with deliveries through 2017. Rail equipment purchase commitments are at fixed prices subject to price increases for certain materials.

Other vendor purchase commitments primarily relate to Equipment Finance.

NOTE 14 CONTINGENCIES

Litigation

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, Litigation). In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company's financial condition, but may be material to the Company's operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For certain Litigation matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses in excess of established reserves and insurance. For other matters for which a loss is probable or reasonably possible, such an estimate cannot be determined. For Litigation where losses are reasonably possible, management currently estimates the aggregate range of reasonably possible losses as up to \$80 million in excess of established reserves and insurance related to those matters, if any. This estimate represents reasonably possible losses (in excess of established reserves and insurance) over the life of such Litigation, which may span a currently indeterminable number of years, and is based on information currently available as of March 31, 2015. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate.

Those Litigation matters for which an estimate is not reasonably possible or as to which a loss does not appear to be reasonably possible, based on current information, are not included within this estimated range and, therefore, this estimated range does not represent the Company's maximum loss exposure.

Edgar Filing: CIT GROUP INC - Form 10-Q

The foregoing statements about CIT's Litigation are based on the Company's judgments, assumptions, and estimates and are necessarily subjective and uncertain. Several of the Company's Litigation matters are described below.

LAC-MÉGANTIC, QUEBEC DERAILMENT

On July 6, 2013, a freight train including five locomotives and seventy-two tank cars carrying crude oil derailed in the town of Lac-Mégantic, Quebec. Nine of the tank cars were owned by The CIT Group/Equipment Financing, Inc. (CIT/EF) (a wholly-owned subsidiary of the Company) and leased to Western Petroleum Company (WPC), a subsidiary of World Fuel Services Corp. (WFS). Two of the locomotives are owned by CIT/EF and were leased to Montreal, Maine & Atlantic Railway, Ltd. (MMA), the railroad operating the freight train at the time of the derailment, a subsidiary of Rail World, Inc.

The derailment was followed by explosions and fire, which resulted in the deaths of over forty people and an unknown number of injuries, the destruction of more than thirty buildings in Lac-Mégantic, and the release of crude oil on land and into the Chaudière River. The extent of the property and environmental damage has not yet been determined. Twenty lawsuits have been filed in Illinois by representatives of the deceased in connection with the derailment. The Company is named as a defendant in seven of the Illinois lawsuits, together with 13 other defendants, including WPC, MMA (who has since been dismissed without prejudice as a result of its chapter 11 bankruptcy filing on August 7, 2013), and the lessors of the other locomotives and tank cars. Liability could be joint and several among some or all of the defendants. All but two of these cases have been consolidated in the U.S. District Court in the Northern District of Illinois and transferred to the U.S. District Court in Maine. The Company has been named as an additional defendant in a pending class action in the Superior Court of Quebec, Canada. Other cases may be filed in U.S. and Canadian courts. The plaintiffs in the pending U.S. and Canadian actions assert claims of negligence and strict liability based upon alleged design defect against the Company in connection with the CIT/EF tank cars. The Company has rights of indemnification and defense against its lessees, WPC and MMA (a debtor in bankruptcy), and also has rights as an additional insured under liability coverage maintained by the lessees. On July 28, 2014, the Company commenced a lawsuit against WPC in the U.S. District Court in the District of

Item 1. Consolidated Financial Statements 35

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Minnesota to enforce its rights of indemnification and defense. In addition to its indemnification and insurance rights against its lessees, the Company and its subsidiaries maintain contingent and general liability insurance for claims of this nature, and the Company and its insurers are working cooperatively with respect to these claims.

The Lac-Mégantic derailment triggered a number of regulatory investigations and actions. The Transportation Safety Board of Canada issued its final report on the cause(s) of the derailment in September 2014. In addition, Quebec's Environment Ministry has issued an order to WFS, WPC, MMA, and Canadian Pacific Railway (which allegedly subcontracted with MMA) to pay for the full cost of environmental clean-up and damage assessment related to the derailment.

The Company is vigorously defending the claims that have been asserted, including pursuing its rights under indemnification agreements and insurance policies. MMA's U.S. bankruptcy trustee, together with its Canadian bankruptcy monitor, is engaged in negotiations in pursuit of a global or close to global settlement with the various parties in the various pending lawsuits. CIT has entered into a settlement with the MMA U.S. bankruptcy trustee, which settlement remains subject to court approval in Canada and the U.S. The settlement will not have a material adverse effect on the Company's financial condition or results of operations.

BRAZILIAN TAX MATTERS

Banco Commercial Investment Trust do Brasil S.A. (Banco CIT), CIT's Brazilian bank subsidiary, is pursuing a number of tax appeals relating to disputed local tax assessments on leasing services and importation of equipment. The disputes primarily involve questions of whether the correct taxing authorities were paid and whether the proper tax rate was applied.

ISS Tax Appeals

Notices of infraction were received relating to the payment of Imposto sobre Serviços (ISS), charged by municipalities in connection with services. The Brazilian municipalities of Itu and Cascavel claim that Banco CIT should have paid them ISS tax on leasing services for tax years

Edgar Filing: CIT GROUP INC - Form 10-Q

2006–2011. Instead, Banco CIT paid the ISS tax to Barueri, the municipality in which it is domiciled in São Paulo, Brazil. The disputed issue is whether the ISS tax should be paid to the municipality in which the leasing company is located or the municipality in which the services were rendered or the customer is located. One of the pending ISS tax matters was resolved in favor of Banco CIT in April 2014. The amounts claimed by the taxing authorities of Itu and Cascavel collectively for open tax assessments and penalties are approximately 507,000 Reais (approximately \$159,000). Favorable legal precedent in a similar tax appeal has been issued by Brazil's highest court resolving the conflict between municipalities.

ICMS Tax Appeals

Notices of infraction were received relating to the payment of Imposto sobre Circulação de Mercadorias e Serviços (ICMS) taxes charged by states in connection with the importation of equipment. The state of São Paulo claims that Banco CIT should have paid its ICMS tax for tax years 2006–2009 because Banco CIT, the purchaser, is located in São Paulo. Instead, Banco CIT paid ICMS tax to the states of Espírito Santo, Espírito Santa Caterina, and Alagoas, where the imported equipment arrived. A recent regulation issued by São Paulo in December 2013 reaffirms a 2009 agreement by São Paulo to conditionally recognize ICMS tax payments made to Espírito Santo. One of the pending notices of infraction against Banco CIT related to taxes paid to Espírito Santo was extinguished in May 2014. Another assessment related to taxes paid to Espírito Santo in the amount of 64.2 million Reais (\$20.1 million) was upheld in a ruling issued by the administrative court in May 2014. That ruling has been appealed. Petitions seeking recognition of the taxes paid to Espírito Santo have been filed with respect to the pending notices of infraction. Petitions were filed in a general amnesty program regarding all but one of the assessments related to taxes paid to Santa Caterina and Alagoas. Those petitions have resulted in the extinguishment of all but one of the Santa Caterina and Alagoas assessments. The amounts claimed by São Paulo collectively for open tax assessments and penalties are approximately 70.1 million Reais (approximately \$21.9 million) for goods imported into the state of Espírito Santo from 2006–2009 and the state of Alagoas in 2008.

A notice of infraction was received relating to São Paulo's challenge of the ICMS tax rate paid by Banco CIT for tax years 2004–2007. São Paulo alleges that Banco CIT paid a lower rate of ICMS tax on imported equipment than was required (8.8% instead of 18%). Banco CIT challenged the notice of infraction and was partially successful based upon the type of equipment imported. Banco CIT has commenced a judicial proceeding challenging the unfavorable portion of the administrative ruling. The amount claimed by São Paulo for tax assessments and penalties is approximately 4 million Reais (approximately \$1.3 million).

The current potential aggregate exposure in taxes, fines and interest for the ISS and the ICMS tax matters is approximately 74.6 million Reais (approximately \$23.3 million).

NOTE 15 BUSINESS SEGMENT INFORMATION

Management's Policy in Identifying Reportable Segments

CIT's reportable segments are comprised of divisions that are aggregated into segments primarily based upon industry categories, geography, target markets and customers served, and, to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing and the nature of their regulatory environment.

36 CIT GROUP INC

Table of Contents

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

This segment reporting is consistent with the presentation of financial information to management.

Types of Products and Services

TIF offers secured lending and leasing products to midsize and larger companies across the aerospace, rail and maritime industries, as well as international finance, which includes corporate lending and equipment financing businesses in China. Revenues generated by TIF include rents collected on leased assets, interest on loans, fees, and gains from assets sold.

NACF offers secured lending as well as other financial products and services predominately to small and midsize companies in the U.S. and Canada. These include secured revolving lines of credit and term loans, leases, accounts receivable credit protection, accounts receivable

Edgar Filing: CIT GROUP INC - Form 10-Q

collection, import and export financing, factoring, debtor-in-possession and turnaround financing and receivable advisory services. Revenues generated by NACF include interest earned on loans, rents collected on leased assets, fees and other revenue from leasing activities and capital markets transactions, and commissions earned on factoring and related activities.

NSP consists of portfolios that we no longer consider strategic. At March 31, 2015 these consisted primarily of equipment financing portfolios in Mexico and Brazil, both of which were under separate contracts of sale.

Segment Profit and Assets

Certain activities are not attributed to operating segments and are included in Corporate & Other. Some of the more significant items include loss on debt extinguishments, costs associated with excess cash liquidity (Interest Expense), mark-to-market adjustments on non-qualifying derivatives (Other Income) and restructuring charges for severance and facilities exit activities (Operating Expenses).

Segment Pre-tax Income (Loss) (dollars in millions)

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Corporate & Other	Total CIT
For the quarter ended March 31, 2015					
Interest income	\$ 68.4	\$ 196.1	\$ 12.3	\$ 4.2	\$ 281.0
Interest expense	(168.6)	(74.1)	(10.8)	(17.8)	(271.3)
Provision for credit losses	(10.6)	(24.0)			(34.6)
Rental income on operating leases	497.5	27.2	5.9		530.6
Other income	34.3	66.3	(7.8)	(6.4)	86.4
Depreciation on operating lease equipment	(136.1)	(20.7)			(156.8)
Maintenance and other operating lease expenses	(46.1)				(46.1)
Operating expenses	(81.8)	(134.7)	(12.4)	(12.7)	(241.6)
Income (loss) from continuing operations before (provision) benefit for income taxes	\$ 157.0	\$ 36.1	\$ (12.8)	\$ (32.7)	\$ 147.6
Select Period End Balances					
Loans	\$ 3,568.5	\$ 15,860.8	\$	\$	\$ 19,429.3
Credit balances of factoring clients		(1,505.3)			(1,505.3)
Assets held for sale	634.5	87.5	329.9		1,051.9
Operating lease equipment, net	14,623.3	264.5			14,887.8
For the quarter ended March 31, 2014					
Interest income	\$ 76.7	\$ 193.4	\$ 28.4	\$ 3.7	\$ 302.2
Interest expense	(160.7)	(68.9)	(24.9)	(17.4)	(271.9)
Provision for credit losses	(12.4)	(23.2)	(1.0)	(0.1)	(36.7)
Rental income on operating leases	459.6	22.8	9.5		491.9
Other income	7.2	61.8	4.4	(2.3)	71.1
Depreciation on operating lease equipment	(121.7)	(21.9)	(5.2)		(148.8)
Maintenance and other operating lease expenses	(51.6)				(51.6)
Operating expenses	(79.5)	(121.5)	(19.2)	(13.3)	(233.5)
Income (loss) from continuing operations before (provision) benefit for income taxes	\$ 117.6	\$ 42.5	\$ (8.0)	\$ (29.4)	\$ 122.7
Select Period End Balances					
Loans	\$ 3,553.5	\$ 14,902.8	\$ 115.4	\$	\$ 18,571.7
Credit balances of factoring clients		(1,213.5)			(1,213.5)
Assets held for sale	92.6	67.0	959.8		1,119.4
Operating lease equipment, net	13,926.9	210.1	45.4		14,182.4

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

and

Item 3. Quantitative and Qualitative Disclosures about Market Risk

BACKGROUND

CIT Group Inc., together with its subsidiaries (we , our , CIT or the Company) has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. We had over \$35 billion of financing and leasing assets at March 31, 2015. CIT became a bank holding company (BHC) in December 2008 and a financial holding company (FHC) in July 2013.

CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank (the Bank), a wholly-owned subsidiary, is a Utah state chartered bank located in Salt Lake City that offers commercial financing and leasing products as well as a suite of savings options and is subject to regulation by the Federal Depository Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI).

On July 22, 2014, we announced that we had entered into a definitive agreement and plan of merger to acquire IMB Holdco LLC, the parent company of OneWest Bank, N.A. (OneWest Bank) for \$3.4 billion (the OneWest Transaction), consisting of approximately \$2 billion in cash and 31.3 million shares of CIT Group Inc. common stock, which had a value of \$1.4 billion at the time of the announcement, but will vary depending upon the share price at the time of closing. IMB Holdco is regulated by the FRB and OneWest Bank is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury (OCC). The OneWest Transaction is subject to certain customary closing conditions and regulatory approval by the FRB and the OCC, but not shareholder vote.

Management's Discussion and Analysis of Financial Condition and Results of Operations and *Quantitative and Qualitative Disclosures about Market Risk* contain financial terms that are relevant to our business and a glossary of key terms used is included in Part I *Item 1. Business Overview* of our Annual Report on Form 10-K for the year ended December 31, 2014.

Management uses certain non-GAAP financial measures in its analysis of the financial condition and results of operations of the Company. See *Non-GAAP Financial Measurements* for a reconciliation of these to comparable financial measures based on accounting principles generally accepted in the United States of America (GAAP).

DISCONTINUED OPERATION

On April 25, 2014, the Company completed the sale of the student lending business, which consisted of a portfolio of U.S. Government-guaranteed student loans that was in run-off, along with certain secured debt and servicing rights. As a result, the student lending business is reported as a discontinued operation and all data included has been adjusted to reflect this presentation. See *Note 2 Discontinued Operation* in *Item 1. Consolidated Financial Statements* for additional information and financial data.

Unless specifically noted, the discussions and data presented throughout the following sections reflect CIT balances on a continuing operations basis.

2015 FINANCIAL OVERVIEW

Edgar Filing: CIT GROUP INC - Form 10-Q

Our first quarter 2015 operating results reflected:

Net income totaled \$104 million, \$0.59 per diluted share, for the March 31, 2015 quarter, compared to \$117 million, \$0.59 per diluted share, for the year-ago quarter and \$251 million, \$1.37 per diluted share, in the prior quarter. Income from continuing operations (after taxes) was \$104 million, \$0.59 per diluted share, down from \$115 million, \$0.58 per diluted share, for the year-ago quarter and \$252 million, \$1.37 per diluted share in the prior quarter. Net income reflects a \$44 million tax provision, the absence of interest recoveries compared to the year-ago quarter, the impact of equipment sales and lower equipment utilization rates. In addition, net income includes \$6 million of charges related to portfolios that we are exiting. The prior quarter included a benefit of \$44 million, \$0.24 per diluted share, from the reversal of the valuation allowance related to certain international deferred tax assets.

Income from continuing operations, before provision for income taxes totaled \$148 million for the March 31, 2015 quarter, compared to \$123 million for the year-ago quarter and \$222 million for the prior quarter. Pre-tax income was up from last year, benefiting from higher revenues on increased assets, while down sequentially on lower gains on asset sales and net finance revenue.

38 CIT GROUP INC

Table of Contents

Net finance revenue⁽¹⁾ (NFR) was \$337 million compared to \$322 million in the year-ago quarter and \$373 million in the prior quarter. Average earning assets were \$33.8 billion in the current quarter, compared to \$32.1 billion in the year-ago quarter and \$34.3 billion in the prior quarter. NFR as a percentage of average earning assets (net finance margin) was 4.00%, compared to 4.01% in the year-ago quarter and 4.34% in the prior quarter. The fourth quarter of 2014 reflected stronger equipment utilization and a higher level of interest recoveries.

While other financial institutions may use net interest margin (NIM) to measure earnings on interest bearing assets, defined as interest income less interest expense, we discuss NFR, which includes net operating lease revenue (operating lease rental revenue, depreciation expense and maintenance and other operating lease expenses), due to the significant impact of operating lease equipment on revenue and expense. Net operating lease revenue was up from the year-ago quarter, as increased revenue earned on higher average earning assets offset higher depreciation expense and pressure on revenues from lower rates on new leases and lower utilization. Compared to the prior quarter, the decrease in net operating lease revenue was driven by lower lease rates and equipment utilization and higher depreciation on certain aircraft.

Provision for credit losses was \$35 million, compared to \$37 million in the year-ago quarter and \$15 million in the prior quarter, which included a \$12 million reversal of a specific reserve. The increase over the prior quarter is also due to higher reserves related to a small number of accounts in TIF and NACF, as well as changes in portfolio composition. Net charge-offs were \$21 million, or 0.43% of average finance receivables (AFR), versus \$36 million (0.76%) in the year-ago quarter and \$23 million (0.47%) in the prior quarter.

Other income of \$86 million increased from \$71 million in the year-ago quarter and decreased from \$116 million in the prior quarter. The current quarter benefited from the sale of aircraft and a benefit on the termination of a defaulted contract, which were partially offset by a currency translation adjustment (CTA) charge in the U.K. and additional impairment charges on the Non-Strategic Portfolios. The prior quarter included elevated benefits from the sale of portfolio assets and investment securities, which were partially offset by impairments on assets held for sale on portfolios we are exiting and a mark-to-market charge on the TRS derivative.

Operating expenses were \$242 million compared to \$234 million in the year-ago quarter and \$249 million in the prior quarter. Operating expenses excluding restructuring costs⁽²⁾ were \$243 million, or 2.87% of average earning assets (AEA), compared to \$224 million (2.79%) in the year-ago quarter and \$242 million (2.82%) in the prior quarter. The increase from the year-ago quarter reflects higher compensation costs, primarily related to the addition of Direct Capital in August of 2014, as well as costs related to the pending acquisition of OneWest. Headcount at March 31, 2015 was approximately 3,360, unchanged from year end and up from 3,200 a year ago, driven by the Direct Capital acquisition.

Provision for income taxes was \$44 million compared to cash taxes of \$14 million. As a result of the partial valuation allowance reversal in 2014 on our Federal Net Deferred Tax Asset, the tax provision for 2015 will reflect a 35% statutory Federal tax rate on our U.S. income. Our global effective tax rate was approximately 30% in the current quarter, up from 11% in the year-ago quarter. Our cash tax rate remained relatively low at 9%. Income tax expense in the year-ago quarter was \$13 million compared to a benefit of \$28 million in the prior quarter, which was driven by the reversal of a \$44 million valuation allowance.

Total assets at March 31, 2015 were \$46.4 billion, down from \$47.9 billion at December 31, 2014. Financing and leasing assets (FLA) in NACF and TIF were down slightly to \$35.0 billion from \$35.3 billion at December 31, 2014, reflecting asset sales and collections, which essentially offset new business volume. Cash and investments of \$8.1 billion were down from \$9.3 billion at December 31, 2014, reflecting \$1.2 billion used to repay maturing unsecured notes.

Edgar Filing: CIT GROUP INC - Form 10-Q

Credit metrics remain at or near cycle lows. Non-accrual loans were \$184 million, or 0.94% of finance receivables, at March 31, 2015 compared to \$161 million (0.82%) at December 31, 2014 and \$218 million (1.18%) at March 31, 2014. The increase over the prior quarter is primarily due to one energy related account in NACF, while the improvement from the year-ago quarter reflects reductions in both NACF and Non-Strategic Portfolios. Net charge-offs were \$21 million, or 0.43% of average finance receivables (AFR), versus \$36 million (0.76%) in the year-ago quarter and \$23 million (0.47%) in the prior quarter. Net charge-offs include \$11 million, \$14 million and \$7 million for the quarters ended March 31, 2015 and 2014, and December 31, 2014, respectively, related to the transfer of receivables to assets held for sale.

Capital ratios remain well above required levels. In July 2013, federal banking regulators published the final Basel III capital framework for U.S. banking organizations (the Regulatory Capital Rules). While the Regulatory Capital Rules became effective January 1, 2014, the mandatory compliance date for CIT as a standardized approach banking organization began on January 1, 2015, subject to transitional provisions extending to January 1, 2019. Our estimated Common Equity Tier 1 and Total Capital ratios at March 31, 2015 were 14.1% and 14.8%, as calculated under the fully phased-in Regulatory Capital Rules. The Tier 1 and Total Capital ratios of 14.5% and 15.2% as reported for December 31, 2014 were calculated in accordance with the previously effective regulatory capital rules, however, there was minimal impact on the ratios from the new rules.

⁽¹⁾ *Net finance revenue is a non-GAAP measure; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.*

⁽²⁾ *Operating expenses excluding restructuring charges is a non-GAAP measure; see Non-GAAP Financial Measurements for reconciliation of non-GAAP to GAAP financial information.*

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 39

Table of Contents

2015 PRIORITIES

During 2015, we will focus on continuing to create long term value for shareholders. Specific business objectives established for 2015 include:

1. **Expand Our Commercial Banking Franchise** We will work to complete and integrate the OneWest Bank acquisition and enhance our commercial banking operations.
 - n We are targeting the OneWest acquisition to close mid-year, and integration planning has been progressing. At March 31, 2015, OneWest Bank had approximately 70 branches in Southern California, with over \$21 billion of assets and over \$14 billion of deposits.
 - n CIT Bank funds most of our U.S. lending and leasing volume. Total assets were \$21.5 billion at March 31, 2015, up from \$21.1 billion at December 31, 2014. New business volume was \$1.5 billion during the quarter. Deposits were \$16.8 billion at March 31, 2015, up from \$15.9 billion at December 31, 2014. The weighted average interest rate on CIT Bank deposits was 1.66%, compared to 1.63% at December 31, 2014. Deposits increased to 50% of CIT's total funding.
2. **Maintain Strong Risk Management Practices** We will continue to maintain credit discipline focused on appropriate risk-adjusted returns through the business cycle and continue enhancements in select areas to ensure SIFI Readiness.
 - n The allowance for loan losses was 1.8% of average finance receivables at March 31, 2015.
 - n We have maintained stable liquidity, with cash, investments, reverse repurchase agreements, and the unused portion of the revolving credit facility at 20% of assets.
 - n Our capital ratios remained strong, with Common Equity Tier One Ratio at 14.1%, under fully phased-in Basel III requirements.
3. **Grow Business Franchises** We will concentrate our growth on building franchises that meet or exceed our risk adjusted return hurdles and improve profitability by exiting non-strategic portfolios, mainly Mexico and Brazil, and the equipment finance business in the U.K.

Edgar Filing: CIT GROUP INC - Form 10-Q

- n We have entered into definitive agreements to sell the Mexico and Brazil businesses and both transactions are subject to customary regulatory approvals, and the U.K portfolio sale is progressing. We expect to close the Mexico and Brazil transactions in the second half of 2015. In conjunction with the closing of the transactions, CTA related to the Mexico and Brazil portfolios, currently \$18 million and \$43 million, respectively, recorded in accumulated other comprehensive loss within the stockholders' equity, will be recognized in income, with the pre-tax amount charged to other income and the tax effect in the provision for income taxes. The CTA amounts will fluctuate until the transactions are completed. Upon completion of all of our planned exits, we expect to eliminate approximately \$15 million from our quarterly expenses.

- 4. Realize embedded value We will focus on enhancing our economic returns, which would improve the utilization of our U.S. NOL, thereby reducing the net deferred tax asset and increasing regulatory capital.
 - n The OneWest acquisition will accelerate NOL utilization.
 - n Total cash and investment portfolio is positioned to benefit from increased interest rates.
 - n Air and Rail equipment residual realization remains strong.

- 5. Return Excess Capital We plan to prudently return capital to our shareholders through share repurchases and dividends, while maintaining strong capital ratios.
 - n We repurchased over 7 million of our shares at an average price of \$45.43 for an aggregate purchase price of \$332 million, representing the remaining amount of the 2014 share repurchase program.
 - n We paid dividends of \$27 million during the quarter.
 - n The Board authorized an additional \$200 million share repurchase program in April 2015.
 - n Regulatory capital ratios remain well above required levels on a fully phased-in Basel III basis.

40 CIT GROUP INC

Table of Contents

NET FINANCE REVENUE

The following tables present management's view of consolidated NFR and NFM and includes revenues from loans and leased equipment, net of interest expense, depreciation, and maintenance and other operating lease expenses, in dollars and as a percent of AEA.

Net Finance Revenue⁽¹⁾ and Net Finance Margin (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Interest income	\$ 281.0	\$ 306.2	\$ 302.2
Rental income on operating leases	530.6	546.5	491.9
Finance revenue	811.6	852.7	794.1
Interest expense	(271.3)	(276.9)	(271.9)
Depreciation on operating lease equipment	(156.8)	(153.2)	(148.8)

Edgar Filing: CIT GROUP INC - Form 10-Q

	Quarters Ended		
Maintenance and other operating lease expenses	(46.1)	(49.7)	(51.6)
Net finance revenue	\$ 337.4	\$ 372.9	\$ 321.8
Average Earning Assets ⁽¹⁾⁽²⁾ (AEA)	\$ 33,772.0	\$ 34,346.2	\$ 32,070.2
As a % of AEA:			
Interest income	3.33%	3.57%	3.77%
Rental income on operating leases	6.28%	6.36%	6.13%
Finance revenue	9.61%	9.93%	9.90%
Interest expense	(3.21)%	(3.23)%	(3.39)%
Depreciation on operating lease equipment	(1.86)%	(1.78)%	(1.86)%
Maintenance and other operating lease expenses	(0.54)%	(0.58)%	(0.64)%
Net finance margin	4.00%	4.34%	4.01%

⁽¹⁾ NFR and AEA are non-GAAP measures; see reconciliation of non-GAAP to GAAP financial information.

⁽²⁾ AEA balances are less than comparable balances displayed in this document in 'Select Data (Quarterly Average Balances) due to the exclusion of deposits with banks and other investments and the inclusion of credit balances of factoring clients.

NFR and NFM are key metrics used by management to measure the profitability of our lending and leasing assets. NFR includes interest and yield-related fee income on our loans and capital leases, rental income and depreciation, maintenance and other operating lease expenses from our operating lease equipment, interest and dividend income on cash and investments, as well as funding costs. Since our asset composition includes a high level of operating lease equipment (44% of AEA for the quarter ended March 31, 2015), NFM is a more appropriate metric for CIT than net interest margin (NIM) (a common metric used by other BHCs), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less depreciation) from operating leases.

NFR increased modestly from the year-ago quarter, reflecting higher earning assets, and was down from the prior quarter due to lower assets and yields. Finance revenue was up from the year-ago quarter, reflecting higher revenues on increased operating lease equipment. Finance revenue was down from the prior quarter on lower rates, with yields down in most divisions (as detailed in the table below), reflecting new business yields generally below yields on maturing loans, and the absence of interest recoveries and lower prepayments.

Interest expense was relatively flat. The weighted average coupon rate of outstanding deposits and long-term borrowings was 3.04% at March 31, 2015, down from 3.33% at March 31, 2014 and 3.11% at December 31, 2014. Although rates were generally up as shown in the following table, the higher proportion of deposit funding decreased the total funding weighted average coupon rate. Deposits represented 50% of the total deposits and long-term borrowing at March 31, 2015, while unsecured debt was 32% and secured debt was 18%. These proportions will fluctuate in the future depending upon our funding activities.

Deposits have increased, both in dollars and proportion of total CIT funding. The weighted average rate of total CIT deposits was 1.70%, 1.67% and 1.69% at March 31, 2015 and 2014 and December 31, 2014, respectively. The proportion of deposits to total funding increased to 50% from 46% at December 31, 2014 and 40% at March 31, 2014. Deposits and long-term borrowings are also discussed in *Funding and Liquidity*.

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 41

Table of Contents

The weighted average coupon rate of long-term borrowings at March 31, 2015 was 4.39%, compared to 4.45% at March 31, 2014 and 4.32% at December 31, 2014. Long-term borrowings consist of unsecured and secured debt. The weighted average coupon rate of unsecured long-term borrowings at March 31, 2015 was 5.03%, up slightly from 5.02% at March 31, 2014 and 5.00% at December 31, 2014. The weighted average coupon rate of secured long-term borrowings at March 31, 2015 was 3.23%, up from 3.17% at March 31, 2014 and 3.09% at December 31, 2014.

See *Select Financial Data (Average Balances)* section for more information on long-term borrowing rates.

Edgar Filing: CIT GROUP INC - Form 10-Q

The following table depicts select yields and margin related data for our segments, plus select divisions within TIF and NACF.

Select Segment and Division Margin Metrics (dollars in millions)

	March 31, 2015	December 31, 2014	March 31, 2014
<u>Transportation & International Finance</u>			
AEA	\$ 18,821.7	\$ 19,096.6	\$ 17,119.7
Gross yield	12.03%	12.26%	12.53%
NFM	4.57%	4.88%	4.73%
<u>AEA</u>			
Commercial Aerospace	\$ 10,911.0	\$ 11,104.8	\$ 9,773.9
Rail	\$ 5,854.2	\$ 5,839.8	\$ 5,137.9
Maritime Finance	\$ 1,049.2	\$ 913.7	\$ 473.9
International Finance	\$ 1,007.3	\$ 1,238.3	\$ 1,734.0
<u>Gross yield</u>			
Commercial Aerospace	11.36%	11.52%	12.56%
Rail	14.81%	15.33%	14.56%
Maritime Finance	5.00%	5.30%	4.88%
International Finance	10.51%	9.64%	8.46%
<u>North American Commercial Finance</u>			
AEA	\$ 14,590.3	\$ 14,753.6	\$ 13,764.7
Gross yield	6.12%	6.49%	6.28%
NFM	3.52%	3.94%	3.64%
<u>AEA</u>			
Real Estate Finance	\$ 1,777.7	\$ 1,772.0	\$ 1,592.9
Corporate Finance	\$ 6,910.7	\$ 7,097.7	\$ 6,991.6
Equipment Finance	\$ 4,962.7	\$ 4,948.9	\$ 4,239.5
Commercial Services	\$ 939.2	\$ 935.0	\$ 940.7
<u>Gross yield</u>			
Real Estate Finance	3.94%	4.19%	3.99%
Corporate Finance	4.50%	5.18%	5.02%
Equipment Finance	9.45%	9.49%	9.54%
Commercial Services	4.56%	4.89%	4.86%
<u>Non-Strategic Portfolios</u>			
AEA	\$ 360.0	\$ 496.0	\$ 1,185.8
Gross yield	20.22%	19.35%	12.78%
NFM	8.22%	6.77%	2.63%

Gross yields (interest income plus rental income on operating leases as a % of AEA) and NFM in TIF were down sequentially, largely reflecting lower equipment utilization. TIF International Finance margins may be volatile over quarterly periods due to strategic asset sales. NACF gross yields and NFM reflect continued pressures within Corporate Finance. NSP contains run-off portfolios, and as a result, gross yields may vary due to asset sales and lower balances.

Edgar Filing: CIT GROUP INC - Form 10-Q

The following table sets forth the details on net operating lease revenues⁽³⁾.

Net Operating Lease Revenue as a % of Average Operating Leases (dollars in millions)

	Quarters Ended					
	March 31, 2015		December 31, 2014		March 31, 2014	
Rental income on operating leases	\$ 530.6	14.26%	\$ 546.5	14.60%	\$ 491.9	14.32%
Depreciation on operating lease equipment	(156.8)	(4.21)%	(153.2)	(4.09)%	(148.8)	(4.33)%
Maintenance and other operating lease expenses	(46.1)	(1.24)%	(49.7)	(1.33)%	(51.6)	(1.50)%
Net operating lease revenue	\$ 327.7	8.81%	\$ 343.6	9.18%	\$ 291.5	8.49%
Average Operating Lease Equipment (AOL)	\$ 14,881.1		\$ 14,972.9		\$ 13,735.8	

Net operating lease revenue was primarily generated from the commercial air and rail portfolios. Net operating lease revenue increased compared to the year-ago quarter, benefiting from higher assets and rail yields. The decline from the prior quarter resulted from asset sales, lower utilization and lower rental rates. On average, lease renewal rates in the rail portfolio re-priced slightly higher than the prior year quarter, while the commercial aircraft portfolio has been re-pricing slightly lower.

At March 31, 2015, 97% of our commercial aircraft portfolio was leased or under a commitment to lease, down from 99% in the year-ago and the prior quarters, as we prepare six aircraft for re-marketing, mostly due to terminations from three troubled carriers. Our rail fleet was 98% utilized, including commitments, at March 31, 2015, down from 99% at December 31, 2014 and flat with March 31, 2014.

We have 16 new aircraft deliveries scheduled for the next twelve months, all but one of which have lease commitments with customers. Approximately 65% of the rail order book of approximately 12,400 railcars were under a commitment.

Depreciation on operating lease equipment mostly reflects transportation equipment balances. Although assets are down from the prior quarter, the increase in depreciation expense reflects residual adjustments made at year-end, which increases current and prospective period expenses. Depreciation expense also includes amounts related to equipment impairment. Once a long-lived asset is classified as assets held for sale, depreciation expense is no longer recognized, and the asset is evaluated for impairment with any such charge recorded in other income. (See *Non-interest Income Impairment on assets held for sale* for discussion on impairment charges). Consequently, net operating lease revenue includes rental income on operating lease equipment classified as assets held for sale, but there is no related depreciation expense. The amount of suspended depreciation on operating lease equipment in assets held for sale totaled \$8 million, compared to \$3 million for the year-ago quarter and \$10 million for the prior quarter. Operating lease equipment in assets held for sale totaled \$279 million, \$438 million and \$46 million at March 31, 2015, December 31, 2014, and March 31, 2014, respectively.

Maintenance and other operating lease expenses, which primarily relate to the rail portfolio and to a lesser extent aircraft re-leasing, was down compared to the year-ago and prior quarters. We expect the quarterly amount to average at a modestly higher level than the first quarter through year-end 2015.

The factors affecting rental income, depreciation, and maintenance and other operating lease expenses drove the net decrease in net operating lease revenue as a percent of AOL, as the higher revenue from the growth in assets was offset by the lower rental rates.

See *Expenses Depreciation on operating lease equipment* and *Concentrations Operating Leases* for additional information.

⁽³⁾ Net operating lease revenue is a non-GAAP measure. See *Non-GAAP Financial Measurements* for a reconciliation of non-GAAP to GAAP financial information.

CREDIT METRICS

Edgar Filing: CIT GROUP INC - Form 10-Q

Credit metrics remain at or near cyclical lows, and given current levels, sequential quarterly movements in non-accrual loans and charge-offs are subject to volatility as individual larger accounts migrate in and out of non-accrual status or get resolved.

Non-accrual loans were \$184 million (0.94% of finance receivables), up from \$161 million (0.82%) at December 31, 2014. The increase was mostly driven by the addition of one energy related account in NACF.

The provision for credit losses was \$35 million, compared to \$37 million in the year-ago quarter and \$15 million in the prior quarter, which included a \$12 million reversal of a specific reserve. The increase over the prior quarter is also due to higher reserves related to a small number of accounts in TIF and NACF as well as changes in portfolio composition.

Item 2. Management's Discussion and Analysis and Item 3. Quantitative and Qualitative Disclosures about Market Risk 43

Table of Contents

Net charge-offs were \$21 million, or 0.43% of average finance receivables (AFR), versus \$36 million (0.76%) in the year-ago quarter and \$23 million (0.47%) in the prior quarter. Net charge-offs include \$11 million, \$14 million and \$7 million for the quarters ended March 31, 2015 and 2014, and December 31, 2014, respectively, related to the transfer of receivables to assets held for sale. Recoveries of \$6 million were lower than the \$9 million recorded in the year-ago quarter and essentially flat with the prior quarter.

The following table presents detail on our allowance for loan losses, including charge-offs and recoveries and provides summarized components of the provision and allowance:

Allowance for Loan Losses and Provision for Credit Losses (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Allowance beginning of period	\$ 346.4	\$ 357.7	\$ 356.1
Provision for credit losses ⁽¹⁾	34.6	15.0	36.7
Other ⁽¹⁾	(3.6)	(3.2)	(4.6)
Net additions	31.0	11.8	32.1
Gross charge-offs ⁽²⁾	(26.6)	(28.8)	(44.4)
Recoveries	5.7	5.7	8.8
Net Charge-offs	(20.9)	(23.1)	(35.6)
Allowance end of period	\$ 356.5	\$ 346.4	\$ 352.6
Loans			
Transportation & International Finance	\$ 3,568.5	\$ 3,558.9	\$ 3,553.5
North American Commercial Finance	15,860.8	15,936.0	14,902.8
Non-Strategic Portfolios		0.1	115.4
Total loans	\$ 19,429.3	\$ 19,495.0	\$ 18,571.7
Allowance			
Transportation & International Finance	\$ 55.5	\$ 46.8	\$ 45.7
North American Commercial Finance	301.0	299.6	306.9
Total allowance	\$ 356.5	\$ 346.4	\$ 352.6

Quarters Ended			Allowance for Loan Losses	
March 31, 2015	December 31, 2014	March 31, 2014	March 31, 2015	December 31, 2014

Edgar Filing: CIT GROUP INC - Form 10-Q

	Quarters Ended			Allowance for Loan Losses	
Specific reserves on impaired loans	\$ 2.4	\$ (13.1)	\$ (4.7)	\$ 14.8	\$ 12.4
Non-specific reserves	11.3	5.0	5.8	341.7	334.0
Net charge-offs	20.9	23.1	35.6		
Total	\$ 34.6	\$ 15.0	\$ 36.7	\$ 356.5	\$ 346.4
Ratio					
Allowance for loan losses as a percentage of total loans				1.83%	1.78%

⁽¹⁾ Includes amounts related to reserves on unfunded loan commitments and letters of credit, and for deferred purchase agreements, which are reflected in Other Liabilities, as well as foreign currency translation adjustments. These Other Liabilities totaled \$37 million, \$35 million and \$31 million at March 31, 2015, December 31, 2014 and March 31, 2014, respectively.

⁽²⁾ Gross charge-offs of \$11 million, \$14 million and \$7 million for the quarters ended March 31, 2015 and 2014, and December 31, 2014, respectively, related to the transfer of receivables to assets held for sale.

The allowance rate continues to reflect the relatively benign credit environment. NSP carries no reserves, as the portfolio consists entirely of AHFS. The increase in specific allowance is mainly due to one account in NACF while the prior quarter included the reversal of \$12 million related to a resolution of a problem loan in NACF.

There were no significant changes to our reserving policies during the quarter. See Note 1 Business and Summary of Significant Accounting Policies for discussion on policies relating to the allowance for loan losses in Item 8 Financial Statements and Supplementary Data of our Annual Report on Form 10-K for the year ended December 31, 2014.

44 CIT GROUP INC

Table of Contents

The following table presents charge-offs, by class and business segment. See Results by Business Segment for additional information.

Charge-offs as a Percentage of Average Finance Receivables by Class (dollars in millions)

	Quarters Ended					
	March 31, 2015		December 31, 2014		March 31, 2014	
Gross Charge-offs⁽¹⁾						
International Finance	\$ 3.2	2.05%	\$ 10.1	4.26%	\$ 14.3	3.35%
Transportation & International Finance	3.2	0.36%	10.1	1.10%	14.3	1.61%
Corporate Finance	11.0	0.64%	3.3	0.19%	10.4	0.60%
Equipment Finance	11.8	1.01%	10.2	0.87%	9.2	0.91%
Commercial Services	0.6	0.09%	5.2	0.81%	3.0	0.53%
North American Commercial Finance	23.4	0.59%	18.7	0.47%	22.6	0.61%
Non-Strategic Portfolios					7.5	9.94%
Total	\$ 26.6	0.55%	\$ 28.8	0.59%	\$ 44.4	0.95%
Recoveries						
International Finance	\$ 1.7	1.10%	\$ 2.4	1.01%	\$ 1.3	0.28%
Transportation & International Finance	1.7	0.19%	2.4	0.26%	1.3	0.14%
Corporate Finance					0.1	0.01%

Edgar Filing: CIT GROUP INC - Form 10-Q

	Quarters Ended					
Equipment Finance	3.6	0.31%	3.1	0.27%	5.2	0.51%
Commercial Services	0.4	0.06%	0.2	0.02%	1.3	0.23%
North American Commercial Finance	4.0	0.10%	3.3	0.09%	6.6	0.18%
Non-Strategic Portfolios					0.9	1.17%
Total	\$ 5.7	0.12%	\$ 5.7	0.12%	\$ 8.8	0.19%
Net Charge-offs⁽¹⁾						
International Finance	\$ 1.5	0.95%	\$ 7.7	3.25%	\$ 13.0	3.07%
Transportation & International Finance	1.5	0.17%	7.7	0.84%	13.0	1.47%
Corporate Finance	11.0	0.64%	3.3	0.19%	10.3	0.59%
Equipment Finance	8.2	0.70%	7.1	0.60%	4.0	0.40%
Commercial Services	0.2	0.03%	5.0	0.79%	1.7	0.30%
North American Commercial Finance	19.4	0.49%	15.4	0.38%	16.0	0.43%
Non-Strategic Portfolios					6.6	8.77%
Total	\$ 20.9	0.43%	\$ 23.1	0.47%	\$ 35.6	0.76%

⁽¹⁾ TIF charge-offs for the quarters ended March 31, 2014 and December 31, 2014 included \$3 million and \$6 million, respectively, related to the transfer of receivables to assets held for sale. NACF charge-offs for the quarter ended March 31, 2015, included \$11 million related to the transfer of receivables to assets held for sale and \$4 million for the year-ago quarter and \$1 million for the prior quarter. NSP charge-offs for the quarter ended March 31, 2014 included \$7 million related to the transfer of receivables to assets held for sale.

Charge-offs remained at relatively low levels absent the amount related to assets transferred to AHFS. Recoveries were down in amount from the year-ago quarter and flat sequentially, and are expected to remain at low levels, as more recent charge-offs afford fewer opportunities for recoveries. Additionally, charge-offs associated with AHFS do not generate future recoveries as the loans are generally sold before recoveries can be realized and any gains on sales are reported in Other Income.

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 45

Table of Contents

The tables below present information on non-performing loans, which includes non-performing loans related to assets held for sale for each period:

Non-accrual and Accruing Past Due Loans (dollars in millions)

	March 31, 2015	December 31, 2014
Non-accrual loans		
U.S.	\$ 104.7	\$ 71.9
Foreign	78.8	88.6
Non-accrual loans	\$ 183.5	\$ 160.5
Troubled Debt Restructurings		
U.S.	\$ 12.3	\$ 13.8
Foreign	2.3	3.4
Restructured loans	\$ 14.6	\$ 17.2
Accruing loans past due 90 days or more		
Accruing loans past due 90 days or more	\$ 21.5	\$ 10.3

Edgar Filing: CIT GROUP INC - Form 10-Q

Non-accrual Loans as a Percentage of Finance Receivables (dollars in millions)

	March 31, 2015		December 31, 2014	
Transportation Finance	\$ 0.1		\$ 0.1	
International Finance	39.1	6.26%	37.1	5.93%
<i>Transportation & International Finance</i>	39.2	1.10%	37.2	1.05%
Corporate Finance	44.5	0.65%	30.9	0.45%
Equipment Finance	71.1	1.51%	70.0	1.48%
<i>North American Commercial Finance</i>	115.6	0.73%	100.9	0.63%
<i>Non-Strategic Portfolios</i>	28.7	NM	22.4	NM
Total	\$ 183.5	0.94%	\$ 160.5	0.82%

Non-accrual loans remained at low levels, but at March 31, 2015 was up from the prior quarter, mostly due to one energy related account in Corporate Finance. The entire NSP portfolio was classified as held for sale making the percentage of finance receivables not meaningful (NM).

Approximately 55% of our non-accrual accounts were paying currently compared to 54% at December 31, 2014. Our impaired loan carrying value (including FSA discount, specific reserves and charge-offs) to estimated outstanding contractual balances approximated 77%, compared to 68% at December 31, 2014. For this purpose, impaired loans are comprised principally of non-accrual loans over \$500,000 and TDRs.

Total delinquency (30 days or more) improved to 1.4% of finance receivables compared to 1.7% at December 31, 2014, primarily due to lower amounts in Commercial Services and an improvement in non-credit (administrative) delinquencies in the Equipment Finance portfolio.

Foregone Interest on Non-accrual Loans and Troubled Debt Restructurings (dollars in millions)

	Quarters Ended					
	March 31, 2015			March 31, 2014		
	U.S.	Foreign	Total	U.S.	Foreign	Total
Interest revenue that would have been earned at original terms	\$ 5.5	\$ 2.6	\$ 8.1	\$ 11.3	\$ 2.8	\$ 14.1
Less: Interest recorded	(0.3)	(0.2)	(0.5)	(3.3)		(3.3)
Foregone interest revenue	\$ 5.2	\$ 2.4	\$ 7.6	\$ 8.0	\$ 2.8	\$ 10.8

The Company periodically modifies the terms of loans/finance receivables in response to borrowers' difficulties. Modifications that include a financial concession to the borrower, which otherwise would not have been considered, are accounted for as troubled debt restructurings (TDRs). For those accounts that were modified but were not considered to be TDRs, it was determined that no concessions had been granted by CIT to the borrower. Borrower compliance with the modified terms is the primary measurement that we use to determine the success of these programs.

46 CIT GROUP INC

Table of Contents

The tables that follow reflect loan carrying values of accounts that have been modified.

Troubled Debt Restructurings and Modifications (dollars in millions)

	March 31, 2015		December 31, 2014	
		% Compliant		% Compliant
Troubled Debt Restructurings⁽¹⁾				
Deferral of principal and/or interest	\$ 5.0	96%	\$ 6.0	96%
Covenant relief and other	9.6	86%	11.2	83%
Total TDRs	\$ 14.6	90%	\$ 17.2	88%
Percent non-accrual	72%		75%	

	March 31, 2015		December 31, 2014	
		% Compliant		% Compliant
Modifications⁽¹⁾				
Extended maturity	\$ 11.9	100%	\$ 0.1	100%
Covenant relief	73.6	100%	70.9	100%
Interest rate increase/additional collateral	10.0	100%	25.1	100%
Other	119.1	100%	58.3	100%
Total Modifications	\$ 214.6		\$ 154.4	100%
Percent non-accrual	17%		10%	

⁽¹⁾ Table depicts the predominant element of each modification, which may contain several of the characteristics listed.

The increase in modifications reflects the addition of a few larger accounts, and the extension of additional funds to previously modified loans that were in compliance with the modified terms.

See Note 3 *Loans* in Item 1. *Consolidated Financial Statements* for additional information regarding TDRs and other credit quality information.

NON-INTEREST INCOME

As presented in the following table, Non-interest Income includes Rental Income on Operating Leases and Other Income.

Non-interest Income (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Rental income on operating leases	\$ 530.6	\$ 546.5	\$ 491.9
Other Income:			
Gains on sales of leasing equipment	\$ 32.0	\$ 52.0	\$ 8.4
Factoring commissions	29.5	32.2	28.6
Fee revenues	22.6	26.1	21.6
Gains on loan and portfolio sales	6.6	16.5	3.5
Gain on investments	0.7	24.6	3.5
Losses on derivatives and foreign currency exchange	(9.7)	(16.2)	(7.1)
Impairment on assets held for sale	(10.1)	(31.2)	(1.1)

Edgar Filing: CIT GROUP INC - Form 10-Q

	Quarters Ended		
Other revenues	14.8	12.4	13.7
Total other income	86.4	116.4	71.1
Total non-interest income	\$ 617.0	\$ 662.9	\$ 563.0

Rental income on operating leases from equipment we lease is generally recognized on a straight line basis over the lease term. Rental income is discussed in *Net Finance Revenues* and *Results by Business Segment*.

Other income increased from the year-ago quarter and declined from the prior quarter, reflecting the following:

Gains on sales of leasing equipment resulted from approximately \$435 million of equipment sales in the first quarter of 2015, \$255 million in the year-ago quarter, and

Item 2. Management's Discussion and Analysis and Item 3. Quantitative and Qualitative Disclosures about Market Risk 47

Table of Contents

\$560 million in the prior quarter. Gains included \$9 million and \$30 million from sales of aircraft to the joint venture in the current quarter and prior quarter, respectively. Gains as a percentage of equipment sold, which will vary based on the type and age of equipment sold, were down from last quarter and above the year-ago quarter. Equipment sales for the first quarter of 2015 included approximately \$375 million in TIF, mostly aircraft, and \$60 million in NACF. Equipment sales for the year-ago quarter consisted of approximately \$185 million in TIF, mostly aircraft, and \$70 million in NACF. Equipment sales for the prior quarter mainly consisted of approximately \$430 million in TIF and \$115 million in NACF.

Factoring commissions were up from the year-ago quarter mostly on higher factoring volume, and down slightly from the prior quarter, reflecting seasonal trends. Factoring volume was \$6.5 billion in 2015, up from \$6.3 billion in the year-ago quarter and down from \$7.4 billion for the prior quarter.

Fee revenues include fees on lines of credit and letters of credit, capital markets-related fees, agent and advisory fees, and servicing fees for the assets we sell but retain servicing, including servicing fees in the small business lending portfolio that was sold in the first half of 2014. Fee revenues are mainly driven by our NACF segment.

Gains on loan and portfolio sales in the first quarter of 2015 reflected approximately \$95 million of sales, with approximately \$70 million in NACF, and \$25 million in TIF. The year-ago quarter sales reflected approximately \$150 million of sales, with approximately \$70 million in NACF, \$65 million in NSP, and \$15 million in TIF. The prior quarter sales totaled approximately \$580 million, with approximately \$350 million in TIF, driven by the sale of a U.K. portfolio, \$140 million in NACF and \$90 million in NSP.

Gains on investments primarily reflected sales of equity investments that were received as part of a lending transaction or, in some cases, a workout situation. The gains were primarily in NACF. Gains were elevated in the prior quarter from investment securities sold to comply with the Volcker Rule.

Losses on derivatives and foreign currency exchange Transactional foreign currency movements resulted in losses of \$(83) million in the first quarter of 2015, driven by the strengthening of the U.S. dollar against the Canadian dollar, Euro, and U.K. Pound Sterling, and losses of \$(41) million and \$(49) million in the year-ago and prior quarters, respectively. These were partially offset by gains of \$84 million in the first quarter of 2015, similarly impacted by the foreign currency movements noted, and gains of \$(37) million and \$(51) million in the year-ago and prior quarters, respectively, on derivatives that economically hedge foreign currency movements and other exposures. Losses related to the valuation of the derivatives within the GSI facility were \$(1) million in the first quarter of 2015, \$(2) million in the year-ago quarter and \$(11) million in the prior quarter. In addition, there were losses of \$(10) million in the current quarter, \$(2) million in the year-ago quarter and \$(8) million in the prior quarter on the realization of cumulative translation adjustment (CTA) amounts from accumulated other comprehensive loss upon the sale or substantial liquidation of a subsidiary and translational adjustments related to liquidating entities. As of March 31, 2015, of the aggregate CTA of \$(104) million, there was approximately \$(65) million of CTA losses included in accumulated other comprehensive loss related to the Brazil, Mexico, and U.K. portfolios in AHFS. In conjunction with the closing of the transactions, certain currency translation adjustments will be recognized in income, with the pre-tax amount charged to other income and the tax effect in the provision for income taxes. The CTA amounts will fluctuate until the transactions are completed. For additional information on the impact of derivatives on the income statement, refer to *Note*

8 *Derivative Financial Instruments.*

Impairment on assets held for sale in the current quarter primarily relates to the Mexico and Brazil portfolios held for sale in NSP. The \$31 million in the prior quarter was evenly split between TIF, reflecting charges on aerospace operating lease equipment held for sale and the U.K. portfolio, and NSP, which included impairment charges on the Mexico and Brazil portfolios. When a long-lived asset is classified as held for sale, depreciation expense is suspended and the asset is evaluated for impairment with any such charge recorded in other income. (See *Expenses* for related discussion on depreciation on operating lease equipment.)

Other revenues included items that are more episodic in nature, such as gains on work-out related claims, proceeds received in excess of carrying value on non-accrual accounts held for sale, which were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and also includes income from joint ventures. The current quarter includes a \$5 million benefit on the termination of a defaulted contract in TIF.

48 CIT GROUP INC

Table of Contents**OTHER EXPENSES****Other Expenses** (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Depreciation on operating lease equipment	\$ 156.8	\$ 153.2	\$ 148.8
Maintenance and other operating lease expenses	46.1	49.7	51.6
Operating expenses:			
Compensation and benefits	\$ 146.5	\$ 138.9	\$ 138.9
Technology	22.3	22.1	21.1
Professional fees	19.5	23.7	18.0
Net occupancy expense	9.4	8.5	8.9
Advertising and marketing	9.1	10.0	7.9
Provision for severance and facilities exiting activities	(1.0)	6.7	9.9
Other	35.8	38.9	28.8
Total operating expenses	241.6	248.8	233.5
Loss on debt extinguishments		3.1	
Total other expenses	\$ 444.5	\$ 454.8	\$ 433.9
Headcount	3,360	3,360	3,200

Depreciation on operating lease equipment is recognized on owned equipment over the lease term or estimated useful life of the asset. Depreciation expense is primarily driven by the TIF operating lease equipment portfolio, which includes long-lived assets such as aircraft and railcars. To a lesser extent, depreciation expense includes amounts on smaller ticket equipment, such as office equipment. Impairments recorded on equipment held in portfolio are reported as depreciation expense. AHFS also impacts the balance, as depreciation expense is suspended on operating lease equipment once it is transferred to AHFS. Depreciation expense is discussed further in *Net Finance Revenues*, as it is a component of our asset margin. See *Non-interest Income* for impairment charges on operating lease equipment classified as held for sale.

Maintenance and other operating lease expenses relate to the TIF operating lease portfolio. The majority of the maintenance expenses are railcar fleet related. CIT Rail provides railcars primarily pursuant to full-service lease contracts under which CIT Rail as lessor is responsible for railcar maintenance and repair. Under our aircraft leases, the lessee is generally responsible for normal maintenance and repairs, airframe and engine

Edgar Filing: CIT GROUP INC - Form 10-Q

overhauls, compliance with airworthiness directives, and compliance with return conditions of aircraft on lease. As a result, aircraft operating lease expenses primarily relate to transition costs incurred in connection with re-leasing an aircraft.

Operating expenses increased compared to the year-ago quarter, mostly reflecting additional employees relating to the 2014 third quarter acquisition of Direct Capital and costs related to the pending acquisition of OneWest Bank. The sequential decline generally reflects lower portfolio repositioning costs. Operating expenses include Bank deposit raising costs, which totaled \$15 million in the first quarter of 2015, compared to \$13 million for the year-ago quarter and \$17 million for the prior quarter, and are reflected across various expense categories, but mostly within advertising and marketing and in other expenses, reflecting deposit insurance costs. The current quarter and prior quarter also included \$5 million and \$4 million, respectively, of expenses related to the OneWest Bank acquisition. Operating expenses reflect the following changes:

- n *Compensation and benefits* increased from the year-ago, reflecting the impact of the additional employees associated with last year's Direct Capital acquisition. While the number of employees has not changed from the prior quarter, the sequential increase reflects the annual restart of certain employee benefit costs, such as FICA.
- n *Professional fees* include legal and other professional fees such as tax, audit, and consulting services and increased from the year-ago quarter reflecting costs associated with the pending OneWest Transaction and exits of our non-strategic portfolios.
- n *Advertising and marketing* expenses include costs associated with raising deposits. Bank advertising and marketing costs totaled \$7 million, compared to \$6 million in the year-ago quarter, and \$8 million in the prior quarter.
- n *Provision for severance and facilities exiting activities* reflects costs associated with various efficiency initiatives. The current quarter includes a true-up for amounts previously recorded, but that will not be incurred.
- n *Other expenses* include items such as travel and entertainment, insurance, FDIC costs, office equipment and supplies costs and taxes other than income taxes.

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 49

Table of Contents

We are focused on exiting Mexico and Brazil and closing several legal entities in Europe and Asia. We have separate agreements to sell the businesses in Mexico and Brazil and expect to close the transactions in the second half of 2015. Upon completion of all of our planned exits, we expect to eliminate approximately \$15 million from our quarterly expenses.

FRESH START ACCOUNTING

The consolidated financial statements include the effects of adopting Fresh Start Accounting (FSA) upon the Company's emergence from bankruptcy on December 10, 2009, based on a convenience date of December 31, 2009, as required by U.S. GAAP. FSA had a significant impact on our operating results in prior years but the impact has significantly lessened. NFR includes the accretion of the FSA adjustments to the loans, leases and debt, as well as to depreciation and, to a lesser extent rental income related to operating lease equipment.

The most significant remaining discount at March 31, 2015, related to operating lease equipment (\$1.3 billion related to rail operating lease equipment and \$0.6 billion to aircraft operating lease equipment). The discount on the operating lease equipment was, in effect, an impairment of the operating lease equipment upon emergence from bankruptcy, as the assets were recorded at their fair value, which was less than their carrying value. The recording of the FSA adjustment reduced the asset balances subject to depreciation and thus decreases depreciation expense over the remaining useful life of the operating lease equipment or until it is sold.

INCOME TAXES

Income Tax Data (dollars in millions)

Quarters Ended

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015	December 31, 2014	March 31, 2014
Provision for income taxes, before discrete items	\$42.2	\$ 22.4	\$10.2
Discrete items	1.8	(50.7)	3.3
Provision (benefit) for income taxes	\$44.0	\$(28.3)	\$13.5
Effective tax rate	29.8%	(12.7)%	11.0%

The Company's first quarter income tax provision was \$44.0 million compared to income tax benefit of \$28.3 million in the prior quarter and \$13.5 million income tax provision in the year-ago quarter. The first quarter of 2015's tax provision reflected federal and state income taxes in the U.S. as well as taxes on the earnings of certain international operations. The higher current quarter's income tax provision was primarily driven by the recognition of federal and state income tax expense on domestic earnings. Due to the partial release of the domestic valuation allowance on net deferred tax assets in 2014, the 2015 effective income tax rate of approximately 30% includes the recognition of U.S. federal and state income taxes. Included in the prior quarter's discrete tax benefit was the recognition of approximately \$44 million reduction to the valuation allowances on certain international net deferred tax assets and miscellaneous other \$6.7 million of net tax benefit items.

The quarterly income tax expense will include the impact of the continuous re-assessment of the estimated annual effective tax rate, which is then applied to the interim consolidated pre-tax income to determine the interim provision for income taxes. The change in the effective tax rate each period is impacted by a number of factors, including the relative mix of domestic and international earnings, adjustments to the valuation allowances, and discrete items. The actual year-end 2015 effective tax rate may vary from the near term future periods due to the changes in these factors.

As noted in our 2014 Annual Report on Form 10-K, management concluded that it was more likely than not that the Company will generate sufficient taxable income based on management's long-term forecast of future U.S. taxable income within the applicable carry-forward periods to support partial utilization of the U.S. federal and U.S. state NOLs. The forecast of future taxable income for the Company reflects a long-term view of growth and returns that management believes is more likely than not to be realized.

However, the Company retained a valuation allowance of \$1.0 billion against its U.S. net deferred tax assets at December 31, 2014. Of the \$1.0 billion domestic valuation allowance, approximately \$0.7 billion is against the deferred tax asset on the U.S. federal NOLs and \$0.3 billion is against the deferred tax asset on the U.S. state NOLs. No

50 CIT GROUP INC

Table of Contents

discrete reduction to the valuation allowance related to the U.S. federal or state NOLs or the capital loss carry-forwards was recorded in the quarter.

The ability to recognize the remaining valuation allowances against the U.S. federal and state NOLs, and capital loss carry-forwards net deferred tax assets will be evaluated on a quarterly basis to determine if there are any significant events that would affect our ability to utilize these deferred tax assets. If events are identified that affect our ability to utilize our deferred tax assets, the analysis will be updated to determine if any adjustments to the valuation allowances are required. Such events may include acquisitions that support the Company's long-term business strategies while also enabling it to accelerate the utilization of its net operating losses, as evidenced by the acquisition of Direct Capital Corporation and the announced definitive agreement and plan of merger to acquire OneWest Bank.

The impact of the OneWest transaction on the utilization of the Company's NOLs cannot be considered in the Company's forecast of future taxable income until the acquisition is consummated. The acquisition is expected to accelerate the utilization of the Company's NOLs and therefore management anticipates it will reverse the remaining U.S. federal valuation allowance after consummation of the acquisition. The Company is currently evaluating the impact of the acquisition on the U.S. state NOLs and expects the acquisition to utilize some portion of these amounts which would cause a partial reduction to the U.S. state valuation allowance.

The Company maintained a valuation allowance of \$141 million against certain international reporting entities' net deferred tax assets at December 31, 2014. In the evaluation process related to the net deferred tax assets of the Company's foreign reporting entities, uncertainties

Edgar Filing: CIT GROUP INC - Form 10-Q

surrounding the international business plans, the recent international platform rationalizations, and the cumulative losses in recent years have made it challenging to reliably project future taxable income. The primary inputs for the forecast of future taxable income will continue to be identified as the business plans for the international operations evolve, and potential tax planning strategies are identified. Thus, as of this reporting period, the negative evidence continues to outweigh the positive evidence, and the Company continues to maintain a full valuation allowance on these entities' net deferred tax assets.

See *Note 11 - Income Taxes* in *Item 1. Consolidated Financial Statements* for additional information, including deferred tax assets.

RESULTS BY BUSINESS SEGMENT

See *Note 15 - Business Segment Information* in *Item 1. Consolidated Financial Statements* for additional information.

Transportation & International Finance (TIF)

TIF includes several divisions: aerospace (commercial air and business air), rail, maritime finance, and international finance. Revenues generated by TIF include rents collected on leased assets, interest on loans, fees, and gains from assets sold.

Aerospace - Commercial Air provides aircraft leasing, lending, asset management, and advisory services for commercial and regional airlines around the world. We own and finance a fleet of 340 aircraft and have about 100 clients in approximately 50 countries.

Aerospace - Business Air offers financing and leasing programs for corporate and private owners of business jets.

Rail leases railcars and locomotives to railroads and shippers throughout North America, and Europe. Our operating lease fleet consists of over 121,000 railcars and 390 locomotives and we serve over 650 customers.

Maritime Finance offers secured loans to owners and operators of oceangoing and inland cargo vessels, as well as offshore vessels and drilling rigs.

International Finance offers equipment financing, secured lending and leasing to small and middle-market businesses in China and the U.K. The U.K. portfolio is included in assets held-for-sale at March 31, 2015 and December 31, 2014.

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 51

Table of Contents

Transportation & International Finance - Financial Data and Metrics (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Earnings Summary			
Interest income	\$ 68.4	\$ 71.7	\$ 76.7
Interest expense	(168.6)	(169.3)	(160.7)
Provision for credit losses	(10.6)	(8.5)	(12.4)
Rental income on operating leases	497.5	513.8	459.6
Other income	34.3	33.5	7.2
Depreciation on operating lease equipment	(136.1)	(133.5)	(121.7)
Maintenance and other operating lease expenses	(46.1)	(49.7)	(51.6)
Operating expenses	(81.8)	(73.1)	(79.5)
Income before provision for income taxes	\$ 157.0	\$ 184.9	\$ 117.6

Edgar Filing: CIT GROUP INC - Form 10-Q

	Quarters Ended		
Select Average Balances			
Average finance receivables (AFR)	\$ 3,546.0	\$ 3,688.8	\$ 3,555.0
Average operating leases (AOL)	\$ 14,617.9	\$ 14,718.5	\$ 13,457.5
Average earning assets (AEA)	\$ 18,821.7	\$ 19,096.6	\$ 17,119.7
Statistical Data			
Net finance revenue (interest and rental income, net of interest and depreciation and maintenance and other operating lease expenses) (NFR)	\$ 215.1	\$ 233.0	\$ 202.3
Net finance margin NFR as a % of AEA	4.57%	4.88%	4.73%
Net operating lease revenue rental income, net of depreciation and maintenance and other operating lease expenses)	\$ 315.3	\$ 330.6	\$ 286.3
Operating lease margin as a % of AOL	8.63%	8.98%	8.51%
Pretax return on AEA	3.34%	3.87%	2.75%
New business volume	\$ 525.3	\$ 1,228.9	\$ 1,054.6

Pre-tax earnings for the quarter increased from the year-ago quarter reflecting strong gains on equipment sales and asset growth and decreased sequentially reflecting lower assets and margin. Results are discussed further below.

Financing and leasing assets totaled \$18.8 billion at March 31, 2015, down from \$19.0 billion at December 31, 2014, as new business volume and a U.K. rail portfolio purchase were offset by asset sales, including aircraft sales to the TC-CIT Aviation joint ventures formed in the prior quarter, equipment depreciation and loan amortization.

Aerospace financing and leasing assets totaled \$10.8 billion, down from \$11.1 billion at December 31, 2014 as new business volume was more than offset by approximately \$400 million of asset sales and depreciation. Our owned commercial portfolio included 292 aircraft, down from December 31, 2014, as deliveries of 3 new aircraft were offset by sales of 11 aircraft, including five aircraft to TC-CIT Aviation, our recently formed joint venture. At March 31, 2015, we manage 14 aircraft for the joint venture. At March 31, 2015, we had 154 aircraft on order from manufacturers, not including options for additional aircraft, up from 152 at December 31, 2014, with deliveries scheduled through 2020. The increase reflects the exercise of purchase options on five Airbus A321 current engine option aircraft with deliveries scheduled for 2016. See *Note 13 Commitments in Item 1. Consolidated Financial Statements and Concentrations* for further aircraft data.

Rail financing and leasing assets grew slightly to \$5.9 billion from \$5.8 billion at December 31, 2014. We expanded our owned portfolio by approximately 1,700 railcars to over 121,000 at March 31, 2015, reflecting scheduled deliveries from our order book and a portfolio acquisition of approximately 900 railcars in the U.K. At March 31, 2015, we had approximately 12,400 railcars on order from manufacturers, with deliveries scheduled through 2017, which included an additional 2,200 ordered during the quarter. See *Note 13 Commitments in Item 1. Financial Statements and Supplemental Data and Concentrations* for further railcar data.

Maritime Finance financing and leasing assets increased slightly to \$1.1 billion from \$1.0 billion at December 31, 2014.

International Finance financing and leasing assets were essentially flat at \$1.0 billion from December 31, 2014. Included in the balance were approximately \$380 million of assets held for sale related to our U.K. equipment finance business.

Highlights included:

- n NFR was up from the year-ago quarter and down from the prior quarter. The increase reflects growth in the portfolios, while the sequential decline reflects lower net operating lease revenue (discussed below) and interest income, reflecting reduced assets, lower utilization and repayments. See *Select Segment and Division Margin Metrics* table in *Net Finance Revenue* section.

Edgar Filing: CIT GROUP INC - Form 10-Q

- n Gross yields (interest income plus rental income on operating leases as a percent of AEA) decreased from the prior periods, with the decline from the year-ago quarter reflecting pricing pressure on the aircraft portfolio, which offset favorable pricing in the rail portfolio. The sequential decline reflected lower utilization and seasonally high usage in the rail portfolio in the fourth quarter of 2014.
- n Net operating lease revenue, which is a component of NFR, increased from the year-ago quarter as higher rental income from growth offset increased depreciation. The sequential decline in net operating lease revenue primarily reflects asset sales, including sales to the joint venture, and decreased utilization. Depreciation expense increased from the prior year reflecting higher asset balances and sequentially reflecting a slight increase to aerospace depreciation rates on certain aircraft following our annual residual reviews. Maintenance and other operating lease expense was below both prior periods, and we expect the quarterly amount to average at a modestly higher level than the first quarter through year-end 2015. Net operating lease revenue as a percentage of AOL increased from the prior year as higher net yields in rail offset a decline in commercial air and declined sequentially in both businesses reflecting the aforementioned trends.
- n New business volume for 2015 primarily included the delivery of 3 aircraft, approximately 800 railcars, and \$0.2 billion of finance receivables. 2015 volume does not include the U.K. rail portfolio purchase which added approximately 900 railcars and approximately \$85 million of assets to the business this quarter.
- n Equipment utilization was down slightly from December 31, 2014, and ended the quarter with 97% of commercial air and 98% of rail equipment on lease or under a commitment. We have 16 new aircraft deliveries scheduled for the next twelve months, all but one of which have lease commitments with customers. Approximately 65% of all railcars on order have commitments, which is down from December 31, 2014, largely reflecting the additional 2,200 railcars ordered during the first quarter that have deliveries in 2016 and 2017.
- n Other income primarily reflected the following:
 - n Gains on asset sales totaled \$28 million on approximately \$400 million of equipment and receivable sales, including a gain of \$9 million on aircraft sales to the joint venture created in the 2014 fourth quarter, compared to \$4 million of gains on \$199 million of asset sales in the year-ago quarter and \$44 million of gains on \$781 million of asset sales in the prior quarter.
 - n Impairment charges on AHFS totaled \$1 million, compared to \$1 million in the year-ago quarter and \$15 million in the prior quarter and predominantly related to international portfolios and commercial aircraft.
 - n Other income also includes a small amount of fees and other revenue derived from loan commitments, joint ventures, as well as periodic items such as a benefit from the termination of a defaulted contract of \$5 million this quarter.
 - n Non-accrual loans were \$39 million (1.10% of finance receivables) at March 31, 2015, compared to \$37 million (1.05%) at December 31, 2014. The current quarter provision for credit losses reflected higher reserves as net charge-offs were \$1 million (0.17% of average finance receivables), down from \$13 million (1.47%) in the year-ago quarter and \$8 million (0.84%) in the prior quarter. Essentially all of the charge-offs were concentrated in the International portfolio. TIF charge-offs for the year-ago quarter included \$3 million related to the transfer of receivables to assets held for sale and \$6 million for the prior quarter.
- n Operating expenses increased, with the sequential change reflecting the annual restart of certain employee benefit costs, such as FICA.

North American Commercial Finance (NACF)

The NACF segment consists of four divisions: Commercial Services, Corporate Finance, Equipment Finance, and Real Estate Finance. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities and capital markets transactions, and commissions earned on factoring and related activities.

Commercial Services provides factoring, receivable management products, and secured financing to businesses (our clients, generally manufacturers or importers of goods) that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Factoring entails the assumption of credit risk with respect to trade accounts receivable arising from the sale of goods by our clients to their customers (generally retailers) that have been factored (i.e. sold or assigned to the factor). Although primarily U.S.-based, Commercial Services also conducts business with clients and their customers internationally.

Corporate Finance provides a range of financing options and offers advisory services to small and medium size companies. Its core products include both loan and fee-based products. Loans offered are primarily senior secured loans collateralized by accounts receivable, inventory, machinery & equipment and/or intangibles that are often used for working capital, plant expansion, acquisitions or recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. We provide financing to customers in a wide range of industries, including Commercial & Industrial, Communications,

Edgar Filing: CIT GROUP INC - Form 10-Q

Media & Entertainment, Energy, and Healthcare.

Equipment Finance provides leasing and equipment financing solutions to small businesses and middle market

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 53

Table of Contents

companies in a wide range of industries on both a private label and direct basis. We provide financing solutions for our borrowers and lessees, and assist manufacturers and distributors in growing sales, profitability and customer loyalty by providing customized, value-added finance solutions to their commercial clients. Our LendEdge platform allows small businesses to access financing through a highly automated credit approval, documentation and funding process. We offer both capital and operating leases.

Real Estate Finance provides senior secured commercial real estate loans to developers and other commercial real estate professionals. We focus on stable, cash flowing properties and originate construction loans to highly experienced and well capitalized developers.

North American Commercial Finance Financial Data and Metrics (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Earnings Summary			
Interest income	\$ 196.1	\$ 214.4	\$ 193.4
Interest expense	(74.1)	(74.2)	(68.9)
Provision for credit losses	(24.0)	(6.5)	(23.2)
Rental income on operating leases	27.2	24.8	22.8
Other income	66.3	115.4	61.8
Depreciation on operating lease equipment	(20.7)	(19.7)	(21.9)
Operating expenses	(134.7)	(132.1)	(121.5)
Income before provision for income taxes	\$ 36.1	\$ 122.1	\$ 42.5
Select Average Balances			
Average finance receivables (AFR)	\$ 15,825.9	\$ 16,013.1	\$ 14,800.1
Average earning assets (AEA) ⁽¹⁾	\$ 14,590.3	\$ 14,753.6	\$ 13,764.7
Statistical Data			
Net finance revenue (interest and rental income, net of interest and depreciation expense) (NFR)	\$ 128.5	\$ 145.3	\$ 125.4
Net finance margin NFR as a % of AEA	3.52%	3.94%	3.64%
Pretax return on AEA	0.99%	3.31%	1.24%
New business volume	\$ 1,354.1	\$ 1,620.6	\$ 1,372.9
Factoring volume	\$ 6,495.6	\$ 7,401.9	\$ 6,271.1

⁽¹⁾ AEA is lower than AFR as it is reduced by the average credit balances for factoring clients.

Pre-tax income declined from the year-ago quarter, reflecting lower gross yields that offset the higher assets related to the August 1, 2014 acquisition of Direct Capital. The decline in pre-tax income from the prior quarter primarily reflects lower gains on asset sales, which were elevated in the prior quarter, and higher credit costs.

Edgar Filing: CIT GROUP INC - Form 10-Q

Financing and leasing assets totaled \$16.2 billion at March 31, 2015, unchanged from December 31, 2014, as new loan and lease volume was mostly offset by portfolio run-off and prepayments. At March 31, 2015, financing and leasing assets totaled \$6.9 billion in Corporate Finance, \$5.0 billion in Equipment Finance assets, \$1.8 billion in Real Estate Finance loans, and \$2.5 billion in Commercial Services factoring receivables and loans. New business volume was essentially flat with the year-ago quarter, as the decline in Corporate Finance activity offset increases in Equipment Finance and Real Estate Finance. Factoring volume rose 4% from the year-ago quarter but declined sequentially in line with seasonal trends.

CIT Bank originated the vast majority of the U.S. funded loan and lease volume in each of the periods presented. At March 31, 2015, over 75% of this segment's financing and leasing assets were in the Bank.

New business yields rose slightly from the prior quarter, primarily due to mix as volumes were higher in Equipment Finance and lower in Corporate Finance.

Highlights included:

- n While NFR was up slightly from the year-ago quarter on higher assets, the decline from the prior quarter resulted from a lower level of interest recoveries.
- n NACF gross yields and NFM were down from the year-ago and prior quarters, reflecting continued pressures on yields, while the prior quarter also benefited from notable items including the resolution of certain problem accounts. See *Select Segment and Division Margin Metrics* table in *Net Finance Revenue* section.
- n Other income rose slightly from the year-ago quarter and declined from the prior quarter reflecting:
- n Factoring commissions of \$29 million were up slightly from the year-ago quarter and down from \$32 million in the prior quarter, in line with the seasonality of factoring volumes.

54 CIT GROUP INC

Table of Contents

- n Gains on asset sales (including receivables, equipment and investments) totaled \$12 million, compared to \$10 million in the year-ago quarter and \$51 million in the prior quarter. The prior quarter benefited from an elevated level of investment securities sales. Financing and Leasing assets sold totaled \$129 million, compared to \$138 million in the year-ago quarter and \$253 million in the prior quarter.
- n Fee revenue was \$20 million, compared to \$17 million in the year-ago quarter and \$24 million in the prior quarter. Fee revenue is mainly driven by syndication fees, arranger fees, agent fees and fees from issuing letters of credit and on unused lines of credit.
- n The \$24 million provision for credit losses, while in line with the year-ago level, rose meaningfully from \$6 million in the prior quarter, due mainly to a large loan recovery in that period. Credit metrics remained at or near cycle lows. Non-accrual loans increased to \$116 million (0.73% of finance receivables) from \$101 million (0.63%) at December 31, 2014, mostly due to a few accounts in Corporate Finance, one of which was an energy related customer. Net charge-offs were \$19 million (0.49% of average finance receivables) for the March 31, 2015 quarter, compared to \$16 million (0.43%) in the year-ago quarter and \$15 million (0.38%) in the prior quarter. Net charge-offs include \$11 million from assets moved to held for sale in the current quarter compared to \$4 million in the year-ago quarter and \$1 million in the prior quarter. Excluding the charge-offs related to transfers to AHFS, net charge-offs declined from both comparable periods.
- n The increase in operating expenses from the year-ago quarter largely reflected the additional costs related to the acquisition of Direct Capital.

Non-Strategic Portfolios (NSP)

NSP consisted of portfolios that we no longer consider strategic. At March 31, 2015, these consisted primarily of equipment financing portfolios in Mexico and Brazil, both of which were under definitive sale agreements.

Non-Strategic Portfolios Financial Data and Metrics (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Earnings Summary			
Interest income	\$ 12.3	\$ 16.1	\$ 28.4
Interest expense	(10.8)	(15.6)	(24.9)
Provision for credit losses			(1.0)
Rental income on operating leases	5.9	7.9	9.5
Other income	(7.8)	(18.8)	4.4
Depreciation on operating lease equipment			(5.2)
Operating expenses	(12.4)	(18.0)	(19.2)
Loss before provision for income taxes	\$ (12.8)	\$ (28.4)	\$ (8.0)
Select Average Balances			
Average finance receivables (AFR)	\$ 0.1	\$ 0.1	\$ 300.0
Average earning assets (AEA)	360.0	\$ 496.0	1,185.8
Statistical Data			
Net finance margin NFR as a % of AEA	8.22%	6.77%	2.63%
New business volume	\$ 37.7	\$ 35.9	\$ 51.8

Pre-tax losses continued in 2015, driven by lower asset levels from reduced business activity and impairments on AHFS with a partially offsetting benefit from lower operating expenses. The current and prior quarters reflect no depreciation expense as a result of operating lease equipment being recorded as held for sale, but had associated impairments of \$5 million and \$6 million recorded in other income in the March 31, 2015 and December 31, 2014 quarters, respectively. Operating expenses were down due to the reduced business activity, and we expect the majority of the expenses will cease once all portfolios are sold.

Financing and leasing assets totaled \$330 million at March 31, 2015, down from \$380 million at December 31, 2014, reflecting portfolio runoff and changes in currency rates. Essentially the entire remaining balance consists of the portfolios in Mexico and Brazil. We have entered into definitive agreements to sell these businesses and both transactions are subject to customary regulatory approvals. We expect to close the Mexico and Brazil transactions in the second half of 2015. In conjunction with the closing of the transactions, certain currency translation adjustments (CTA) related to the Mexico and Brazil portfolios, currently \$18 million and \$43 million, respectively, recorded in accumulated other comprehensive loss within the stockholders' equity, will be recognized in income, with the pre-tax amount charged to other income and the tax effect in the provision for income taxes. The CTA amounts will fluctuate until the transactions are completed.

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 55

Table of Contents**Corporate and Other**

Certain items are not allocated to operating segments and are included in Corporate and Other, including unallocated interest expense, primarily related to corporate liquidity costs (Interest Expense), mark-to-market adjustments on non-qualifying derivatives (Other Income), restructuring charges for severance and facilities exit activities and certain legal costs and unallocated expenses (Operating Expenses). Corporate and Other also reflects losses on debt extinguishments.

Corporate and Other Financial Data (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Earnings Summary			
Interest income	\$ 4.2	\$ 4.0	\$ 3.7
Interest expense	(17.8)	(17.8)	(17.4)
Provision for credit losses			(0.1)
Other income	(6.4)	(13.7)	(2.3)
Operating expenses	(12.7)	(25.6)	(13.3)
Loss on debt extinguishments		(3.1)	
Loss before provision for income taxes	\$ (32.7)	\$ (56.2)	\$ (29.4)

- n Interest income consists of interest and dividend income primarily from deposits held at other depository institutions and other investment securities.
- n Interest expense generally is allocated to the segments. Interest expense held in Corporate represents amounts in excess of these allocations and amounts related to excess liquidity.
- n Other income primarily reflects gains and (losses) on derivatives, including the GSI facilities, which drove the balances in 2014, and foreign currency exchange. The GSI derivative had a negative mark-to-market of \$1 million, \$11 million and \$2 million for the quarters ended March 31, 2015 and 2014, and December 31, 2014, respectively.
- n Operating expenses reflects salary and general and administrative expenses in excess of amounts allocated to the business segments. Operating expenses were down from the prior quarter, mostly on lower provision for severance and facilities exiting activities, which reflected a reversal of previously recorded provisions in the quarter ended March 31, 2015, and charges of \$10 million and \$7 million for the quarters ended March 31, 2014, and December 31, 2014, respectively.

56 CIT GROUP INC

Table of Contents**FINANCING AND LEASING ASSETS**

The following table presents our financing and leasing assets by segment.

Financing and Leasing Asset Composition (dollars in millions)

	March 31, 2015	December 31, 2014	% Change
Transportation & International Finance			
<i>Segment Total</i>			
Loans	\$ 3,568.5	\$ 3,558.9	0.3%
Operating lease equipment, net	14,623.3	14,665.2	(0.3)%
Assets held for sale	634.5	815.2	(22.2)%
Financing and leasing assets	18,826.3	19,039.3	(1.1)%
Aerospace			
Loans	1,750.8	1,796.5	(2.5)%
Operating lease equipment, net	8,822.7	8,949.5	(1.4)%

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015	December 31, 2014	% Change
Assets held for sale	234.5	391.6	(40.1)%
Financing and leasing assets	10,808.0	11,137.6	(3.0)%
Rail			
Loans	126.7	130.0	(2.5)%
Operating lease equipment, net	5,800.1	5,715.2	1.5%
Assets held for sale	1.0	1.2	(16.7)%
Financing and leasing assets	5,927.8	5,846.4	1.4%
Maritime Finance			
Loans	1,066.6	1,006.7	6.0%
Assets held for sale	19.1	19.7	(3.0)%
Financing and leasing assets	1,085.7	1,026.4	5.8%
International Finance			
Loans	624.4	625.7	(0.2)%
Operating lease equipment, net	0.5	0.5	
Assets held for sale	379.9	402.7	(5.7)%
Financing and leasing assets	1,004.8	1,028.9	(2.3)%
North American Commercial Finance			
Segment Total			
Loans	15,860.8	15,936.0	(0.5)%
Operating lease equipment, net	264.5	265.2	(0.3)%
Assets held for sale	87.5	22.8	283.8%
Financing and leasing assets	16,212.8	16,224.0	(0.1)%
Real Estate Finance			
Loans	1,813.9	1,768.6	2.6%
Financing and leasing assets	1,813.9	1,768.6	2.6%
Corporate Finance			
Loans	6,798.1	6,889.9	(1.3)%
Assets held for sale	87.5	22.8	283.8%
Financing and leasing assets	6,885.6	6,912.7	(0.4)%
Equipment Finance			
Loans	4,706.1	4,717.3	(0.2)%
Operating lease equipment, net	264.5	265.2	(0.3)%
Financing and leasing assets	4,970.6	4,982.5	(0.2)%
Commercial Services			
Loans and factoring receivables	2,542.7	2,560.2	(0.7)%
Financing and leasing assets	2,542.7	2,560.2	(0.7)%
Non-Strategic Portfolios			
Loans		0.1	(100.0)%
Assets held for sale	329.9	380.1	(13.2)%
Financing and leasing assets	329.9	380.2	(13.2)%
Consolidated Totals:			
Loans	\$ 19,429.3	\$ 19,495.0	(0.3)%
Operating lease equipment, net	14,887.8	14,930.4	(0.3)%
Assets held for sale	1,051.9	1,218.1	(13.6)%
Total financing and leasing assets	\$ 35,369.0	\$ 35,643.5	(0.8)%

Table of Contents

Financing and leasing assets were down slightly, reflecting the following:

TIF decline was driven by \$0.4 billion of asset sales including over \$0.2 billion of aircraft to TC-CIT Aviation, our recently formed joint venture with Century Tokyo Leasing created in the 2014 fourth quarter. Assets Held for Sale totaled \$0.6 billion and largely consists of the U.K. equipment finance portfolio and aircraft.

Portfolio collections, sales and prepayments offset the new business originations in NACF during the first quarter of 2015.

The decline in NSP primarily reflected changes in foreign exchange rates and portfolio runoff. The remaining AHFS primarily reflected the Mexico and Brazil portfolios, each subject to separate sales agreements.

Financing and leasing asset trends are also discussed in the respective segment descriptions in *Results by Business Segment*.

The following table presents the changes to our financing and leasing assets:

Financing and Leasing Assets Roll forward (dollars in millions)

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Total
Balance at December 31, 2014	\$ 19,039.3	\$ 16,224.0	\$ 380.2	\$ 35,643.5
New business volume	525.3	1,354.1	37.7	1,917.1
Portfolio / business acquisitions	84.4			84.4
Loan sales	(23.4)	(71.1)		(94.5)
Equipment sales	(377.0)	(57.8)	(2.7)	(437.5)
Depreciation	(136.1)	(20.7)		(156.8)
Gross charge-offs	(3.2)	(23.4)		(26.6)
Collections and other	(283.0)	(1,192.3)	(85.3)	(1,560.6)
Balance at March 31, 2015	\$ 18,826.3	\$ 16,212.8	\$ 329.9	\$ 35,369.0

Total Business Volumes (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Transportation & International Finance	\$ 525.3	\$ 1,228.9	\$ 1,054.6
North American Commercial Finance	1,354.1	1,620.6	1,372.9
Non-Strategic Portfolios	37.7	35.9	51.8
Total	\$ 1,917.1	\$ 2,885.4	\$ 2,479.3
Factored Volume	\$ 6,495.6	\$ 7,401.9	\$ 6,271.1

New business volume in 2015 decreased in TIF from the year-ago and prior quarters, mostly driven by fewer scheduled aircraft deliveries. Lower NACF new business volumes were driven by Corporate Finance, mostly in the commercial and industrial industries, partially offset by new business volumes in Direct Capital.

Loan Sales (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Transportation & International Finance	\$ 23.4	\$ 349.8	\$ 14.2
North American Commercial Finance	71.1	140.6	69.8
Non-Strategic Portfolios		87.8	63.6
Total	\$ 94.5	\$ 578.2	\$ 147.6

Loan and portfolio sales in TIF during the prior quarter mostly reflect a U.K. portfolio.

58 CIT GROUP INC

Table of Contents**Equipment Sales** (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Transportation & International Finance	\$ 377.0	\$ 431.6	\$ 184.3
North American Commercial Finance	57.8	112.7	68.4
Non-Strategic Portfolios	2.7	13.7	3.8
Total	\$ 437.5	\$ 558.0	\$ 256.5

Equipment sales in TIF consisted of aerospace and rail assets in conjunction with its portfolio management activities. The elevated balances in the quarter and prior quarter reflect sales to the joint venture. NACF sales reflect assets within Equipment Finance and Corporate Finance.

Portfolio activities are discussed in the respective segment descriptions in *Results by Business Segment* .

CONCENTRATIONS**Ten Largest Accounts**

Our ten largest financing and leasing asset accounts, the vast majority of which are lessors of air and rail assets, in the aggregate represented 10.8% of our total financing and leasing assets at March 31, 2015 (the largest account was less than 2.2%) and 11.1% at December 31, 2014.

Geographic Concentrations

The following table represents the financing and leasing assets by obligor geography:

Financing and Leasing Assets by Obligor Geographic Region (dollars in millions)

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015		December 31, 2014	
Northeast	\$ 6,808.7	19.3%	\$ 6,552.0	18.4%
Midwest	3,945.8	11.2%	3,821.6	10.7%
Southwest	3,797.8	10.7%	3,852.8	10.8%
Southeast	3,790.3	10.7%	3,732.9	10.5%
West	3,079.3	8.7%	3,183.1	8.9%
Total U.S.	21,421.9	60.6%	21,142.4	59.3%
Asia / Pacific	4,603.4	13.0%	4,712.8	13.2%
Europe	3,112.9	8.8%	3,192.4	9.0%
Canada	2,445.5	6.9%	2,520.6	7.1%
Latin America	1,550.8	4.4%	1,651.7	4.6%
All other countries	2,234.5	6.3%	2,423.6	6.8%
Total	\$ 35,369.0	100.0%	\$ 35,643.5	100.0%

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 59

Table of Contents

The following table summarizes both state concentrations greater than 5.0% and international country concentrations in excess of 1.0% of our financing and leasing assets:

Financing and Leasing Assets by Obligor State and Country (dollars in millions)

	March 31, 2015		December 31, 2014	
State				
Texas	\$ 3,209.6	9.1%	\$ 3,261.4	9.1%
New York	2,320.6	6.6%	2,492.3	7.0%
All other states	15,891.7	44.9%	15,388.7	43.2%
Total U.S.	\$ 21,421.9	60.6%	\$ 21,142.4	59.3%
Country				
Canada	\$ 2,445.5	6.9%	\$ 2,520.6	7.1%
China	1,046.3	3.0%	1,043.7	2.9%
Australia	1,017.0	2.9%	1,029.1	2.9%
England	874.6	2.5%	855.3	2.4%
Mexico	641.0	1.8%	670.7	1.9%
Brazil	518.4	1.5%	579.5	1.6%
Philippines	506.0	1.4%	511.3	1.4%
Indonesia	419.7	1.2%	424.4	1.2%
Russia ⁽¹⁾	394.5	1.1%	400.0	1.1%
All other countries	6,084.1	17.1%	6,466.5	18.2%
Total International	\$ 13,947.1	39.4%	\$ 14,501.1	40.7%

⁽¹⁾ Most of the balance represents operating lease equipment.

Industry Concentrations

Edgar Filing: CIT GROUP INC - Form 10-Q

The following table represents financing and leasing assets by industry of obligor:

Financing and Leasing Assets by Obligor Industry (dollars in millions)

	March 31, 2015		December 31, 2014	
	\$	%	\$	%
Commercial airlines (including regional airlines) ⁽¹⁾	9,988.0	28.2%	10,313.7	28.9%
Manufacturing ⁽²⁾	4,664.9	13.2%	4,702.6	13.2%
Transportation ⁽⁴⁾	3,556.4	10.1%	3,361.7	9.5%
Retail ⁽³⁾	3,259.6	9.2%	3,187.8	8.9%
Service industries	2,484.5	7.0%	2,553.6	7.2%
Real Estate	1,644.1	4.6%	1,590.5	4.5%
Wholesale	1,601.6	4.5%	1,710.3	4.8%
Oil and gas extraction / services	1,481.4	4.2%	1,483.4	4.2%
Energy and utilities	1,476.9	4.2%	1,513.2	4.2%
Healthcare	1,191.2	3.4%	1,159.7	3.3%
Finance and insurance	767.2	2.2%	782.9	2.2%
Other (no industry greater than 2%)	3,253.2	9.2%	3,284.1	9.1%
Total	\$ 35,369.0	100.0%	\$ 35,643.5	100.0%

⁽¹⁾ Includes the Commercial Aerospace Portfolio and additional financing and leasing assets that are not commercial aircraft.

⁽²⁾ At March 31, 2015, includes manufacturers of chemicals, including pharmaceuticals (3.3%) and petroleum and coal, including refining (1.6%).

⁽³⁾ At March 31, 2015, includes retailers of apparel (4.2%) and general merchandise (1.8%).

⁽⁴⁾ At March 31, 2015, included rail (4.1%), maritime (3.4%) and trucking and shipping (1.6%).

Direct exposure to customers in the energy industry includes \$1.5 billion in energy and utilities and \$1.5 billion in the oil and gas extraction/services industries. Energy and utilities primarily consists of project finance transactions supporting unregulated power generation plants, mostly fueled by natural gas. Approximately \$1 billion of the exposure to oil and gas extraction/services includes railcars, primarily tank and sand railcars, leased to companies in these industries. There is also approximately \$0.5 billion of loans that are exposed to oil (the majority in energy services and the remaining in exploration and production), a

60 CIT GROUP INC

Table of Contents

majority of which is secured by equipment and working capital assets.

Operating Lease Equipment Rail

TIF's global Rail business has a fleet of approximately 122,000 railcars and locomotives, including approximately 31,000 tank cars. The North American fleet has approximately 20,000 tank cars used in the transport of crude oil, ethanol and other flammable liquids (collectively, "Flammable Liquids"). Of the 20,000 tank cars, approximately 12,000 tank cars are leased directly to railroads and other diversified shippers for the transportation of crude by rail. The owned fleet also contains approximately 9,000 sand cars (covered hoppers) leased to customers to support crude oil and natural gas production.

Following several highly-publicized derailments of tank cars since mid-2013, U.S. and Canadian government agencies and industry groups agreed to implement a number of operational changes, including requiring multiple crew members on all trains carrying hazardous materials, prohibiting unattended trains on main lines, increasing track inspections, reducing speeds in populated areas, redirecting trains around high-risk areas, and mandating the testing and classification of crude oil prior to shipment. In addition, in April, 2014, Transport Canada ("TC") issued an order prohibiting the use of certain older tank cars in dangerous goods service in Canada effective immediately. However, CIT had no railcars

impacted by the order.

On June 27, 2014, TC announced proposed amendments under the Transportation of Dangerous Goods Act, the Railway Safety Management System Regulations, and the Transportation Information Regulations that would, among other safety requirements for railways, formalize new DOT-111 tank car standards. On July 23, 2014, the U.S. Pipeline and Hazardous Materials Safety Administration (“PHMSA”) issued a Notice of Proposed Rulemaking (“NPRM”) on Enhanced Tank Car Standards and Operational Controls for High Hazard Flammable Trains (“HHFT”) seeking public comment on tank car standards, braking systems, speed restrictions, rail routing and notifications to state emergency responders, and retrofit standards and schedule for existing tank cars in high-hazard flammable trains.

On May 1, 2015, PHMSA and TC each released their final rules (the “Final Rules”), which were aligned in recognition that many railcars are used in both countries. The Final Rules apply to all HHFT, which means trains with a continuous block of 20 or more tank cars loaded with a flammable liquid or 35 or more tank cars loaded with a flammable liquid dispersed through a train. The Final Rules (i) establish enhanced DOT Specification 117 design and performance criteria applicable to tank cars constructed after October 1, 2015 for use in an HHFT and (ii) require retrofitting existing tank cars in accordance with DOT-prescribed retrofit design or performance standard for use in an HHFT. The retrofit timeline is based on two risk factors, the packing group of the flammable liquid and the differing types of DOT-111 and CPC-1232 tank cars. The Final Rules also established new braking standards, requiring HHFTs to have in place a functioning two-way end-of-train device or a distributive power braking system. Any high-hazard flammable unit train (“HHFUT”) (a single train with 70 or more tank cars loaded with Class 3 flammable liquids), with at least one tank car with Packing Group I materials, must be operated with an electronically controlled pneumatic (“ECP”) braking system by January 1, 2021. All other HHFUTs must have ECP braking systems installed after 2023. In addition, the Final Rules establish speed restrictions for HHFTs, establish standards for rail routing analysis, require improved information sharing with state and local officials, and require more accurate classification of unrefined petroleum-based products, including developing and carrying out sampling and testing programs.

As noted above, CIT has approximately 20,000 tank cars in its North American fleet used in the transport of Flammable Liquids, of which approximately half were manufactured prior to the adoption of the CPC-1232 standard. Based on our preliminary analysis of the Final Rules, approximately 2,800 cars in our current tank car fleet require retrofitting by March 2018 and we have already reserved adequate shop space to meet those requirements. Approximately two thirds of the cars in our tank car fleet have a deadline of 2023 or later for modification, although we may decide to retrofit them sooner if it is economically beneficial to do so. Current tank cars on order are being configured to meet the Final Rules, except for the installation of ECP braking systems. CIT is currently evaluating how the Final Rules will impact its business and customers. However based on our preliminary analysis, we expect to retrofit most, if not all, of our cars impacted by the Final Rules and to amortize the cost over the remaining asset life of the cars.

Commercial Aerospace

The following tables present details on our commercial and regional aerospace portfolio (Commercial Aerospace). The net investment in regional aerospace financing and leasing assets was \$48 million at March 31, 2015 and December 31, 2014, and was substantially comprised of loans and capital leases. The information presented below by region, manufacturer, and body type, is based on our operating lease aircraft portfolio, which comprises 91% of our total commercial aerospace portfolio and substantially all of our owned fleet of leased aircraft at March 31, 2015.

Commercial Aerospace Portfolio (dollars in millions)

	March 31, 2015		December 31, 2014	
	Net Investment	Number	Net Investment	Number
By Product:				
Operating lease ⁽¹⁾	\$ 9,026.4	271	\$ 9,309.3	279
Loan ⁽²⁾	599.3	48	635.0	50
Capital lease	332.1	21	335.6	21
Total	\$ 9,957.8	340	\$ 10,279.9	350

Table of Contents**Commercial Aerospace Operating Lease Portfolio (continued)** (dollars in millions) ⁽¹⁾

	March 31, 2015		December 31, 2014	
	Net Investment	Number	Net Investment	Number
By Region:				
Asia / Pacific	\$ 3,410.0	85	\$ 3,610.0	88
Europe	2,016.6	78	2,135.4	82
U.S. and Canada	1,957.0	58	1,802.6	57
Latin America	962.5	36	994.9	37
Africa / Middle East	680.3	14	766.4	15
Total	\$ 9,026.4	271	\$ 9,309.3	279
By Manufacturer:				
Airbus	\$ 5,794.4	155	\$ 5,985.5	160
Boeing	2,630.1	95	2,711.6	98
Embraer	540.7	20	547.2	20
Other	61.2	1	65.0	1
Total	\$ 9,026.4	271	\$ 9,309.3	279
By Body Type ⁽³⁾:				
Narrow body	\$ 6,038.7	223	\$ 6,287.8	230
Intermediate	2,925.1	46	2,955.3	47
Regional and other	62.6	2	66.2	2
Total	\$ 9,026.4	271	\$ 9,309.3	279
Number of customers		93		98
Weighted average age of fleet (years)		6		5

⁽¹⁾ Includes operating lease equipment held for sale.

⁽²⁾ Plane count excludes aircraft in which our net investment consists of syndicated financings against multiple aircraft. The net investment associated with such financings was \$37 million at March 31, 2015 and \$39 million at December 31, 2014.

⁽³⁾ Narrow body are single aisle design and consist primarily of Boeing 737 and 757 series, Airbus A320 series, and Embraer E170 and E190 aircraft. Intermediate body are smaller twin aisle design and consist primarily of Boeing 767 series and Airbus A330 series aircraft. Regional and Other includes aircraft and related equipment, such as engines.

Our top five commercial aerospace outstanding exposures totaled \$2,519.3 million at March 31, 2015. The largest individual outstanding exposure totaled \$751.1 million at March 31, 2015, which was to a U.S. carrier. See Note 13 Commitments in Item 1. Consolidated Financial Statements for additional information regarding commitments to purchase additional aircraft.

OTHER ASSETS / OTHER LIABILITIES

The following tables present components of other assets and other liabilities.

Other Assets (dollars in millions)

March 31, 2015 December 31, 2014

Deposits on commercial aerospace equipment	\$ 750.6	\$ 736.3
Deferred federal and state tax assets	398.8	422.5
Fair value of derivative financial instruments	199.4	168.0
Deferred costs, including debt related costs	155.5	148.1
Furniture and fixtures	123.4	126.4
Tax receivables, other than income taxes	101.9	102.0
Executive retirement plan and deferred compensation	97.0	96.7
Other	371.9	332.4
Total other assets	\$ 2,198.5	\$ 2,132.4

62 CIT GROUP INC

Table of Contents**Other Liabilities** (continued) (dollars in millions)

	March 31, 2015	December 31, 2014
Equipment maintenance reserves	\$ 965.2	\$ 960.4
Accrued expenses and accounts payable	385.6	478.3
Security and other deposits	379.7	368.0
Current taxes payable and deferred taxes	340.9	319.1
Accrued interest payable	171.7	243.7
Valuation adjustment relating to aerospace commitments	117.1	121.2
Other liabilities	375.0	398.1
Total other liabilities	\$ 2,735.2	\$ 2,888.8

RISK MANAGEMENT

CIT is subject to a variety of risks that may arise through the Company's business activities, including the following principal forms of risk:

- n Strategic risk is the impact on earnings or capital arising from adverse strategic business decisions, improper implementation of strategic decisions, or lack of responsiveness to changes in the industry, including changes in the financial services industry as well as fundamental changes in the businesses in which our customers and our firm engages.
- n Credit risk is the risk of loss (including the incurrence of additional expenses) when a borrower does not meet its financial obligations to the Company. Credit risk may arise from lending, leasing, and/or counterparty activities.
- n Asset risk is the equipment valuation and residual risk of lease equipment owned by the Company that arises from fluctuations in the supply and demand for the underlying leased equipment. The Company is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in either reduced future lease income over the remaining life of the asset or a lower sale value.
- n Market risk includes interest rate and foreign currency risk. Interest rate risk is the impact that fluctuations in interest rates will have on the Company's net finance revenue and on the market value of the Company's assets, liabilities and derivatives. Foreign exchange risk is the economic impact that fluctuations in exchange rates between currencies can have on the Company's non-dollar denominated assets and liabilities.

Edgar Filing: CIT GROUP INC - Form 10-Q

- n Liquidity risk is the risk that the Company has an inability to maintain adequate cash resources and funding capacity to meet its obligations, including under stress scenarios.
- n Capital risk is the risk that the Company does not have adequate capital to cover its risks and to support its growth and strategic objectives.
- n Operational risk is the risk of financial loss, damage to the Company's reputation, or other adverse impacts resulting from inadequate or failed internal processes and systems, people or external events.
- n Information Technology Risk is the risk of financial loss, damage to the company's reputation or other adverse impacts resulting from unauthorized (malicious or accidental) disclosure, modification, or destruction of information, including cyber-crime, unintentional errors and omissions, IT disruptions due to natural or man-made disasters, or failure to exercise due care and diligence in the implementation and operation of an IT system.
- n Legal and Regulatory Risk is the risk that the Company is not in compliance with applicable laws and regulations, which may result in fines, regulatory criticism or business restrictions, or damage to the Company's reputation.
- n Reputational Risk is the potential that negative publicity, whether true or not, will cause a decline in the value of the Company due to changes in the customer base, costly litigation, or other revenue reductions.

In order to effectively manage risk, the Company has established a governance and oversight structure that includes defining the Company's risk appetite, setting limits, underwriting standards and target performance metrics that are aligned with the risk appetite, and establishing credit approval authorities. The Company ensures effective risk governance and oversight through the establishment and enforcement of policies and procedures, risk governance committees, management information systems, models and analytics, staffing and training to ensure appropriate expertise, and the identification, monitoring and reporting of risks so that they are proactively managed.

Our policies and procedures relating to Risk Management are detailed in our Form 10-K for the year ended December 31, 2014.

Interest Rate Risk

Interest rate risk arises from lending, leasing, investments, deposit taking and funding, as assets and liabilities reprice at different times and by different amounts as interest rates

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 63

Table of Contents

change. We evaluate and monitor interest rate risk primarily through two metrics.

- n Net Interest Income Sensitivity (NII Sensitivity), which measures the net impact of hypothetical changes in interest rates on net finance revenue, which includes revenues from loans and leased equipment, net of interest expense, depreciation and maintenance and other operating lease expenses; and
- n Economic Value of Equity (EVE), which measures the net impact of these hypothetical changes on the value of equity by assessing the market value of assets, liabilities and derivatives.

Interest rate risk and sensitivity is influenced primarily by the composition of the balance sheet, driven by the type of products offered (fixed/floating rate loans and deposits), investments, funding and hedging activities. Our assets are primarily comprised of commercial loans, operating leases, cash and investments. We use a variety of funding sources, including retail and brokered CDs, savings accounts, secured and unsecured debt. Our leasing products are level/fixed payment transactions, whereas the interest rate on the majority of our commercial loan portfolio is based off of a floating rate index such as short-term Libor or Prime. Our debt securities within the investment portfolio, securities purchased under agreements to resell and interest bearing deposits (cash) have generally short durations and reprice frequently. With respect to liabilities, CDs and unsecured debt are fixed rate, secured debt is a mix of fixed and floating rate, and the rates on savings accounts vary based on the market environment and competition. The composition of our assets and liabilities generally results in a net asset-sensitive position at the

Edgar Filing: CIT GROUP INC - Form 10-Q

shorter end of the yield curve, mostly to moves in LIBOR, whereby our assets will reprice faster than our liabilities.

Deposits continued to grow as a percent of total funding. CIT Bank sources deposits primarily through direct-to-consumer (via the internet) and brokered channels. At March 31, 2015, the Bank had approximately \$16.8 billion in deposits, more than half of which were obtained through our direct channel while approximately one-third were sourced through brokers with the remainder from institutional and other sources. Fixed rate, term deposits represented 64% of our deposit portfolio. The deposit rates we offer can be influenced by market conditions and competitive factors. Changes in interest rates can affect our pricing and potentially impact our ability to gather and retain deposits. Rates offered by competitors also can influence our rates and our ability to attract and hold deposits. In a rising rate environment, the Bank may need to increase rates to renew maturing deposits and attract new deposits. Rates on our savings account deposits may fluctuate due to pricing competition and may also move with short-term interest rates, on a lagging basis. In general, retail deposits represent a low-cost source of funds and are less sensitive to interest rate changes than many non-deposit funding sources. Our ability to gather brokered deposits may be more sensitive to rate changes than other types of deposits. We manage this risk by limiting maturity concentration and emphasizing new issuance in long-dated maturities of up to ten years. We regularly stress test the effect of deposit rate changes on our margins and seek to achieve optimal alignment between assets and liabilities from an interest rate risk management perspective.

The table below summarizes the results of simulation modeling produced by our asset/liability management system. The results reflect the percentage change in the EVE and NII Sensitivity over the next twelve months assuming an immediate 100 basis point parallel increase or decrease in interest rates. NII sensitivity is based on a static balance sheet projection.

	March 31, 2015		December 31, 2014	
	+100 bps	100 bps	+100 bps	100 bps
NII Sensitivity	6.5%	(1.8)%	6.4%	(0.8)%
EVE	2.6%	(2.5)%	1.9%	(1.6)%

The changes to the interest rate risk metrics from year-end 2014 reflect the repayment of \$1.2 billion of unsecured debt that matured in the first quarter, and to a certain extent by an increase in fixed rate CD issuances in the quarter, which extended the duration of liabilities resulting in increased EVE impact. For NII Sensitivity, the positive rate shock scenario reflected an increase in net asset sensitivity due to the unsecured debt maturity, which was partially offset by a decrease in sensitivity from lower cash and investment balances. NII sensitivity in the negative rate scenario was primarily impacted by the unsecured debt maturity.

As detailed in the above table, NII sensitivity is positive to an increase in interest rates. This is primarily driven by our cash and investment securities position, and floating rate commercial loan portfolio, which reprice frequently. On a net basis, we generally have more floating/repricing assets than liabilities in the near term. As a result, our current portfolio is more sensitive to moves in short-term interest rates in the near term. Therefore, our NFR may increase if short-term interest rates rise, or decrease if short-term interest rates decline. Market implied forward rates over the subsequent future twelve months are used to determine a base interest rate scenario for the net interest income projection for the base case. This base projection is compared with those calculated under varying interest rate scenarios such as 100 basis point parallel rate shift to arrive at NII Sensitivity.

EVE complements net interest income simulation and sensitivity analysis as it estimates risk exposures beyond a twelve month horizon. EVE modeling measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to different rate shocks, measuring the net value of assets, liabilities and off-balance sheet instruments,

Table of Contents

and comparing those amounts with the base case of an unchanged interest rate environment. The duration of our liabilities is greater than that of our assets, in that we have more fixed rate liabilities than assets in the longer term, causing EVE to increase under increasing rates and decrease under decreasing rates. The methodology with which the operating lease assets are assessed in the results table above reflects the existing contractual rental cash flows and the expected residual value at the end of the existing contract term. The simulation modeling for both NII Sensitivity and EVE assumes we take no action in response to the changes in interest rates.

Edgar Filing: CIT GROUP INC - Form 10-Q

A wide variety of potential interest rate scenarios are simulated within our asset/liability management system. All interest sensitive assets and liabilities are evaluated using discounted cash flow analysis. Rates are shocked up and down via a set of scenarios that include both parallel and non-parallel interest rate movements. Scenarios are also run to capture our sensitivity to changes in the shape of the yield curve. Furthermore, we evaluate the sensitivity of these results to a number of key assumptions, such as credit quality, spreads, and prepayments. Various holding periods of the operating lease assets are also considered. These range from the current existing lease term to longer terms which assume lease renewals consistent with management's expected holding period of a particular asset. NII Sensitivity and EVE limits have been set and are monitored for certain of the key scenarios. We manage the exposure to changes in NII Sensitivity and EVE in accordance with our risk appetite and within Board approved policy limits.

We use results of our various interest rate risk analyses to formulate asset and liability management (ALM) strategies in order to achieve the desired risk profile, while managing our objectives for capital adequacy and liquidity risk exposures. Specifically, we manage our interest rate risk position through certain pricing strategies for loans and deposits, our investment strategy, issuing term debt with floating or fixed interest rates, and using derivatives such as interest rate swaps, which modify the interest rate characteristics of certain assets or liabilities.

These measurements provide an estimate of our interest rate sensitivity, however, they do not account for potential changes in credit quality, size, and prepayment characteristics of our balance sheet. They also do not account for other business developments that could affect net income, or for management actions that could affect net income or that could be taken to change our risk profile. Accordingly, we can give no assurance that actual results would not differ materially from the estimated outcomes of our simulations. Further, the range of such simulations does not represent our current view of the expected range of future interest rate movements.

FUNDING AND LIQUIDITY

CIT actively manages and monitors its funding and liquidity sources against relevant limits and targets. These sources satisfy funding and other operating obligations, while also providing protection against unforeseen stress events like unanticipated funding obligations, such as customer line draws, or disruptions to capital markets or other funding sources. Primary liquidity sources include:

- n Cash totaled \$6.3 billion at March 31, 2015, compared to \$7.1 billion at December 31, 2014. Cash at March 31, 2015 consisted of \$1.4 billion related to the bank holding company, and \$3.3 billion at CIT Bank (excluding \$0.1 billion of restricted cash), with the remainder comprised of cash at operating subsidiaries and other restricted balances of approximately \$0.8 billion each.
- n Securities purchased under agreements to resell (reverse repurchase agreements) totaled \$450 million at March 31, 2015, down from \$650 million at December 31, 2014. CIT entered into reverse repurchase agreements in an effort to improve returns on excess liquidity. These agreements are short-term securities that had remaining maturity dates of 90 days or less and weighted average yields totaling approximately 50 bps, and are secured by the underlying collateral, which is maintained at a third-party custodian. Interest earned on these securities is included in 'Interest and dividends on interest bearing deposits and investments' in the statement of operations. See *Note 5 Securities Purchased Under Resale Agreements* in *Item 1. Consolidated Financial Statements* for further details.
- n Other short-term investment securities totaled \$0.5 billion at March 31, 2015, which consisted of U.S. Government Agency discount notes and supranational securities that were classified as AFS and had remaining maturity dates of 90 days or less, compared to \$1.1 billion at December 31, 2014. The current quarter balance does not include callable U.S. Government Agency securities of approximately \$450 million invested during the quarter that have stated maturity horizons of more than a year, and are callable by the issuer in less than a year.
- n A \$1.5 billion multi-year committed revolving credit facility, of which \$1.4 billion was unused at March 31, 2015; and
- n Committed securitization facilities and secured bank lines that totaled \$4.7 billion, of which \$2.7 billion was unused at March 31, 2015, provided that eligible assets are available that can be funded through these facilities.

Asset liquidity is further enhanced by our ability to sell or syndicate portfolio assets in secondary markets, which also enables us to manage credit exposure, and to pledge assets to access secured borrowing facilities through the Federal Home Loan Banks (FHLB) and FRB.

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 65

Table of Contents

Edgar Filing: CIT GROUP INC - Form 10-Q

The acquisition price of the OneWest Transaction includes a cash portion of \$2.0 billion, which may require us to issue debt, although the timing and amount has not been determined.

As a result of our continued funding and liability management initiatives, we further reduced the weighted average coupon rates on outstanding deposits and long-term borrowings to 3.04% at March 31, 2015 from 3.11% at December 31, 2014, driven by the higher proportion of deposits to total funding sources. The following table reflects our funding mix:

Funding Mix (dollars in millions)

	March 31, 2015	December 31, 2014
Deposits	50%	46%
Secured	18%	19%
Unsecured	32%	35%

The higher deposit base is reflective of the growth in CIT Bank assets. The unsecured notes outstanding in dollar amount declined compared to December 31, 2014, reflecting the \$1.2 billion February 2015 debt maturity. The percentage of secured funding declined compared to December 31, 2014 reflecting amortization of our secured transactions as well as reduced utilization of our FHLB facilities.

Deposits

We continued to grow deposits during 2015 to fund our bank lending and leasing activities. Deposits totaled \$16.8 billion at March 31, 2015, up from \$15.8 billion at December 31, 2014, essentially all of which are in CIT Bank. The weighted average coupon rate of total deposits was 1.70%, essentially unchanged from 1.69% at December 31, 2014.

The following table details our deposits by type:

Deposits (dollars in millions)

	March 31, 2015	December 31, 2014
Online deposits	\$ 9,671.2	\$ 8,858.5
Brokered CDs / sweeps	6,091.6	5,986.0
Other ⁽¹⁾	995.3	1,005.3
Total	\$ 16,758.1	\$ 15,849.8

⁽¹⁾ Other primarily includes a deposit sweep arrangement related to Healthcare Savings Accounts and deposits at our Brazil bank.

Long-term Borrowings

Long-term borrowings consist of unsecured and secured debt and totaled \$16.7 billion at March 31, 2015, down from \$18.5 billion at December 31, 2014, reflecting the repayment of \$1.2 billion of maturing unsecured notes. The weighted average coupon rate of long-term borrowings at March 31, 2015 was 4.39%, up from 4.32% at December 31, 2014, reflecting the decline in secured borrowings, which have lower rates.

Unsecured

Revolving Credit Facility

There were no borrowings outstanding under the Revolving Credit Facility at either March 31, 2015 or December 31, 2014. The amount available to draw upon was approximately \$1.4 billion at March 31, 2015, with the remaining amount of approximately \$0.1 billion utilized for

issuance of letters of credit.

The Revolving Credit Facility has a \$1.5 billion total commitment amount that matures on January 27, 2017. The total commitment amount consists of a \$1.15 billion revolving loan tranche and a \$350 million revolving loan tranche that can also be utilized for issuance of letters of credit. The applicable margin charged under the facility is 2.50% for LIBOR-based loans and 1.50% for Base Rate loans. Improvement in CIT's long-term senior unsecured debt ratings to either BB by S&P or Ba2 by Moody's would result in a reduction in the applicable margin to 2.25% for LIBOR-based loans and to 1.25% for Base Rate loans. A downgrade in CIT's long-term senior unsecured debt ratings to B+ by S&P and B1 by Moody's would result in an increase in the applicable margin to 2.75% for LIBOR-based loans and to 1.75% for Base Rate loans. In the event of a one notch downgrade by only one of the agencies, no change to the margin charged under the facility would occur.

The Revolving Credit Facility is unsecured and is guaranteed by eight of the Company's domestic operating subsidiaries. The facility was amended to modify the covenant requiring a minimum guarantor asset coverage ratio and the criteria for calculating the ratio. The amended covenant requires a minimum guarantor asset coverage ratio ranging from 1.25:1.0 to the current requirement of 1.5:1.0 depending on the Company's long-term senior unsecured

66 CIT GROUP INC

Table of Contents

debt rating. As of March 31, 2015, the last reported asset coverage ratio was 2.68x.

Senior Unsecured Notes

At March 31, 2015, unsecured notes outstanding totaled \$10.7 billion, compared to \$11.9 billion at December 31, 2014. The weighted average coupon rate of unsecured long-term borrowings at March 31, 2015 was 5.03%, up slightly from 5.00% at December 31, 2014. The decline in outstanding balance and slight increase in rate reflect the repayment of \$1.2 billion of maturing 4.75% notes.

See Note 7 *Long-term Borrowings* in Item 1. *Consolidated Financial Statements* for further detail.

Secured

Secured borrowings totaled approximately \$5.9 billion at March 31, 2015, compared to \$6.5 billion at December 31, 2014. The weighted average coupon rate of secured long-term borrowings at March 31, 2015 was 3.23%, up from 3.09% at December 31, 2014, reflecting lower FHLB borrowings.

CIT Bank secured borrowings totaled \$1.5 billion and \$1.9 billion at March 31, 2015 and December 31, 2014, respectively, which were secured by \$2.3 billion and \$2.4 billion of pledged assets at March 31, 2015 and December 31, 2014. Non-bank secured borrowings were \$4.4 billion and \$4.7 billion at March 31, 2015 and December 31, 2014, respectively, and were secured by assets of \$8.1 billion and \$8.3 billion, respectively.

FHLB Borrowings

As part of our liquidity management strategy, we may pledge assets to secure financing transactions (which include securitizations), to secure borrowings from the FHLB or for other purposes as required or permitted by law. Our secured financing transactions do not meet accounting requirements for sale treatment and are recorded as secured borrowings, with the assets remaining on-balance sheet pursuant to GAAP. The debt associated with these transactions is collateralized by receivables, leases, investment securities and/or equipment. Certain related cash balances are restricted.

CIT Bank is a member of the FHLB of Seattle and may borrow under a line of credit that is secured by collateral pledged to FHLB Seattle. CIT Bank did not have any advances outstanding under the line at March 31, 2015. A subsidiary of CIT Bank is a member of FHLB Des Moines and may borrow under lines of credit that are secured by a blanket lien on the subsidiary's assets and collateral pledged to FHLB Des Moines. At March 31, 2015, \$87 million of advances were outstanding and \$149 million of collateral was pledged with FHLB Des Moines.

See Note 7 *Long-Term Borrowings* in Item 1. *Consolidated Financial Statements* for a table displaying our consolidated secured financings and pledged assets.

GSI Facilities

Two financing facilities between two wholly-owned subsidiaries of CIT and Goldman Sachs International (GSI) are structured as total return swaps (TRS), under which amounts available for advances are accounted for as derivatives. Pursuant to applicable accounting guidance, only the unutilized portion of the TRS is accounted for as a derivative and recorded at its estimated fair value. The size of the CIT Financial Ltd. (CFL) facility is \$1.5 billion and the CIT TRS Funding B.V. (BV) facility is \$625 million.

At March 31, 2015, a total of \$1,790.2 million of assets and secured debt totaling \$1,203.7 million issued to investors was outstanding under the GSI Facilities. After adjustment to the amount of actual qualifying borrowing base under terms of the GSI Facilities, this secured debt provided for usage of \$1,018.2 million of the maximum notional amount of the GSI Facilities. The remaining \$1,106.8 million of the maximum notional amount represents the unused portion of the GSI Facilities and constitutes the notional amount of derivative financial instruments. Unsecured counterparty receivable of \$537.1 million is owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to asset-backed securities underlying the structures at March 31, 2015.

The CFL Facility was structured as a TRS to satisfy the specific requirements to obtain this funding commitment from GSI. Under the terms of the GSI Facilities, CIT raises cash from the issuance of ABS to investors designated by GSI under the total return swap, equivalent to the face amount of the ABS less an adjustment for any OID which equals the market price of the ABS. CIT is also required to deposit a portion of the face amount of the ABS with GSI as additional collateral prior to funding ABS through the GSI Facilities.

Amounts deposited with GSI can increase or decrease over time depending on the market value of the ABS and / or changes in the ratings of the ABS. CIT and GSI engage in periodic settlements based on the timing and amount of coupon, principal and any other payments actually made by CIT on the ABS. Pursuant to the terms of the TRS, GSI is obligated to return those same amounts to CIT plus a proportionate amount of the initial deposit. Simultaneously, CIT is obligated to pay GSI (1) principal in an amount equal to the contractual market price times the amount of principal reduction on the ABS and (2) interest equal to LIBOR times the adjusted qualifying borrowing base of the ABS. On a quarterly basis, CIT pays the fixed facility fee of 2.85% per annum times the maximum facility commitment amount.

Valuation of the derivatives related to the GSI Facilities is based on several factors using a discounted cash flow (DCF) methodology, including:

- n CIT s funding costs for similar financings based on the current market environment;

Item 2. Management s Discussion and Analysis and Item 3. Quantitative and Qualitative Disclosures about Market Risk 67

Table of Contents

- n Forecasted usage of the long-dated GSI Facilities through the final maturity date in 2028; and
- n Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Based on the Company s valuation, we had a recorded liability of \$25 million at March 31, 2015, up slightly from December 31, 2014. During the quarter, we recognized \$1 million, as a reduction to other income associated with the change in liability.

Interest expense related to the GSI Facilities is affected by the following:

- n A fixed facility fee of 2.85% per annum times the maximum facility commitment amount,
- n A variable amount based on one-month or three-month USD LIBOR times the utilized amount (effectively the adjusted qualifying borrowing base) of the total return swap, and
- n A reduction in interest expense due to the recognition of the payment of any OID from GSI on the various asset-backed securities.

See Note 8 *Derivative Financial Instruments* in Item 1. *Consolidated Financial Statements* for further information.

Debt Ratings

Debt ratings can influence the cost and availability of short-and long-term funding, the terms and conditions on which such funding may be available, the collateral requirements, if any, for borrowings and certain derivative instruments, the acceptability of our letters of credit, and the number of investors and counterparties willing to lend to the Company. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect the Company's liquidity and financial condition.

Our debt ratings at March 31, 2015, as rated by Standard & Poor's Ratings Services (S&P), Fitch Ratings, Inc. (Fitch), Moody's Investors Service (Moody's) and Dominion Bond Rating Service (DBRS) are presented in the following table.

Debt Ratings as of March 31, 2015

	<u>S&P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>DBRS</u>
Issuer / Counterparty Credit Rating	BB-	BB+	NR	BB
Revolving Credit Facility Rating	BB-	BB+	B1	BBB (Low)
Series C Notes / Senior Unsecured Debt Rating	BB-	BB+	B1	BB
Outlook	Positive	Stable	Stable	Positive
<i>NR Not Rated</i>				

In March 2015, Moody's affirmed CIT Group's Ba3 corporate family rating but downgraded the senior unsecured rating from Ba3 to B1 with a stable ratings outlook. Concurrently, Moody's transitioned its ratings analysis of CIT Group to Moody's bank methodology from Moody's finance company rating methodology. Because Moody's does not assign corporate family ratings under the bank rating framework, CIT's Ba3 corporate family rating was withdrawn.

Rating agencies indicate that they base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current operating, legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in rating methodology as well as in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above could impact our liquidity and financial condition.

A debt rating is not a recommendation to buy, sell or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

Tax Implications of Cash in Foreign Subsidiaries

Cash held by foreign subsidiaries totaled \$1.4 billion, including cash available to the BHC and restricted cash, at March 31, 2015, compared to \$1.8 billion at December 31, 2014.

Other than in a limited number of jurisdictions, Management does not intend to indefinitely reinvest foreign earnings.

68 CIT GROUP INC

Table of Contents**Contractual Payments and Commitments**

The following tables summarize significant contractual payments and contractual commitment expirations at March 31, 2015. Certain amounts in the payments table are not the same as the respective balance sheet totals, because this table is based on contractual amounts and excludes items such as issue discounts and FSA discounts. Actual cash flows could vary materially from those depicted in the payments table as further explained in the table footnotes.

Edgar Filing: CIT GROUP INC - Form 10-Q

Payments for the Twelve Months Ended March 31⁽¹⁾ (dollars in millions)

	Total	2016	2017	2018	2019	2020+
Secured borrowings ⁽²⁾	\$ 5,916.7	\$ 1,848.0	\$ 998.5	\$ 709.3	\$ 570.6	\$ 1,790.3
Senior unsecured	10,751.4			4,500.0	3,450.0	2,801.4
Total Long-term borrowings	16,668.1	1,848.0	998.5	5,209.3	4,020.6	4,591.7
Deposits	16,759.4	7,277.9	1,789.9	2,465.7	995.4	4,230.5
Credit balances of factoring clients	1,505.3	1,505.3				
Lease rental expense	169.1	30.7	29.8	26.1	24.9	57.6
Total contractual payments	\$ 35,101.9	\$ 10,661.9	\$ 2,818.2	\$ 7,701.1	\$ 5,040.9	\$ 8,879.8

⁽¹⁾ Projected payments of debt interest expense and obligations relating to postretirement programs are excluded.

⁽²⁾ Includes non-recourse secured borrowings, which are generally repaid in conjunction with the pledged receivable maturities.

Commitment Expiration by Twelve Month Periods Ended March 31 (dollars in millions)

	Total	2016	2017	2018	2019	2020+
Financing commitments	\$ 5,137.7	\$ 1,200.2	\$ 726.1	\$ 1,001.2	\$ 935.9	\$ 1,274.3
Aerospace equipment purchase commitments ⁽¹⁾	10,838.4	919.8	683.6	1,472.1	2,140.3	5,622.6
Rail and other equipment purchase commitments	1,629.5	1,126.7	502.8			
Letters of credit	366.4	46.5	41.4	53.2	143.6	81.7
Deferred purchase agreements	1,643.7	1,643.7				
Guarantees, acceptances and other recourse obligations	1.1	1.1				
Liabilities for unrecognized tax obligations ⁽²⁾	49.4	15.0	34.4			
Total contractual commitments	\$ 19,666.2	\$ 4,953.0	\$ 1,988.3	\$ 2,526.5	\$ 3,219.8	\$ 6,978.6

⁽¹⁾ Aerospace commitments are net of amounts on deposit with manufacturers.

⁽²⁾ The balance cannot be estimated past 2017; therefore the remaining balance is reflected in 2017.

Financing commitments increased from \$4.7 billion at December 31, 2014 to \$5.1 billion at March 31, 2015. This includes commitments that have been extended to and accepted by customers or agents, but on which the criteria for funding have not been completed of \$799 million at March 31, 2015. Also included are Commercial Services credit line agreements, with an amount available of \$275 million, net of amount of receivables assigned to us. These are cancellable by CIT only after a notice period.

At March 31, 2015, substantially all our undrawn financing commitments were senior facilities, with approximately 80% secured by equipment or other assets and the remainder comprised of cash flow or enterprise value facilities. Most of our undrawn and available financing commitments are in the Corporate Finance division of NACF. The top ten undrawn commitments totaled \$341 million at March 31, 2015.

Edgar Filing: CIT GROUP INC - Form 10-Q

The table above includes approximately \$1.4 billion of undrawn financing commitments at March 31, 2015 that were not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend.

See *Note 13 Commitments in Item 1. Consolidated Financial Statements* for further detail.

CAPITAL

Capital Management

CIT manages its capital position to ensure that it is sufficient to: (i) support the risks of its businesses, (ii) maintain a well-capitalized status under regulatory requirements, and (iii) provide flexibility to take advantage of future investment opportunities. Capital in excess of these requirements is available to distribute to shareholders.

CIT uses a complement of capital metrics and related thresholds to measure capital adequacy and takes into account the existing regulatory capital framework. CIT further evaluates capital adequacy through the enterprise

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 69

Table of Contents

stress testing and economic capital (ECAP) approaches, which constitute our internal capital adequacy assessment process (ICAAP).

Beginning January 1, 2015, CIT reports regulatory capital ratios in accordance with the Basel III Final Rule and determines risk weighted assets under the Standardized Approach. CIT's capital management is discussed in more detail in its Form 10-K for the year ended December 31, 2014, see the Regulation section of *Item 1. Business Overview* for further detail regarding regulatory matters, including *Basel III*, *Capital Requirements* and *Leverage Requirements* and *Capital Management* section in *Part Two, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Return of Capital

Capital returned during the quarter totaled nearly \$360 million, including repurchases of approximately \$332 million of our common stock and \$27 million in dividends.

During the quarter, we repurchased over 7 million of our shares at an average price of \$45.43 for an aggregate purchase price of \$332 million, which completed the existing share repurchase program. The repurchases were effected via open market purchases and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The Board authorized an additional \$200 million share repurchase program in April 2015.

Our 2015 common stock dividends were as follows:

2015 Dividends

<u>Declaration Date</u>	<u>Payment Date</u>	<u>Per Share Dividend</u>
January	February 28, 2015	\$ 0.15
April	May 29, 2015	\$ 0.15

Regulatory Capital Guidelines

Basel III and the New Standardized Risk-based Approach. The Company, as well as the Bank, became subject to the Basel III Final Rule effective January 1, 2015.

Edgar Filing: CIT GROUP INC - Form 10-Q

Among other matters, the Basel III Final Rule: (i) introduces a new capital measure called Common Equity Tier 1 (CET1) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the deductions from and adjustments to capital as compared to existing regulations. For most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes, which will be subject to the Basel III Final Rule specific requirements. The Company does not currently have either of these forms of capital outstanding.

The Basel III Final Rule provides for a number of deductions from and adjustments to CET1. These include, for example, goodwill, other intangible assets, and deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards net of any related valuation allowance. Also, mortgage servicing rights, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial institutions must be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. The non-DTA related deductions (goodwill, intangibles, etc.) may be reduced by netting with any associated deferred tax liabilities (DTLs). As for the DTA deductions, the netting of any remaining DTL must be allocated in proportion to the DTAs arising from net operating losses and tax credit carryforwards and those arising from temporary differences.

Implementation of some of these deductions to CET1 began on January 1, 2015, and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and adding 20% per year thereafter until January 1, 2018).

In addition, under the Basel I general risk-based capital rules, the effects of certain components of accumulated other comprehensive income (AOCI) included in shareholders equity (for example, mark-to-market of securities held in the available-for-sale (AFS) portfolio) under U.S. GAAP are reversed for the purpose of determining regulatory capital ratios. Pursuant to the Basel III Final Rule, the effects of these AOCI items are not excluded; however, non-advanced approaches banking organizations, including the Company and CIT Bank, may make a one-time permanent election to continue to exclude the AOCI items currently excluded under Basel I. Both the Company and CIT Bank have elected to exclude AOCI items from regulatory capital ratios. The Basel III Final Rule also precludes certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies Tier 1 capital. The Company does not have any hybrid securities outstanding at March 31, 2015.

The Basel III Final Rule prescribed a new approach for risk weightings for BHCs and banks that follow the Standardized approach, which applies to CIT. This approach expands the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, ranging from 0% for U.S. government and agency securities, to as high as 1,250% for such exposures as credit-enhancing interest-only strips or unsettled security/commodity transactions.

Per the Basel III Final Rule, the minimum capital ratios for CET1, Tier 1 capital, and Total capital are 4.5%, 6.0% and

70 CIT GROUP INC

Table of Contents

8.0%, respectively. In addition, the Basel III Final Rule introduces a new capital conservation buffer, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. This buffer will be implemented beginning January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

CIT will be required to maintain risk-based capital ratios at January 1, 2019 as follows:

	Minimum Capital Requirements January 1, 2019		
	Tier 1 Common Equity	Tier 1 Capital	Total Capital
Stated minimum ratios	4.5%	6.0%	8.0%

Edgar Filing: CIT GROUP INC - Form 10-Q

Minimum Capital Requirements January 1, 2019

Capital conservation buffer	2.5%	2.5%	2.5%
Effective minimum ratios	7.0%	8.5%	10.5%

With respect to CIT Bank, the Basel III Final Rule revises the prompt corrective action (PCA) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Final Rule does not change the total risk-based capital requirement for any PCA category. Both the Company and CIT Bank are subject to a minimum Tier 1 Leverage ratio of 4%.

As non-advanced approaches banking organizations, the Company and CIT Bank will not be subject to the Basel III Final Rule's countercyclical buffer or the supplementary leverage ratio.

The Company and CIT Bank have met all capital requirements under the Basel III Final Rule, including the capital conservation buffer, as if such requirements were currently effective. The following table presents CIT's and CIT Bank's estimated capital ratios as of March 31, 2015 calculated under the fully phased-in Basel III Final Rule Standardized approach.

Preliminary Basel III Capital Ratios Fully Phased-in Standardized Approach¹⁾ As of March 31, 2015 (dollars in millions)

	CIT		CIT Bank	
	Estimated	Requirement	Estimated	Requirement
CIT				
Capital				
CET1	\$ 7,954.1		\$ 2,574.0	
Tier 1	7,954.1		2,574.0	
Total	8,348.0		2,824.7	
Risk-weighted assets	56,340.2		19,978.0	
Adjusted quarterly average assets	46,422.2		21,299.9	
Capital ratios				
CET1	14.1%	7.0% ⁽²⁾	12.9%	7.0% ⁽²⁾
Tier 1	14.1%	8.5% ⁽²⁾	12.9%	8.5% ⁽²⁾
Total	14.8%	10.5% ⁽²⁾	14.1%	10.5% ⁽²⁾
Leverage	17.1%	4.0%	12.1%	4.0%

⁽¹⁾ Basel III Final Rule calculated under the Standardized Approach on a fully phased-in basis that will be required effective January 1, 2019. These ratios are preliminary estimates based upon our present interpretation of the Basel III Final Rule.

⁽²⁾ Required ratios under the Basel III Final Rule include the post-transition minimum capital conservation buffer effective January 1, 2019.

Table of Contents

Capital Composition and Ratios

Edgar Filing: CIT GROUP INC - Form 10-Q

The Company is subject to various regulatory capital requirements. We compute capital ratios in accordance with Federal Reserve capital guidelines for assessing adequacy of capital. At March 31, 2015, the regulatory capital guidelines applicable to the Company were based on the Basel III Final Rule. The ratios presented in the following table for March 31, 2015 are calculated under the current rules. At December 31, 2014, the regulatory capital guidelines that were applicable to the Company were based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I). The ratios were not significantly impacted by the change.

Tier 1 Capital and Total Capital Components⁽¹⁾ (dollars in millions)

	March 31, 2015	December 31, 2014
Tier 1 Capital		
Total stockholders' equity	\$ 8,758.6	\$ 9,068.9
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interests	59.8	53.0
Adjusted total equity	8,818.4	9,121.9
Less: Goodwill ⁽¹⁾	(482.8)	(571.3)
Disallowed deferred tax assets	(358.3)	(416.8)
Disallowed intangible assets ⁽²⁾	(9.3)	(25.7)
Investment in certain subsidiaries	NA	(36.7)
Other Tier 1 components ⁽³⁾		(4.1)
Common Equity Tier 1 Capital	7,968.0	8,067.3
Tier 1 Capital	7,968.0	8,067.3
Tier 2 Capital		
Qualifying reserve for credit losses and other reserves ⁽⁴⁾	393.8	381.8
Less: Investment in certain subsidiaries	NA	(36.7)
Other Tier 2 components ⁽⁵⁾	0.1	
Total qualifying capital	\$ 8,361.9	\$ 8,412.4
Risk-weighted assets	\$ 56,059.5	\$ 55,480.9
BHC Ratios		
Common Equity Tier 1 Capital Ratio	14.2%	NA
Tier 1 Capital Ratio	14.2%	14.5%
Total Capital Ratio	14.9%	15.2%
Tier 1 Leverage Ratio	17.2%	17.4%
CIT Bank Ratios		
Common Equity Tier 1 Capital Ratio	12.9%	NA
Tier 1 Capital Ratio	12.9%	13.0%
Total Capital Ratio	14.2%	14.2%
Tier 1 Leverage Ratio	12.1%	12.2%

⁽¹⁾ The March 31, 2015 presentation reflects the risk-based capital guidelines under Basel III, which became effective on January 1, 2015, on a partially phased-in basis. The December 31, 2014 reflects the risk-based capital guidelines under then effective Basel I.

⁽²⁾ Goodwill and disallowed intangible assets adjustments also reflect the portion included within assets held for sale.

⁽³⁾ Includes the Tier 1 capital charge for nonfinancial equity investments and the Tier 1 capital deduction for net unrealized losses on available-for-sale marketable securities (net of tax).

⁽⁴⁾ Other reserves represents additional credit loss reserves for unfunded lending commitments, letters of credit, and deferred purchase agreements, all of which are recorded in Other Liabilities.

⁽⁵⁾ Banking organizations are permitted to include in Tier 2 Capital up to 45% of net unrealized pretax gains on available-for-sale equity securities with readily determinable fair values.

NA Balance is not applicable under the respective guidelines.

72 CIT GROUP INC

Table of Contents

The change in common stockholders' equity from December 31, 2014 was primarily driven by net income, less the impact of share repurchases and dividends.

The reconciliation of balance sheet assets to risk-weighted assets is presented below:

Risk-Weighted Assets (dollars in millions)

	March 31, 2015	December 31, 2014
Balance sheet assets	\$ 46,416.0	\$ 47,880.0
Risk weighting adjustments to balance sheet assets	(6,701.2)	(8,647.8)
Off balance sheet items	16,344.7	16,248.7
Risk-weighted assets	\$ 56,059.5	\$ 55,480.9

The risk weighting adjustments at March 31, 2015, reflect Basel III guidelines, whereas the December 31, 2014 risk weighting adjustments followed Basel I guidelines. The 2015 off balance sheet items primarily reflect commitments to purchase aircraft and railcars (\$10.7 billion related to aircraft and \$1.5 billion related to railcars), unused lines of credit (\$1.8 billion credit equivalent, largely related to Corporate Finance division) and deferred purchase agreements (\$1.6 billion related to Commercial Services division). See *Note 13 - Commitments in Item 1. Consolidated Financial Statements* for further detail on commitments.

Tangible Book Value and Tangible Book Value per Share⁽¹⁾

Tangible book value represents common equity less goodwill and other intangible assets. A reconciliation of CIT's total common stockholders equity to tangible book value, a non-GAAP measure, follows:

Tangible Book Value and per Share Amounts (dollars in millions, except per share amounts)

	March 31, 2015	December 31, 2014
Total common stockholders' equity	\$ 8,758.6	\$ 9,068.9
Less: Goodwill	(563.6)	(571.3)
Intangible assets	(23.2)	(25.7)
Tangible book value	\$ 8,171.8	\$ 8,471.9
Book value per share	\$ 50.26	\$ 50.13
Tangible book value per share	\$ 46.89	\$ 46.83

⁽¹⁾ Tangible book value and tangible book value per share are non-GAAP measures.

Edgar Filing: CIT GROUP INC - Form 10-Q

Book value and Tangible book value (TBV) were down as the 2015 earnings were offset by the impact of share repurchases, the value of which reduces book value while held in treasury. Book value per share and TBV per share increased reflecting the decline in outstanding shares.

CIT BANK

The Bank is a state-chartered commercial bank headquartered in Salt Lake City, Utah, that is subject to regulation and examination by the FDIC and the UDFI and is our principal bank subsidiary. The Bank originates and funds lending and leasing activity in the U.S. Asset growth during the quarter reflected lending and leasing volume. Deposits grew in support of the increased business and investment activities. The Bank's capital and leverage ratios are included in the tables that follow and remained well above required levels.

As detailed in the following Condensed Balance Sheet table, total assets increased modestly to \$21.5 billion from \$21.1 billion at December 31, 2014. Cash and deposits with banks was down as balances were used to invest in higher earning securities, consisting of approximately \$450 million of U.S. Government Agency notes.

Commercial loans totaled \$15.1 billion at March 31, 2015, up slightly from December 31, 2014. Funded volumes represented nearly all of the new U.S. volumes for NACF and TIF. The portfolio of operating lease equipment, which totaled \$2.0 billion, was comprised primarily of railcars and some aircraft.

CIT Bank deposits were \$16.8 billion at March 31, 2015, up from \$15.9 billion at December 31, 2014, supporting the asset growth and other debt reduction. The weighted average interest rate was 1.66%, compared to 1.63% at December 31, 2014.

Item 2. Management's Discussion and Analysis and Item 3. Quantitative and Qualitative Disclosures about Market Risk 73

Table of Contents

Long-term borrowings at March 31, 2015 mainly consisted of debt related to secured borrowing transactions, the 2014 acquisition of Direct Capital and amounts borrowed from FHLBs. The decrease was driven by repayments of secured borrowings and FHLB borrowings.

The following presents condensed financial information for CIT Bank.

Condensed Balance Sheets (dollars in millions)

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
ASSETS:		
Cash and deposits with banks	\$ 3,382.4	\$ 3,684.9
Investment securities	748.7	285.2
Assets held for sale	72.3	22.8
Commercial loans	15,090.1	14,982.8
Allowance for loan losses	(286.2)	(269.5)
Operating lease equipment, net	2,041.0	2,026.3
Goodwill	167.8	167.8
Other assets	248.7	215.7
Total Assets	\$ 21,464.8	\$ 21,116.0
LIABILITIES AND EQUITY:		
Deposits	\$ 16,806.7	\$ 15,877.9
Long-term borrowings	1,499.4	1,862.5
Other borrowings		303.1
Other liabilities	410.6	356.1
Total Liabilities	18,716.7	18,399.6

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015	December 31, 2014
Total Equity	2,748.1	2,716.4
Total Liabilities and Equity	\$ 21,464.8	\$ 21,116.0
Capital Ratios		
Common Equity Tier 1 Capital	12.9%	NA
Tier 1 Capital Ratio	12.9%	13.0%
Total Capital Ratio	14.2%	14.2%
Tier 1 Leverage ratio	12.1%	12.2%
<i>NA Not applicable under Basel I guidelines.</i>		
Financing and Leasing Assets by Segment (dollars in millions)		
North American Commercial Finance	\$ 12,657.4	\$ 12,518.8
Transportation & International Finance	4,546.0	4,513.1
Total	\$ 17,203.4	\$ 17,031.9

We compute capital ratios in accordance with Federal Reserve capital guidelines for assessing adequacy of capital. At March 31, 2015, the regulatory capital guidelines applicable to the Bank were based on the Basel III Final Rule. The ratios presented in the following table for March 31, 2015 are calculated under the current rules. At December 31, 2014, the regulatory capital guidelines that were applicable to the Bank were based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I). The ratios were not significantly impacted by the change.

74 CIT GROUP INC

Table of Contents

Condensed Statements of Operations (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Interest income	\$ 197.5	\$ 200.0	\$ 157.8
Interest expense	(74.1)	(73.5)	(51.4)
Net interest revenue	123.4	126.5	106.4
Provision for credit losses	(32.1)	(26.1)	(24.8)
Net interest revenue, after credit provision	91.3	100.4	81.6
Rental income on operating leases	70.1	65.9	45.8
Other income	28.7	40.6	27.0
Total net revenue, net of interest expense and credit provision	190.1	206.9	154.4
Operating expenses	(101.4)	(124.9)	(85.4)
Depreciation on operating lease equipment	(28.6)	(27.0)	(18.2)
Income before provision for income taxes	60.1	55.0	50.8
Provision for income taxes	(25.0)	(22.7)	(17.8)
Net income	\$ 35.1	\$ 32.3	\$ 33.0
New business volume	\$ 1,450.2	\$ 1,928.6	\$ 1,660.4

Edgar Filing: CIT GROUP INC - Form 10-Q

The Bank's results benefited from growth in AEA. The provision for credit losses for 2015 reflects higher reserve build, including higher non-specific reserves, while credit metrics remain at or near cyclical lows. Net charge-offs as a percentage of average finance receivables were 0.41%, compared to 0.47% in the year-ago quarter and 0.28% in the prior quarter.

Other income was up slightly from the year-ago quarter, and down from the prior quarter, reflecting lower gains on asset sales and fee revenue. Operating expenses increased from the year-ago quarter, reflecting the continued growth of both assets and deposits in the Bank, along with the additional employee costs associated with the third quarter 2014 acquisition of Direct Capital. As a % of AEA, operating expenses were 2.00%, down from 2.47% in the year-ago quarter and 2.97% in the prior quarter.

Net Finance Revenue (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Interest income	\$ 197.5	\$ 200.0	\$ 157.8
Rental income on operating leases	70.1	65.9	45.8
Finance revenue	267.6	265.9	203.6
Interest expense	(74.1)	(73.5)	(51.4)
Depreciation on operating lease equipment	(28.6)	(27.0)	(18.2)
Maintenance and other operating lease expenses*	(1.2)	(2.3)	(1.8)
Net finance revenue	\$ 163.7	\$ 163.1	\$ 132.2
Average Earning Assets (AEA)	\$ 17,108.8	\$ 16,845.0	\$ 13,832.5
As a % of AEA:			
Interest income	4.62%	4.75%	4.56%
Rental income on operating leases	1.64%	1.56%	1.33%
Finance revenue	6.26%	6.31%	5.89%
Interest expense	(1.73)%	(1.75)%	(1.49)%
Depreciation on operating lease equipment	(0.67)%	(0.64)%	(0.52)%
Maintenance and other operating lease expenses*	(0.03)%	(0.05)%	(0.05)%
Net finance revenue	3.83%	3.87%	3.83%

* Amounts included in CIT Bank operating expenses.

NFR increased from the year-ago period, reflecting the growth in financing and leasing assets, and was flat sequentially. NFM was down slightly from the prior quarter, reflecting some pressure on loan yields. The operating lease portfolio contributed \$40 million to NFR in 2014, compared to \$26 million and \$37 million in the year-ago and prior quarters, respectively.

NFR and NFM are key metrics used by management to measure the profitability of our lending and leasing assets. NFR includes interest and fee income on our loans and capital leases, interest and dividend income on cash and investments, rental revenue from our leased equipment, depreciation and maintenance and other operating lease expenses, as well as funding costs. Since our asset

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 75

Table of Contents

composition includes an increasing level of operating lease equipment (12% of AEA for the quarter ended March 31, 2015), NFM is a more appropriate metric for the Bank than net interest margin (NIM) (a common metric used by other banks), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less

Edgar Filing: CIT GROUP INC - Form 10-Q

depreciation and maintenance and other operating lease expenses) from operating leases.

SELECT DATA AND AVERAGE BALANCES

The following table sets forth selected consolidated financial information regarding our results of operations, balance sheets and certain ratios.

Select Data (dollars in millions)

	At or for the Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Select Statement of Operations Data			
Net interest revenue	\$ 9.7	\$ 29.3	\$ 30.3
Provision for credit losses	(34.6)	(15.0)	(36.7)
Total non-interest income	617.0	662.9	563.0
Total other expenses	(444.5)	(454.8)	(433.9)
Income from continuing operations	103.7	252.0	114.9
Net income	103.7	251.0	117.2
Per Common Share Data			
Diluted income per common share continuing operations	\$ 0.59	\$ 1.37	\$ 0.58
Diluted income per common share	\$ 0.59	\$ 1.37	\$ 0.59
Book value per common share	\$ 50.26	\$ 50.13	\$ 45.10
Tangible book value per common share	\$ 46.89	\$ 46.83	\$ 42.94
Dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.10
Dividend payout ratio	25.6%	11.0%	16.8%
Performance Ratios			
Return on average common stockholders equity	4.7%	11.1%	5.3%
Net finance revenue as a percentage of average earning assets	4.00%	4.34%	4.01%
Return on average continuing operations total assets	0.88%	2.14%	1.04%
Total ending equity to total ending assets	18.9%	18.9%	18.1%
Balance Sheet Data			
Loans including receivables pledged	\$ 19,429.3	\$ 19,495.0	\$ 18,571.7
Allowance for loan losses	(356.5)	(346.4)	(352.6)
Operating lease equipment, net	14,887.8	14,930.4	14,182.4
Goodwill	563.6	571.3	403.5
Total cash and interest bearing deposits	6,306.9	7,119.7	6,693.9
Investments securities and securities purchased under agreements to resell	1,797.4	2,200.3	2,255.0
Assets of discontinued operation			3,721.2
Total assets	46,416.0	47,880.0	48,578.1
Deposits	16,758.1	15,849.8	13,189.3
Long-term borrowings	16,658.3	18,455.8	19,508.8
Liabilities of discontinued operation			3,172.1
Total common stockholders equity	8,758.6	9,068.9	8,796.0
Credit Quality			
Non-accrual loans as a percentage of finance receivables	0.94%	0.82%	1.18%
Net charge-offs as a percentage of average finance receivables	0.43%	0.47%	0.76%
Allowance for loan losses as a percentage of finance receivables	1.83%	1.78%	1.90%

Edgar Filing: CIT GROUP INC - Form 10-Q

At or for the Quarters Ended

Financial Ratios

Common Equity Tier 1 Capital Ratio	14.2%	NA	NA
Tier 1 Capital Ratio	14.2%	14.5%	16.1%
Total Capital Ratio	14.9%	15.2%	16.8%

76 CIT GROUP INC

Table of Contents

Quarterly Average Balances⁽¹⁾ and Associated Income (dollars in millions)

	March 31, 2015			December 31, 2014			March 31, 2014		
	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance	Revenue / Expense	Average Rate (%)
Interest bearing deposits	\$ 5,951.6	\$ 4.0	0.27%	\$ 5,848.3	\$ 4.2	0.29%	\$ 5,188.9	\$ 4.6	0.35%
Securities purchased under agreements to resell	575.0	0.7	0.49%	675.0	0.9	0.53%			
Investments	1,497.2	3.9	1.04%	991.4	4.8	1.94%	2,499.7	4.2	0.67%
Loans (including held for sale) ⁽²⁾⁽³⁾									
U.S.	17,908.2	220.0	5.36%	17,829.9	234.6	5.76%	15,816.3	214.4	5.90%
Non-U.S.	2,235.3	52.4	9.38%	2,687.2	61.7	9.18%	3,736.7	79.0	8.46%
Total loans ⁽²⁾	20,143.5	272.4	5.84%	20,517.1	296.3	6.24%	19,553.0	293.4	6.42%
Total interest earning assets / interest income ⁽²⁾⁽³⁾	28,167.3	281.0	4.22%	28,031.8	306.2	4.62%	27,241.6	302.2	4.66%
Operating lease equipment, net (including held for sale) ⁽⁴⁾									
U.S. ⁽⁴⁾	7,769.5	177.8	9.15%	8,018.0	184.6	9.21%	7,349.6	156.2	8.50%
Non-U.S. ⁽⁴⁾	7,420.0	149.9	8.08%	7,414.2	159.0	8.58%	6,551.2	135.3	8.26%
Total operating lease equipment, net ⁽⁴⁾	15,189.5	327.7	8.63%	15,432.2	343.6	8.91%	13,900.8	291.5	8.39%
Total earning assets ⁽²⁾	43,356.8	608.7	5.82%	43,464.0	649.8	6.20%	41,142.4	593.7	5.96%
Non-interest earning assets									
Cash due from banks	903.6			858.2			1,055.0		
Allowance for loan losses	(347.7)			(345.5)			(357.8)		
All other non-interest earning assets	3,317.1			3,176.0			2,357.3		
							3,792.3		

Edgar Filing: CIT GROUP INC - Form 10-Q

	March 31, 2015			December 31, 2014			March 31, 2014		
Assets of discontinued operation									
Total Average Assets	\$ 47,229.8			\$ 47,152.7			\$ 47,989.2		
Borrowings									
Deposits	\$ 16,382.2	\$ 69.0	1.68%	\$ 15,115.0	\$ 63.8	1.69%	\$ 12,812.2	\$ 51.9	1.62%
Long-term borrowings ⁽⁵⁾	17,603.9	202.3	4.60%	18,707.5	213.1	4.56%	19,022.1	220.0	4.63%
Total interest-bearing liabilities	33,986.1	271.3	3.19%	33,822.5	276.9	3.27%	31,834.3	271.9	3.42%
Credit balances of factoring clients	1,501.4			1,528.2			1,276.3		
Other non-interest bearing liabilities	2,870.6			2,733.4			2,819.6		
Liabilities of discontinued operation							3,240.1		
Noncontrolling interests	(3.9)			(2.6)			11.1		
Stockholders equity	8,875.6			9,071.2			8,807.8		
Total Average Liabilities and Stockholders Equity	\$ 47,229.8			\$ 47,152.7			\$ 47,989.2		
Net revenue spread			2.63%			2.93%			2.54%
Impact of non-interest bearing sources			0.59%			0.63%			0.69%
Net revenue/yield on earning assets⁽²⁾	\$ 337.4		3.22%	\$ 372.9		3.56%	\$ 321.8		3.23%

⁽¹⁾ The average balances presented are derived based on month end balances during the year. Tax exempt income was not significant in any of the years presented. Average rates are impacted by FSA accretion and amortization.

⁽²⁾ The rate presented is calculated net of average credit balances for factoring clients.

⁽³⁾ Non-accrual loans and related income are included in the respective categories.

⁽⁴⁾ Operating lease rental income is a significant source of revenue; therefore, we have presented the rental revenues net of depreciation and net of Maintenance and other operating lease expenses.

⁽⁵⁾ Interest and average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments, and accelerated original issue discount on debt extinguishment related to the GSI facility.

Interest income on interest bearing deposits, securities purchased under agreements to resell and investment securities was not significant in any of the quarters presented. Investments are typically a combination of high

Table of Contents

quality debt, primarily U.S. Treasury securities, U.S. Government Agency securities, and supranational and foreign government securities. Investments were up sequentially, reflecting investments in U.S. Government Agency securities by CIT Bank.

Average rates on loans decreased from the year-ago quarter, reflecting compression on portfolio yields across many of our businesses and the reduction of interest recoveries.

Net operating lease revenue was primarily generated from the commercial air and rail portfolios. Net operating lease revenue increased compared to the year-ago quarter, benefiting from higher assets and rail yields. The decline from the prior quarter resulted from asset sales, lower utilization and lower rental rates. On average, lease renewal rates in the rail portfolio re-priced slightly higher than the prior year quarter, while the commercial aircraft portfolio has been re-pricing slightly lower.

Interest expense was relatively flat. The weighted average coupon rate of outstanding deposits and long-term borrowings was 3.04% at March 31, 2015, down from 3.33% at March 31, 2014 and 3.11% at December 31, 2014. Although as shown in the following paragraphs rates were generally up, the higher proportion of deposit funding decreased the total funding weighted average coupon rate. Deposits represented 50% of the total deposits and long-term borrowing at March 31, 2015, while unsecured debt was 32% and secured debt was 18%. These proportions will fluctuate in the future depending upon our funding activities.

Deposits have increased, both in dollars and proportion of total CIT funding. The weighted average rate of total CIT deposits was 1.70%, 1.67% and 1.69% at March 31, 2015 and 2014 and December 31, 2014, respectively. The proportion of deposits to total funding increased to 50% from 46% at December 31, 2014 and 40% at March 31, 2014. Deposits and long-term borrowings are also discussed in *Funding and Liquidity*. See *Select Data and Average Balances* section for more information on Long-term borrowing rates.

The weighted average coupon rate of long-term borrowings at March 31, 2015 was 4.39%, compared to 4.45% at March 31, 2014 and 4.32% at December 31, 2014. Long-term borrowings consist of unsecured and secured debt. The weighted average coupon rate of unsecured long-term borrowings at March 31, 2015 was 5.03%, up slightly from 5.02% at March 31, 2014 and 5.00% at December 31, 2014. The weighted average coupon rate of secured long-term borrowings at March 31, 2015 was 3.23%, up from 3.17% at March 31, 2014 and 3.09% at December 31, 2014.

The average long-term borrowings balances presented below were derived based on daily balances and the average rates are based on a 30 days per month day count convention.

Average Daily Long-term Borrowings Balances and Rates (dollars in millions)

	Quarters Ended								
	March 31, 2015			December 31, 2014			March 31, 2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Revolving Credit Facility ⁽¹⁾	\$	\$ 3.2		\$	\$ 3.2		\$	\$ 4.3	
Senior Unsecured Notes	11,332.5	145.1	5.12%	12,069.0	154.1	5.11%	12,998.4	168.7	5.19%
Secured borrowings	6,277.5	54.0	3.44%	6,588.9	55.8	3.39%	6,059.3	47.0	3.10%
Long-term Borrowings	\$ 17,610.0	\$ 202.3	4.60%	\$ 18,657.9	\$ 213.1	4.57%	\$ 19,057.7	\$ 220.0	4.62%

⁽¹⁾ Interest expense and average rate includes Facility commitment fees and amortization of Facility deal costs.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities, reported amounts of income and expense and the disclosure of contingent assets and liabilities. The following estimates, which are based on relevant information available at the end of each period, include inherent risks and

Edgar Filing: CIT GROUP INC - Form 10-Q

uncertainties related to judgments and assumptions made. We consider the estimates to be critical in applying our accounting policies, due to the existence of uncertainty at the time the estimate is made, the likelihood of changes in estimates from period to period and the potential impact on the financial statements.

Management believes that the judgments and estimates utilized in the following critical accounting estimates are reasonable. We do not believe that different assumptions are more likely than those utilized, although actual events may differ from such assumptions. Consequently, our estimates could prove inaccurate, and we may be exposed to charges to earnings that could be material.

- n Allowance for Loan Losses
- n Loan Impairment
- n Fair Value Determination
- n Lease Residual Values
- n Liabilities for Uncertain Tax Positions
- n Realizability of Deferred Tax Assets
- n Goodwill Assets

78 CIT GROUP INC

Table of Contents

There have been no significant changes to the methodologies and processes used in developing estimates relating to these items from those described in our 2014 Annual Report on Form 10-K.

INTERNAL CONTROLS WORKING GROUP

The Internal Controls Working Group (ICWG), which reports to the Disclosure Committee, is responsible for monitoring and improving internal controls over external financial reporting. The ICWG is chaired by the Controller and is comprised of executives in Finance, Risk, Operations, Human Resources, Information Technology and Internal Audit. See *Item 4. Controls and Procedures* for more information.

NON-GAAP FINANCIAL MEASUREMENTS

The SEC adopted regulations that apply to any public disclosure or release of material information that includes a non-GAAP financial measure. The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure about Market Risk contain certain non-GAAP financial measures. Due to the nature of our financing and leasing assets, which include a higher proportion of operating lease equipment than most BHCs, certain financial measures commonly used by other BHCs are not as meaningful for our Company. Therefore, management uses certain non-GAAP financial measures to evaluate our performance. We intend our non-GAAP financial measures to provide additional information and insight regarding operating results and financial position of the business and in certain cases to provide financial information that is presented to rating agencies and other users of financial information. These measures are not in accordance with, or a substitute for, GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. See footnotes below the tables for additional explanation of non-GAAP measurements.

Total Net Revenues⁽¹⁾ and Net Operating Lease Revenues⁽²⁾ (dollars in millions)

Quarters Ended

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Total Net Revenue			
Interest income	\$ 281.0	\$ 306.2	\$ 302.2
Rental income on operating leases	530.6	546.5	491.9
Finance revenue	811.6	852.7	794.1
Interest expense	(271.3)	(276.9)	(271.9)
Depreciation on operating lease equipment	(156.8)	(153.2)	(148.8)
Maintenance and other operating lease expenses	(46.1)	(49.7)	(51.6)
Net finance revenue	337.4	372.9	321.8
Other income	86.4	116.4	71.1
Total net revenues	\$ 423.8	\$ 489.3	\$ 392.9
Net Operating Lease Revenue			
Rental income on operating leases	\$ 530.6	\$ 546.5	\$ 491.9
Depreciation on operating lease equipment	(156.8)	(153.2)	(148.8)
Maintenance and other operating lease expenses	(46.1)	(49.7)	(51.6)
Net operating lease revenue	\$ 327.7	\$ 343.6	\$ 291.5

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 79

Table of Contents

Operating Expenses Excluding Restructuring Costs⁽³⁾ (dollars in millions)

	Quarters Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Operating expenses	\$ (241.6)	\$ (248.8)	\$ (233.5)
Provision for severance and facilities exiting activities	(1.0)	6.7	9.9
Operating expenses excluding restructuring costs	\$ (242.6)	\$ (242.1)	\$ (223.6)

Earning Assets⁽⁴⁾ (dollars in millions)

	March 31, 2015	December 31, 2014	March 31, 2014
Loans	\$ 19,429.3	\$ 19,495.0	\$ 18,571.7
Operating lease equipment, net	14,887.8	14,930.4	14,182.4
Assets held for sale	1,051.9	1,218.1	1,119.4
Credit balances of factoring clients	(1,505.3)	(1,622.1)	(1,213.5)
Total earning assets	\$ 33,863.7	\$ 34,021.4	\$ 32,660.0

Tangible Book Value⁽⁵⁾ (dollars in millions)

	March 31, 2015	December 31, 2014	March 31, 2014
Total common stockholders' equity	\$ 8,758.6	\$ 9,068.9	\$ 8,796.0
Less: Goodwill	(563.6)	(571.3)	(403.5)
Intangible assets	(23.2)	(25.7)	(18.2)
Tangible book value	\$ 8,171.8	\$ 8,471.9	\$ 8,374.3

- ⁽¹⁾ Total net revenues is a non-GAAP measure that represents the combination of net finance revenue and other income and is an aggregation of all sources of revenue for the Company. Total net revenues is used by management to monitor business performance. Given our asset composition includes a high level of operating lease equipment, NFM is a more appropriate metric than net interest margin (NIM) (a common metric used by other bank holding companies), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs of all our assets but excludes the net revenue (rental revenue less depreciation and maintenance and other operating lease expenses) from operating leases.
- ⁽²⁾ Net operating lease revenue is a non-GAAP measure that represents the combination of rental income on operating leases less depreciation on operating lease equipment and maintenance and other operating lease expenses. Net operating lease revenues is used by management to monitor portfolio performance.
- ⁽³⁾ Operating expenses excluding restructuring costs is a non-GAAP measure used by management to compare period over period expenses.
- ⁽⁴⁾ Earning assets is a non-GAAP measure and are utilized in certain revenue and earnings ratios. Earning assets are net of credit balances of factoring clients. This net amount represents the amounts we fund.
- ⁽⁵⁾ Tangible book value is a non-GAAP measure, which represents an adjusted common shareholders' equity balance that has been reduced by goodwill and intangible assets. Tangible book value is used to compute a per common share amount, which is used to evaluate our use of equity. Other companies may define or calculate this measure differently.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. All statements contained herein that are not clearly historical in nature are forward-looking and the words anticipate, believe, could, expect, estimate, forecast, intend, plan, potential, project, target and similar expressions are generally intended to be forward-looking statements. Any forward-looking statements contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission or in communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls, concerning our operations, economic performance and financial condition are subject to known and unknown risks, uncertainties and contingencies. Forward-looking statements are included, for example, in the discussions about:

- n our liquidity risk and capital management, including our capital plan, leverage, capital ratios, and credit ratings, our liquidity plan, and our plans and the potential transactions designed to enhance our liquidity and capital, and for a return of capital,
- n our plans to change our funding mix and to access new sources of funding to broaden our use of deposit taking capabilities,
- n our credit risk management and credit quality,

Table of Contents

- n our asset/liability risk management,
- n our funding, borrowing costs and net finance revenue,
- n our operational risks, including success of systems enhancements and expansion of risk management and control functions,
- n our mix of portfolio asset classes, including changes resulting from growth initiatives, new business initiatives, new products, acquisitions and divestitures, new business and customer retention,
- n legal risks, including related to the enforceability of our agreements and to changes in laws and regulations,
- n our growth rates,
- n our commitments to extend credit or purchase equipment, and
- n how we may be affected by legal proceedings.

All forward-looking statements involve risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, forward-looking statements are based upon management's estimates of fair values and of future costs, using currently available information.

Therefore, actual results may differ materially from those expressed or implied in those statements. Factors, in addition to those disclosed in *Risk Factors*, that could cause such differences include, but are not limited to:

- n capital markets liquidity,
- n risks of and/or actual economic slowdown, downturn or recession,
- n industry cycles and trends,
- n uncertainties associated with risk management, including credit, prepayment, asset/liability, interest rate and currency risks,
- n adequacy of reserves for credit losses,
- n risks inherent in changes in market interest rates and quality spreads,
- n funding opportunities, deposit taking capabilities and borrowing costs,
- n conditions and/or changes in funding markets and our access to such markets, including secured and unsecured term debt and the asset-backed securitization markets,
- n risks of implementing new processes, procedures, and systems,
- n risks associated with the value and recoverability of leased equipment and lease residual values,
- n risks of failing to achieve the projected revenue growth from new business initiatives or the projected expense reductions from efficiency improvements,
- n application of fair value accounting in volatile markets,

- n application of goodwill accounting in a recessionary economy,
- n changes in laws or regulations governing our business and operations, or affecting our assets, including our operating lease equipment,
- n changes in competitive factors,
- n demographic trends,
- n customer retention rates,
- n future acquisitions and dispositions of businesses or asset portfolios and the risks of integrating any acquisitions, and
- n regulatory changes and/or developments.

Any or all of our forward-looking statements here or in other publications may turn out to be wrong, and there are no guarantees regarding our performance. We do not assume any obligation to update any forward-looking statement for any reason.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the Exchange Act) as of March 31, 2015. Based on such evaluation, the principal executive officer and the principal financial officer have concluded that the Company's disclosure controls and procedures were effective.

(b) Changes In Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 2. Management's Discussion and Analysis and **Item 3.** Quantitative and Qualitative Disclosures about Market Risk 81

Table of Contents

Part Two Other Information

ITEM 1. Legal Proceedings

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, Litigation), certain of which Litigation matters are described in *Note 14 Contingencies of Item 1. Consolidated Financial Statements*. In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company's financial condition, but may be material to the

Company's operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see *Note 14 Contingencies of Item 1. Consolidated Financial Statements*.

ITEM 1A. Risk Factors

For a discussion of certain risk factors affecting CIT, see *Part I, Item 1A: Risk Factors*, of CIT's 2014 Annual Report on Form 10-K, and Forward-Looking Statements of this Form 10-Q.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information related to purchases by the Company of its common shares.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Total Dollar Amount Purchased Under the Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
				(dollars in millions)	(dollars in millions)
December 31, 2014			17,067,648	\$ 775.3	\$ 331.6
First Quarter Purchases					
January 1 - 31, 2015	4,701,427	\$ 45.30	4,701,427	\$ 213.0	
February 1 - 28, 2015	1,916,187	\$ 45.81	1,916,187	\$ 87.8	
March 1 - 31, 2015	681,179	\$ 45.31	681,179	\$ 30.8	
	7,298,793	\$ 45.43	7,298,793	\$ 331.6	
March 31, 2015			24,366,441	\$ 1,106.9	\$

The purchases included above concluded the current program.

In April 2015, the Board authorized an additional \$200 million share repurchase program. Management will determine the timing and amount of any share repurchases under the share repurchase authorizations based on market conditions and other considerations. The repurchases may be effected in the open market through derivative, accelerated repurchase and other negotiated transactions, and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The repurchased common stock is held as treasury shares and may be used for the issuance of shares under CIT's employee stock plans.

82 CIT GROUP INC

Table of Contents

ITEM 4. Mine Safety Disclosure

Not applicable.

ITEM 6. Exhibits

(a) Exhibits

- 2.1 Agreement and Plan of Merger, by and among CIT Group Inc., IMB Holdco LLC, Carbon Merger Sub LLC and JCF III HoldCo I L.P., dated as of July 21, 2014 (incorporated by reference to Exhibit 2.1 to Form 8-K filed July 25, 2014).
- 3.1 Third Amended and Restated Certificate of Incorporation of the Company, dated December 8, 2009 (incorporated by reference to Exhibit 3.1 to Form 8-K filed December 9, 2009).
- 3.2 Amended and Restated By-laws of the Company, as amended through July 15, 2014 (incorporated by reference to Exhibit 99.1 to Form 8-K filed July 16, 2014).
- 4.1 Indenture dated as of January 20, 2006 between CIT Group Inc. and The Bank of New York Mellon (as successor to JPMorgan Chase Bank N.A.) for the issuance of senior debt securities (incorporated by reference to Exhibit 4.3 to Form S-3 filed January 20, 2006).
- 4.2 Framework Agreement, dated July 11, 2008, among ABN AMRO Bank N.V., as arranger, Madeleine Leasing Limited, as initial borrower, CIT Aerospace International, as initial head lessee, and CIT Group Inc., as guarantor, as amended by the Deed of Amendment, dated July 19, 2010, among The Royal Bank of Scotland N.V. (f/k/a ABN AMRO Bank N.V.), as arranger, Madeleine Leasing Limited, as initial borrower, CIT Aerospace International, as initial head lessee, and CIT Group Inc., as guarantor, as supplemented by Letter Agreement No. 1 of 2010, dated July 19, 2010, among The Royal Bank of Scotland N.V., as arranger, CIT Aerospace International, as head lessee, and CIT Group Inc., as guarantor, as amended and supplemented by the Accession Deed, dated July 21, 2010, among The Royal Bank of Scotland N.V., as arranger, Madeleine Leasing Limited, as original borrower, and Jessica Leasing Limited, as acceding party, as supplemented by Letter Agreement No. 2 of 2010, dated July 29, 2010, among The Royal Bank of Scotland N.V., as arranger, CIT Aerospace International, as head lessee, and CIT Group Inc., as guarantor, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets (incorporated by reference to Exhibit 4.11 to Form 10-K filed March 10, 2011).

Item 6. Exhibits 83

Table of Contents

- 4.3 Form of All Parties Agreement among CIT Aerospace International, as head lessee, Madeleine Leasing Limited, as borrower and lessor, CIT Group Inc., as guarantor, various financial institutions, as original ECA lenders, ABN AMRO Bank N.V., Paris Branch, as French national agent, ABN AMRO Bank N.V., Niederlassung Deutschland, as German national agent, ABN AMRO Bank N.V., London Branch, as British national agent, ABN AMRO Bank N.V., London Branch, as ECA facility agent, ABN AMRO Bank N.V., London Branch, as security trustee, and CIT Aerospace International, as servicing agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to Exhibit 4.12 to Form 10-K filed March 10, 2011).
- 4.4 Form of ECA Loan Agreement among Madeleine Leasing Limited, as borrower, various financial institutions, as original ECA lenders, ABN AMRO Bank N.V., Paris Branch, as French national agent, ABN AMRO Bank N.V., Niederlassung Deutschland, as German national agent, ABN AMRO Bank N.V., London Branch, as British national agent, ABN AMRO Bank N.V., London Branch, as ECA facility agent, ABN AMRO Bank N.V., London Branch, as security trustee, and CIT Aerospace International, as servicing agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to Exhibit 4.13 to Form 10-K filed March 10, 2011).
- 4.5 Form of Aircraft Head Lease between Madeleine Leasing Limited, as lessor, and CIT Aerospace International, as head lessee, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to Exhibit 4.14 to Form 10-K filed March 10, 2011).
- 4.6 Form of Proceeds and Intercreditor Deed among Madeleine Leasing Limited, as borrower and lessor, various financial institutions, ABN AMRO Bank N.V., Paris Branch, as French national agent, ABN AMRO Bank N.V., Niederlassung Deutschland, as German national agent, ABN AMRO Bank N.V., London Branch, as British national agent, ABN AMRO Bank N.V., London Branch, as ECA facility agent, ABN AMRO Bank N.V., London Branch, as security trustee, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to

Edgar Filing: CIT GROUP INC - Form 10-Q

Exhibit 4.15 to Form 10-K filed March 10, 2011).

- 4.7 Form of All Parties Agreement among CIT Aerospace International, as head lessee, Jessica Leasing Limited, as borrower and lessor, CIT Group Inc., as guarantor, various financial institutions, as original ECA lenders, Citibank International plc, as French national agent, Citibank International plc, as German national agent, Citibank International plc, as British national agent, The Royal Bank of Scotland N.V., London Branch, as ECA facility agent, The Royal Bank of Scotland N.V., London Branch, as security trustee, CIT Aerospace International, as servicing agent, and Citibank, N.A., as administrative agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.16 to Form 10-K filed March 10, 2011).
- 4.8 Form of ECA Loan Agreement among Jessica Leasing Limited, as borrower, various financial institutions, as original ECA lenders, Citibank International plc, as French national agent, Citibank International plc, as German national agent, Citibank International plc, as British national agent, The Royal Bank of Scotland N.V., London Branch, as ECA facility agent, The Royal Bank of Scotland N.V., London Branch, as security trustee, and Citibank, N.A., as administrative agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.17 to Form 10-K filed March 10, 2011).
- 4.9 Form of Aircraft Head Lease between Jessica Leasing Limited, as lessor, and CIT Aerospace International, as head lessee, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.18 to Form 10-K filed March 10, 2011).
- 4.10 Form of Proceeds and Intercreditor Deed among Jessica Leasing Limited, as borrower and lessor, various financial institutions, as original ECA lenders, Citibank International plc, as French national agent, Citibank International plc, as German national agent, Citibank International plc, as British national agent, The Royal Bank of Scotland N.V., London Branch, as ECA facility agent, The Royal Bank of Scotland N.V., London Branch, as security trustee, and Citibank, N.A., as administrative agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.19 to Form 10-K filed March 10, 2011).

84 CIT GROUP INC

Table of Contents

- 4.11 Indenture, dated as of March 30, 2011, between CIT Group Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K filed June 30, 2011).
- 4.12 First Supplemental Indenture, dated as of March 30, 2011, between CIT Group Inc., the Guarantors named therein, and Deutsche Bank Trust Company Americas, as trustee (including the Form of 5.250% Note due 2014 and the Form of 6.625% Note due 2018) (incorporated by reference to Exhibit 4.2 to Form 8-K filed June 30, 2011).
- 4.13 Third Supplemental Indenture, dated as of February 7, 2012, between CIT Group Inc., the Guarantors named therein, and Deutsche Bank Trust Company Americas, as trustee (including the Form of Notes) (incorporated by reference to Exhibit 4.4 of Form 8-K dated February 13, 2012).
- 4.14 Registration Rights Agreement, dated as of February 7, 2012, among CIT Group Inc., the Guarantors named therein, and JP Morgan Securities LLC, as representative for the initial purchasers named therein (incorporated by reference to Exhibit 10.1 of Form 8-K dated February 13, 2012).
- 4.15 Amended and Restated Revolving Credit and Guaranty Agreement, dated as of January 27, 2014 among CIT Group Inc., certain subsidiaries of CIT Group Inc., as Guarantors, the Lenders party thereto from time to time and Bank of America, N.A., as Administrative Agent and L/C Issuer (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 28, 2014).
- 4.16 Indenture, dated as of March 15, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (incorporated by reference to Exhibit 4.1 of Form 8-K filed March 16, 2012).
- 4.17 First Supplemental Indenture, dated as of March 15, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 5.25% Senior Unsecured Note due 2018) (incorporated by reference to Exhibit 4.2 of Form 8-K filed March 16, 2012).

Edgar Filing: CIT GROUP INC - Form 10-Q

- 4.18 Second Supplemental Indenture, dated as of May 4, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 5.000% Senior Unsecured Note due 2017 and the Form of 5.375% Senior Unsecured Note due 2020) (incorporated by reference to Exhibit 4.2 of Form 8-K filed May 4, 2012).
- 4.19 Third Supplemental Indenture, dated as of August 3, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 4.25% Senior Unsecured Note due 2017 and the Form of 5.00% Senior Unsecured Note due 2022) (incorporated by reference to Exhibit 4.2 to Form 8-K filed August 3, 2012).
- 4.20 Fourth Supplemental Indenture, dated as of August 1, 2013, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 5.00% Senior Unsecured Note due 2023) (incorporated by reference to Exhibit 4.2 to Form 8-K filed August 1, 2013).
- 4.21 Fifth Supplemental Indenture, dated as of February 19, 2014, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 3.875% Senior Unsecured Note due 2019) (incorporated by reference to Exhibit 4.2 to Form 8-K filed February 19, 2014).
- 10.1* Amended and Restated CIT Group Inc. Long-Term Incentive Plan (as amended and restated effective December 10, 2009) (incorporated by reference to Exhibit 4.1 to Form S-8 filed January 11, 2010).
- 10.2* CIT Group Inc. Supplemental Retirement Plan (As Amended and Restated Effective as of January 1, 2008) (incorporated by reference to Exhibit 10.27 to Form 10-Q filed May 12, 2008).
- 10.3* CIT Group Inc. Supplemental Savings Plan (As Amended and Restated Effective as of January 1, 2008) (incorporated by reference to Exhibit 10.28 to Form 10-Q filed May 12, 2008).

Item 6. Exhibits 85

Table of Contents

- 10.4* New Executive Retirement Plan of CIT Group Inc. (As Amended and Restated as of January 1, 2008) (incorporated by reference to Exhibit 10.29 to Form 10-Q filed May 12, 2008).
- 10.5* Form of CIT Group Inc. Long-term Incentive Plan Stock Option Award Agreement (One Year Vesting) (incorporated by reference to Exhibit 10.35 to Form 10-Q filed August 9, 2010).
- 10.6* Form of CIT Group Inc. Long-term Incentive Plan Stock Option Award Agreement (Three Year Vesting) (incorporated by reference to Exhibit 10.36 to Form 10-Q filed August 9, 2010).
- 10.7* Form of CIT Group Inc. Long-term Incentive Plan Restricted Stock Unit Director Award Agreement (Initial Grant) (incorporated by reference to Exhibit 10.39 to Form 10-Q filed August 9, 2010).
- 10.8* Form of CIT Group Inc. Long-term Incentive Plan Restricted Stock Unit Director Award Agreement (Annual Grant) (incorporated by reference to Exhibit 10.40 to Form 10-Q filed August 9, 2010).
- 10.9* Amended and Restated Employment Agreement, dated as of May 7, 2008, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.35 to Form 10-K filed March 2, 2009).
- 10.10* Amendment to Employment Agreement, dated December 22, 2008, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.37 to Form 10-K filed March 2, 2009).
- 10.11* Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Good Reason) (incorporated by reference to Exhibit 10.33 of Form 10-Q filed August 9, 2011).

Edgar Filing: CIT GROUP INC - Form 10-Q

10.12*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (without Good Reason) (incorporated by reference to Exhibit 10.34 of Form 10-Q filed August 9, 2011).
10.13**	Airbus A320 NEO Family Aircraft Purchase Agreement, dated as of July 28, 2011, between Airbus S.A.S. and C.I.T. Leasing Corporation (incorporated by reference to Exhibit 10.35 of Form 10-Q/A filed February 1, 2012).
10.14**	Amended and Restated Confirmation, dated June 28, 2012, between CIT TRS Funding B.V. and Goldman Sachs International, and Credit Support Annex and ISDA Master Agreement and Schedule, each dated October 26, 2011, between CIT TRS Funding B.V. and Goldman Sachs International, evidencing a \$625 billion securities based financing facility (incorporated by reference to Exhibit 10.32 to Form 10-Q filed August 9, 2012).
10.15**	Third Amended and Restated Confirmation, dated June 28, 2012, between CIT Financial Ltd. and Goldman Sachs International, and Amended and Restated ISDA Master Agreement Schedule, dated October 26, 2011 between CIT Financial Ltd. and Goldman Sachs International, evidencing a \$1.5 billion securities based financing facility (incorporated by reference to Exhibit 10.33 to Form 10-Q filed August 9, 2012).
10.16**	ISDA Master Agreement and Credit Support Annex, each dated June 6, 2008, between CIT Financial Ltd. and Goldman Sachs International related to a \$1.5 billion securities based financing facility (incorporated by reference to Exhibit 10.34 to Form 10-Q filed August 11, 2008).
10.17	Form of CIT Group Inc. Long-Term Incentive Plan Performance Stock Unit Award Agreement (with Good Reason) (incorporated by reference to Exhibit 10.36 to Form 10-Q filed May 10, 2012).
10.18	Form of CIT Group Inc. Long-Term Incentive Plan Performance Stock Unit Award Agreement (without Good Reason) (incorporated by reference to Exhibit 10.37 to Form 10-Q filed May 10, 2012).
10.19*	Assignment and Extension of Employment Agreement, dated February 6, 2013, by and among CIT Group Inc., C. Jeffrey Knittel and C.I.T. Leasing Corporation (incorporated by reference to Exhibit 10.34 to Form 10-Q filed November 6, 2013).
10.20*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.36 to Form 10-K filed March 1, 2013).
10.21*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (Executives with Employment Agreements) (incorporated by reference to Exhibit 10.37 to Form 10-K filed March 1, 2013).

86 CIT GROUP INC

Table of Contents

10.22*	CIT Employee Severance Plan (Effective as of November 6, 2013) (incorporated by reference to Exhibit 10.37 in Form 10-Q filed November 6, 2013).
10.23	Stockholders Agreement, by and among CIT Group Inc. and the parties listed on the signature pages thereto, dated as of July 21, 2014 (incorporated by reference to Exhibit 10.1 to Form 8-K filed July 25, 2014).
10.24*	Retention Letter Agreement, dated July 21, 2014, between CIT Group Inc. and Nelson Chai and Attached Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.4 to Form 8-K filed July 25, 2014).
10.25*	Extension to Term of Employment Agreement, dated January 2, 2014, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.33 to Form 10-Q filed August 6, 2014).
10.26*	Amendment to Employment Agreement, dated July 14, 2014, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Form 8-K filed July 16, 2014).
10.27*	Extension to Employment Agreement, dated January 16, 2015, between C.I.T. Leasing Corporation and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.29 to Form 10-K filed February 20, 2015).

Edgar Filing: CIT GROUP INC - Form 10-Q

10.28*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance Based Vesting) (2013)(incorporated by reference to Exhibit 10.30 to Form 10-K filed February 20, 2015).
10.29*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance-Based Vesting) (2013) (Executives with Employment Agreements)(incorporated by reference to Exhibit 10.31 to Form 10-K filed February 20, 2015).
10.30*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance Based Vesting) (2014)(incorporated by reference to Exhibit 10.32 to Form 10-K filed February 20, 2015).
10.31*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance Based Vesting) (2014) (Executives with Employment Agreements)(incorporated by reference to Exhibit 10.33 to Form 8-K filed February 20, 2015).
10.32*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2013) (filed herein).
10.33*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2013) (Executives with Employment Agreements) (filed herein).
10.34*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2014) (Executives with Employment Agreements) (filed herein).
10.35*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2014) (filed herein).
10.36*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2015) (with ROTCE and Credit Provision Performance Measures) (filed herein).
10.37*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2015) (with ROTCE and Credit Provision Performance Measures) (Executives with Employment Agreements) (filed herein).
10.38*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2015) (with Average Earnings per Share and Average Pre-Tax Return on Assets Performance Measures) (filed herein).
10.39*	Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2015) (with Average Earnings per Share and Average Pre-Tax Return on Assets Performance Measures) (Executives with Employment Agreements)(filed herein).
12.1	CIT Group Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of John A. Thain pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Commission, as promulgated pursuant to Section 13(a) of the Securities Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Scott T. Parker pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Commission, as promulgated pursuant to Section 13(a) of the Securities Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of John A. Thain pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Scott T. Parker pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Item 6. Exhibits 87

Edgar Filing: CIT GROUP INC - Form 10-Q

101.INS	XBRL Instance Document (Includes the following financial information included in the Company's Annual Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.)
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* *Indicates a management contract or compensatory plan or arrangement.*

** *Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for granting confidential treatment pursuant to the Securities Exchange Act of 1934, as amended.*

*** *This information is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not incorporated by reference into any filing under the Securities Act of 1933.*

88 CIT GROUP INC

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 7, 2015

CIT GROUP INC.

/s/ Scott T. Parker

Scott T. Parker

Executive Vice President and Chief Financial Officer

/s/ E. Carol Hayles

E. Carol Hayles

Executive Vice President and Controller

89