Extra Space Storage Inc.
Form 424B5
June 17, 2015
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**FILED PURSUANT TO RULE 424(B)(5)**
**REGISTRATION NO. 333-198194**

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Maximum Aggregate Offering Price | Amount of Registration Fee |
|---|---|---|
| Common stock, $0.01 par value | $431,048,750(1) | $50,087.86(2) |

(1) Includes additional shares of common stock that the underwriters have the option to purchase.

(2) The filing fee of $50,087.86 is calculated in accordance with Rules 457(o) and 457(r) under the Securities Act of 1933, as amended, or the Securities Act. In accordance with Rules 456(b) and 457(r) under the Securities Act, the registrant initially deferred payment of the registration fees for Registration Statement No. 333-198194 filed by the registrant on August 15, 2014.

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**PROSPECTUS SUPPLEMENT**
(To Prospectus dated August 15, 2014)

## 5,500,000 Shares

# Extra Space Storage Inc.

## Common Stock

We are selling 5,500,000 shares of our common stock.

Our common stock is listed on the New York Stock Exchange under the symbol EXR. On June 16, 2015, the last reported sale price of our common stock on the New York Stock Exchange was $68.47 per share.

To assist us in complying with certain federal income tax requirements applicable to real estate investment trusts, our charter contains certain restrictions relating to the ownership and transfer of our stock, including an ownership limit of 7.0% and a designated investment entity ownership limit of 9.8% on our common stock. See Restrictions on Ownership and Transfer beginning on page 22 of the accompanying prospectus.

**Investing in our common stock involves a high degree of risk. Before buying any of these shares you should carefully read the discussion of material risks of investing in our common stock in Risk Factors beginning on page S-4 of this prospectus supplement, page 2 of the accompanying prospectus and page 8 of our Annual Report on Form 10-K for the year ended December 31, 2014.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Share | Total |
|---|---|---|

| | | |
|---|---|---|
| Public offering price | $ 68.15 | $ 374,825,000 |
| Underwriting discount | $ 2.3852 | $ 13,118,600 |
| Proceeds, before expenses, to us | $ 65.7648 | $ 361,706,400 |

We have granted the underwriters an option to purchase up to 825,000 additional shares of common stock from us, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus supplement.

The underwriters expect to deliver the shares to purchasers on or about June 22, 2015 through the book-entry facilities of The Depository Trust Company.

**Wells Fargo Securities** **BofA Merrill Lynch** **Citigroup**

**The date of this prospectus supplement is June 16, 2015.**

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**You should rely only on the information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein and therein is accurate as of any date other than the date on the front of this prospectus supplement or the accompanying prospectus.**

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## SUMMARY

*This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this common stock offering. The second part, which is the accompanying prospectus, gives more general information, some of which may not apply to this offering. If the description of this offering varies between the prospectus supplement and the accompanying prospectus, you should rely on the information contained in, or incorporated by reference into, this prospectus supplement.*

*This summary may not contain all the information that you should consider before investing in our common stock. Before making an investment decision, you should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein carefully, including the Risk Factors section in our Annual Report on Form 10-K for the year ended December 31, 2014 and our other filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are incorporated herein by reference. Except where we state otherwise, the information we present in this prospectus supplement assumes no exercise of the underwriters option to purchase additional shares. Unless the context indicates otherwise, references in this prospectus supplement to Extra Space Storage Inc., Extra Space, we, our and us refer to Extra Space Storage Inc. and its consolidated subsidiaries, including Extra Space Storage LP, our operating partnership. References to OP units include common operating partnership units and preferred operating partnership units of Extra Space Storage LP.*

### Overview

We are a fully integrated, self-administered and self-managed real estate investment trust, or REIT, focused on owning, operating, managing, acquiring, developing and redeveloping professionally managed self-storage properties, or stores. We were formed as a Maryland corporation in April 2004 to continue the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977.

As of March 31, 2015, we held ownership interests in 835 stores. Of these stores, 565 were wholly owned and 270 were owned in joint venture partnerships. An additional 271 stores were owned by third parties and operated by us in exchange for a management fee, bringing the total number of stores which we owned and/or managed to 1,106. These stores were located in 35 states, Washington, D.C. and Puerto Rico and contained approximately 81.8 million square feet of net rentable space in approximately 740,000 units, serving a customer base of over 670,000 tenants as of March 31, 2015.

We operate in three distinct segments: (1) rental operations; (2) tenant reinsurance; and (3) property management, acquisition and development. Our rental operations activities include rental operations of stores in which we have an ownership interest. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in our stores. Our property management, acquisition and development activities include managing, acquiring, developing, redeveloping and selling stores.

Our primary business objectives are to maximize cash flow available for distribution to our stockholders and to achieve sustainable long-term growth in cash flow per share in order to maximize long-term stockholder value. We seek to maximize revenue by responding to changing market conditions through our technology system s ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than many of our competitors to implement more effective online marketing programs, which we believe will attract more customers to our stores at a lower net cost. In addition, our management business enables us to generate increased revenues through management fees and to expand our geographic footprint. We believe this expanded footprint enables us to reduce our operating costs through economies of scale. We also continue to pursue the acquisition of single stores and multi-store portfolios that we believe can provide stockholder value.

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Extra Space Storage LP and its subsidiaries conduct substantially all of our operations and hold all of our real estate assets. We believe our status as an umbrella partnership REIT, or UPREIT, enables flexibility when structuring transactions.

Our principal corporate offices are located at 2795 East Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, and our telephone number is (801) 365-4600. We maintain a website that contains information about us at www.extraspace.com. The information included on our website is not, and should not be considered, a part of this prospectus supplement or the accompanying prospectus.

**Recent Developments**

***SmartStop Acquisition***

On June 15, 2015, we entered into a definitive merger agreement to acquire SmartStop Self Storage, Inc., or SmartStop, a public non-traded REIT, which we refer to as the SmartStop Acquisition. The purchase price of the SmartStop Acquisition is approximately $1.4 billion. We will pay approximately $1.29 billion and the remaining approximately $120 million will come from the sale by SmartStop of certain assets at or prior to the closing. A portion of the purchase price of the assets to be sold by SmartStop at or prior to the closing will be financed by one or more loans by us to the purchaser of the SmartStop assets in an amount of up to $118.0 million. The loans will bear interest at a rate equal to 7% per annum. Up to $96.0 million of the principal amount of the loans will be due 120 days after the closing, and the balance will be due one year after the closing. Our obligation to fund these loans is subject to certain conditions, including the concurrent closing of the SmartStop Acquisition.

SmartStop, based in Ladera Ranch, California, is currently the seventh largest owner and operator of self-storage properties in the United States based on square footage, operating 169 stores in 21 states, and in Toronto, Canada. Upon completion of the SmartStop Acquisition, we will own 121 SmartStop stores and will assume the management of 43 third-party managed stores, which together consisted of approximately 12.7 million square feet of net rentable space in approximately 100,000 units that were approximately 87.4% occupied as of March 31, 2015. SmartStop has six stores (including one store in California and five stores in Toronto, Canada) and a minority interest in two stores in Alabama that will be excluded from the acquisition. After the acquisition, we will manage the stores in California and Alabama.

In connection with the SmartStop Acquisition, we will enter into property management agreements for the management of properties owned by Strategic Storage Trust II, Inc. and Strategic Storage Growth Trust, Inc., which are public non-traded REITs currently affiliated with SmartStop.

The SmartStop Acquisition is subject to the approval of SmartStop s stockholders and the satisfaction of other customary closing conditions. We currently expect to close the SmartStop Acquisition in the latter half of 2015. However, there can be no assurances that these conditions will be satisfied or that the SmartStop Acquisition will close on the terms described herein, or at all.

We will contribute the net proceeds of this offering to our operating partnership. Our operating partnership intends to subsequently use the net proceeds of this offering to fund a portion of the purchase price of the SmartStop Acquisition. See Use of Proceeds. The closing of this offering is not conditioned on the closing of the SmartStop Acquisition. See the risk factors below titled We may fail to consummate the SmartStop Acquisition, which could have a material adverse impact on our financial condition and results of operations and We may not acquire SmartStop and the closing of this offering is not conditioned on the closing of the SmartStop Acquisition.

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**THE OFFERING**

| | |
|---|---|
| Common stock offered by us | 5,500,000(1) shares |
| Common stock and OP units (on an as- converted to common stock basis) outstanding prior to completion of the offering | 122,999,274(2)(3) shares and units |
| Common stock and OP units (on an as- converted to common stock basis) to be outstanding after the offering | 128,499,274(2)(3) shares and units |
| Use of proceeds | We expect that the net proceeds of this offering will be approximately $360.6 million after deducting the underwriting discount and estimated offering expenses (and approximately $414.9 million if the underwriters exercise in full their option to purchase additional shares). We will contribute the net proceeds of this offering to our operating partnership. Our operating partnership intends to subsequently use the net proceeds of the offering to fund a portion of the purchase price of the SmartStop Acquisition described above under the caption Summary Recent Developments SmartStop Acquisition, to repay outstanding indebtedness under our secured lines of credit and for other general corporate and working capital purposes. The SmartStop Acquisition is subject to the approval of SmartStop s stockholders and the satisfaction of other customary closing conditions, and there can be no assurances that these conditions will be satisfied or that the SmartStop Acquisition will close on the terms described herein, or at all. Pending use of the remaining net proceeds of this offering, we intend to invest these net proceeds in short-term interest-bearing investment grade instruments. See Use of Proceeds. |
| Risk factors | You should carefully read the information contained under the caption Risk Factors in this prospectus supplement, our Annual Report on Form 10-K for the year ended December 31, 2014 and our other filings under the Exchange Act that are incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest in shares of our common stock. |
| NYSE symbol | EXR |

(1) 6,325,000 shares of common stock if the underwriters exercise in full their option to purchase additional shares.

(2) Based on 116,458,159 shares of common stock, 875,480 Series A preferred operating partnership units, 638,850 Series B preferred operating partnership units (assuming full conversion to common stock), 451,884 Series C preferred operating partnership units (assuming full conversion to common stock), 209,022 Series D preferred operating partnership units (assuming full conversion to common stock) and 4,365,879 common operating partnership units outstanding as of March 31, 2015, and excluding (a) stock reserved for issuance upon the exercise of outstanding options, (b) stock available for future issuance under our stock incentive plans and (c) stock issuable upon exchange of our exchangeable senior notes.

(3) This number excludes the underwriters option to purchase additional shares.

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## RISK FACTORS

*Investment in the shares offered pursuant to this prospectus supplement and the accompanying prospectus involves risks. You should carefully consider the risk factors incorporated by reference to our most recent Annual Report on Form 10-K and our subsequent Quarterly Reports on Form 10-Q, the risks discussed below and the other information contained in this prospectus supplement and the accompanying prospectus, as updated by our subsequent filings under the Exchange Act, before deciding to purchase these shares. The occurrence of any of these risks might cause you to lose all or part of your investment in the offered shares. Please also refer to the section below entitled Forward-Looking Statements.*

### Risks Related to this Offering

***We may fail to consummate the SmartStop Acquisition, which could have a material adverse impact on our financial condition and results of operations.***

We intend to use the net proceeds of this offering to fund a portion of the purchase price of the SmartStop Acquisition described above under the caption Summary Recent Developments SmartStop Acquisition. The SmartStop Acquisition is subject to the approval of SmartStop s stockholders and the satisfaction of other customary closing conditions, and there can be no assurances that these conditions will be satisfied or that the acquisition will close on the terms described herein, or at all.

In the event that we fail to consummate the SmartStop Acquisition, we will have issued a significant number of additional shares of our common stock without realizing a corresponding increase in earnings and cash flow from acquiring the properties involved in the SmartStop Acquisition. In addition, we will have broad authority to use the net proceeds of this offering for other purposes, including the repayment of indebtedness, the acquisition of other properties that we may identify in the future or for other investments, which may not be initially accretive to our results of operations. As a result, failure to consummate the SmartStop Acquisition could have a material adverse impact on our financial condition and results of operations.

***We may not acquire SmartStop and the closing of this offering is not conditioned on the closing of the SmartStop Acquisition.***

We expect to acquire SmartStop in the latter half of 2015, but the closing is subject to the satisfaction of certain closing conditions set forth in the merger agreement, including the approval of SmartStop s stockholders. If those conditions are not satisfied or waived or if the merger agreement is otherwise terminated in accordance with its terms, then the closing will not occur. The closing of this offering is not conditioned on the closing of the SmartStop Acquisition. Therefore, upon the closing of this offering, you will become a holder of our common stock irrespective of whether the closing with respect to the SmartStop Acquisition is consummated, delayed or terminated. If the SmartStop Acquisition is delayed or terminated, the price of our common stock may decline to the extent that the current market price of our common stock reflects a market assumption that SmartStop will be acquired and that we will realize certain anticipated benefits of acquiring SmartStop. In addition, if the SmartStop Acquisition is not consummated, our management will have broad discretion in the application of the net proceeds of this offering and could apply the proceeds in ways that you or other stockholders may not approve, which could adversely affect the market price of our common stock.

***We may incur adverse tax consequences if SmartStop has failed or fails to qualify as a REIT for U.S. federal income tax purposes.***

As a condition to closing the SmartStop Acquisition, we will receive an opinion of SmartStop s counsel to the effect that, commencing with SmartStop s initial taxable year ended December 31, 2008, through SmartStop s taxable year ending with our acquisition of SmartStop, SmartStop has been organized and has operated in conformity with the requirements for qualification and taxation as a REIT. This opinion is not

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binding on the Internal Revenue Service or any court, and there can be no assurance that the Internal Revenue Service will not take a contrary position or that such position would not be sustained. If SmartStop has failed or fails to qualify as a REIT for U.S. federal income tax purposes, we may inherit or incur significant tax liabilities (including with respect to any gain realized by SmartStop as a result of the acquisition), and could lose our REIT status should such facts or activities which caused SmartStop to fail to qualify as a REIT continue.

***Future sales of shares of our common stock may depress the price of our shares.***

We cannot predict whether future issuances of shares of our common stock or the availability of shares of our common stock for resale in the open market will decrease the market price of our common stock. Any sales of a substantial number of shares of our common stock in the public market, including upon the exchange of our exchangeable senior notes or the redemption of OP units, or the perception that such sales might occur, may cause the market price of our common stock to decline. Upon completion of this offering, the shares of our common stock sold in this offering will be freely tradable without restriction (other than any restrictions set forth in our charter relating to our qualification as a REIT).

The exercise of the underwriters option to purchase additional shares, the issuance of our common stock upon exchange of our exchangeable senior notes, the redemption of OP units in exchange for our common stock, the exercise of any options or the vesting of any restricted stock granted to directors, officers and other employees under our stock incentive plans, the issuance of our common stock or OP units in connection with property, portfolio or business acquisitions and other issuances of our common stock (including by means of our currently effective shelf registration statement) could have an adverse effect on the market price of our common stock. Furthermore, the existence of OP units, options and shares of our common stock reserved for issuance as restricted stock or upon redemption of OP units or exercise of options may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future sales of shares of our common stock may be dilutive to our existing stockholders.

In connection with this offering, we and certain of our officers have entered into lock-up agreements with the underwriters restricting the sale of our common stock or securities convertible into, or exchangeable or exercisable for, shares of common stock for no less than 45 days following the date of this prospectus supplement, subject to certain exceptions. The underwriters, in their sole discretion, may permit early release of shares of our common stock, subject to certain restrictions, prior to the expiration of the 45-day lock-up period and without public notice. If the restrictions under such agreements are waived, the affected common stock may be available for sale into the market, which could reduce the market price of our common stock. See Underwriting for a more detailed description of the lock-up agreements entered into with the underwriters.

From time to time, we also may issue shares of our common stock or OP units in connection with property, portfolio or business acquisitions. We may grant demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of our common stock, or the perception that these sales could occur, may adversely affect the prevailing market price of our common stock or may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities.

***Our share price could be volatile and could decline, resulting in a substantial or complete loss on our stockholders investment.***

The stock markets (including the New York Stock Exchange, or NYSE, on which we list our common stock) have experienced significant price and volume fluctuations. As a result, the market price of our common stock could be similarly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including:

- our operating performance and the performance of similar companies;

- actual or anticipated differences in our operating results;

failure to close pending acquisitions, including the SmartStop Acquisition;

changes in our revenue or earnings estimates or recommendations by securities analysts, or our failure to meet such estimates;

publication of research reports about us or our industry by securities analysts;

changes in market valuations of similar companies;

adverse market reaction to any debt or equity securities we may issue or additional debt we may incur in the future;

additions and departures of key personnel;

strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;

the passage of legislation or other regulatory developments that adversely affect us or our industry;

speculation in the press or investment community;

the realization of any of the other risk factors presented or incorporated by reference in this prospectus supplement;

actions by institutional stockholders;

changes in accounting principles;

terrorist acts; and

general market conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management s attention and resources.

***Future offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.***

In the future, we may increase our capital resources by making additional offerings of debt or preferred equity securities, including trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both.

Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

***Our business operations may not generate the cash needed to make distributions on our capital stock or to service our indebtedness, and we may adjust our common stock dividend policy.***

Our ability to make distributions on our common stock and payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock, to pay our indebtedness or to fund our other liquidity needs.

The decision to declare and pay dividends on shares of our common stock in the future, as well as the timing, amount and composition of any such future dividends, will be at the sole discretion of our board of directors in light of conditions then existing, including our earnings, financial condition, capital requirements, debt maturities, the availability of debt and equity capital, applicable REIT and legal restrictions, general overall economic conditions and other factors. Any change in our dividend policy could have a material adverse effect on the market price of our common stock.

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus and the documents that we incorporate herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act). Also, documents we subsequently file with the Securities and Exchange Commission, or the SEC, and incorporate by reference will contain forward-looking statements. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, our pro forma financial statements and other pro forma information and our statements regarding pending future acquisitions, anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise, and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro f or anticipates or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- adverse changes in general economic conditions, the real estate industry and the markets in which we operate;
- failure to close pending acquisitions on expected terms, or at all, including the SmartStop Acquisition;
- the effect of competition from new and existing stores or other storage alternatives, which could cause rents and occupancy rates to decline;
- difficulties in our ability to evaluate, finance, complete and integrate acquisitions and developments successfully and to lease up those stores, which could adversely affect our profitability;
- potential liability for uninsured losses and environmental contamination;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing REITs, tenant reinsurance and other aspects of our business, which could adversely affect our results;
- disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;
- the failure to effectively manage our growth and expansion into new markets or to successfully operate acquired properties and operations, including the SmartStop Acquisition;
- increased interest rates and operating costs;
- reductions in asset valuations and related impairment charges;

the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;

the failure to maintain our REIT status for federal income tax purposes;

economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan; and

difficulties in our ability to attract and retain qualified personnel and management members.

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While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section above entitled Risk Factors, including the risks incorporated therein from our most recent Annual Report on Form 10-K, as updated by our subsequent filings under the Exchange Act.

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## USE OF PROCEEDS

We estimate that the net proceeds of this offering, after deducting the underwriting discount and estimated offering expenses payable by us, will be approximately $360.6 million. If the underwriters exercise in full their option to purchase additional shares, our net proceeds will be approximately $414.9 million.

We will contribute the net proceeds of this offering to our operating partnership. Our operating partnership intends to subsequently use the net proceeds of the offering to fund a portion of the purchase price of the SmartStop Acquisition described above under the caption Summary Recent Developments SmartStop Acquisition, to repay outstanding indebtedness under our secured lines of credit and for other general corporate and working capital purposes. The purchase price of the SmartStop Acquisition is approximately $1.4 billion. We will pay approximately $1.29 billion and the remaining approximately $120 million will come from the sale by SmartStop of certain assets at or prior to the closing. The SmartStop Acquisition is subject to the approval of SmartStop s stockholders and the satisfaction of other customary closing conditions, and there can be no assurances that these conditions will be satisfied or that the acquisition will close on the terms described herein, or at all. See Risk Factors Risks Related to this Offering We may fail to consummate the SmartStop Acquisition, which could have a material adverse impact on our financial condition and results of operations and Risk Factors Risks Related to this Offering We may not acquire SmartStop and the closing of this offering is not conditioned on the closing of the SmartStop Acquisition.

As of June 16, 2015, we had approximately $169.0 million outstanding under three of our secured lines of credit. The indebtedness under these secured lines of credit, which we intend to repay with the net proceeds of this offering, consisted of the following:

- approximately $71.0 million outstanding under a secured line of credit, which bears interest at LIBOR plus 165 basis points (1.8% at June 16, 2015) and matures on June 3, 2016, subject to a two-year extension at our option;
- approximately $80.0 million outstanding under a secured line of credit, which bears interest at LIBOR plus 170 basis points (1.9% at June 16, 2015) and matures on November 18, 2016, subject to two one-year extensions at our option; and
- approximately $18.0 million outstanding under a secured line of credit, which bears interest at LIBOR plus 175 basis points (1.9% at June 16, 2015) and matures February 13, 2017, subject to two one-year extensions at our option.

The outstanding indebtedness under our secured lines of credit was incurred primarily to fund acquisitions and for other general corporate purposes.

Pending use of the remaining net proceeds of this offering, we intend to invest these net proceeds in short-term interest-bearing investment grade instruments.

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## CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2015:

- on an actual basis;
- on an as adjusted basis to give effect to the increase in three of our outstanding lines of credit as of June 16, 2015, as described above under the caption Use of Proceeds ; and
- on a pro forma as adjusted basis to give effect to the application of the estimated net proceeds of this offering as described under the caption Use of Proceeds above, after deducting the underwriting discount and estimated offering expenses payable by us.

The information set forth below should be read in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by our subsequent filings under the Exchange Act, including our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

| | As of March 31, 2015 | | |
|---|---|---|---|
| | Actual | As Adjusted | Pro Forma As Adjusted(2) |
| | (dollars in thousands) | | |
| Cash and cash equivalents | $ 45,304 | | $ 236,935 |
| Debt: | | | |
| Notes payable | 1,972,957 | | 1,972,957 |
| Notes payable to trusts | 119,590 | | 119,590 |
| Exchangeable senior notes | 250,000 | | 250,000 |
| Lines of credit | 99,000 | 169,000 | |
| Extra Space Storage Inc. stockholders equity: | | | |
| Preferred stock, $0.01 par value per share, 50,000,000 shares authorized, no shares issued and outstanding at March 31, 2015 | | | |
| Common stock, $0.01 par value per share, 500,000,000 shares authorized, 116,458,159 shares issued and outstanding at March 31, 2015, actual, and 121,958,159 shares issued and outstanding on a pro forma as adjusted basis(1) | 1,164 | | 1,219 |
| Additional paid-in capital | 1,998,240 | | 2,189,816 |
| Accumulated other comprehensive loss | (7,800) | | (7,800) |
| Accumulated deficit | (258,728) | | (258,728) |
| Total Extra Space Storage Inc. stockholders equity | 1,732,876 | | 1,924,507 |
| Noncontrolling interest represented by Preferred Operating Partnership units, net of $120,230 notes receivable | 81,088 | | 81,088 |
| Noncontrolling interests in Operating Partnership | 92,105 | | 92,105 |
| Other noncontrolling interests | 986 | | 986 |
| Total noncontrolling interests and equity | 1,907,055 | | 2,098,686 |
| Total capitalization | $ 4,348,602 | | $ 4,441,233 |

(1) The common stock outstanding as shown assumes no exercise of the underwriters option to purchase additional shares and excludes (a) stock issuable upon redemption of OP units, (b) stock reserved for issuance upon the exercise of outstanding options, (c) stock available for future issuance under our stock incentive plans, (d) stock issuable upon exchange of our exchangeable senior notes and (e) the underwriters option to purchase additional shares.

(2) Amount does not reflect adjustments for the SmartStop Acquisition.

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**UNDERWRITING**

Subject to the terms and conditions stated in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase the number of shares indicated in the following table.

| Underwriter | Number of Shares | |
|---|---|---|
| Wells Fargo Securities, LLC | 1,833,333 | |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 1,833,335 | |
| Citigroup Global Markets Inc. | 1,833,332 | |
| Total | | |
| **Diluted income per share** | $ 0.73 | $ 0.59 |
| **Average number of common shares (thousands)** | | |
| Basic | 201,394 | 176,260 |
| Diluted | 202,136 | 177,072 |
| **Dividends declared per common share** | $ 0.15 | $ 0.15 |

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



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CIT GROUP INC. AND SUBSIDIARIES

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

| | Quarters Ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Income from continuing operations, before attribution of noncontrolling interests** | $ 151.7 | $ 103.6 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | 21.2 | (28.4) |
| Net unrealized gains (losses) on available for sale securities | 2.6 | (0.4) |
| Changes in benefit plans net gain (loss) and prior service (cost)/credit | 0.9 | (0.4) |
| Other comprehensive income (loss), net of tax | 24.7 | (29.2) |
| **Comprehensive income before noncontrolling interests and discontinued operation** | 176.4 | 74.4 |
| Comprehensive loss attributable to noncontrolling interests | | 0.1 |
| Loss from discontinued operation, net of taxes | (4.8) | |
| **Comprehensive income** | $ 171.6 | $ 74.5 |

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



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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 Income (Loss) | Treasury Stock | Noncontrolling Minority Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| **December 31, 2015** | $ 2.0 | $ 8,718.1 | $ 2,557.4 | $ (142.1) | $ (157.3) | $ 0.5 | $ 10,978.6 |
| Net income | | | 146.9 | | | | 146.9 |
| Other comprehensive income, net of tax | | | | 24.7 | | | 24.7 |
| Dividends paid | | | (30.6) | | | | (30.6) |
| Amortization of restricted stock, stock option and performance shares expenses | | 20.8 | | | (14.7) | | 6.1 |
| Issuance of common stock | 0.1 | | | | | | 0.1 |
| Employee stock purchase plan | | 0.5 | | | | | 0.5 |
| **March 31, 2016** | **$ 2.1** | **$ 8,739.4** | **$ 2,673.7** | **$ (117.4)** | **$ (172.0)** | **$ 0.5** | **$ 11,126.3** |
| **December 31, 2014** | **$ 2.0** | **$ 8,603.6** | **$ 1,615.7** | **$ (133.9)** | **$ (1,018.5)** | **$ (5.4)** | **$ 9,063.5** |
| Net income | | | 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 | | 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** |

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

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CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)** (dollars in millions)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Cash Flows From Operations** | | |
| Net income | $ 146.9 | $ 103.7 |
| Adjustments to reconcile net income to net cash flows from operations: | | |
| Provision for credit losses | 99.3 | 34.6 |
| Net depreciation, amortization and (accretion) | 176.9 | 165.5 |
| Net gains on asset sales | (8.5) | (29.2) |
| Provision for deferred income taxes | 67.3 | 21.2 |
| (Increase) decrease in finance receivables held for sale | 347.1 | (74.7) |
| Reimbursement of OREO expense from FDIC | 4.6 | |
| Increase in other assets | (77.2) | (46.8) |
| Decrease in other liabilities | (190.4) | (41.7) |
| Net cash flows provided by operations | 566.0 | 132.6 |
| **Cash Flows From Investing Activities** | | |
| Changes in loans, net | (437.7) | (52.3) |
| Purchases of investment securities | (492.5) | (3,094.3) |
| Proceeds from maturities of investment securities | 541.5 | 3,482.3 |
| Proceeds from asset and receivable sales | 455.9 | 544.9 |
| Purchases of assets to be leased and other equipment | (298.4) | (408.2) |
| Net decrease in short-term factoring receivables | (209.9) | (112.3) |
| Proceeds from redemption of restricted stock | 2.2 | 1.7 |
| Payments to the FDIC under loss share agreements | (3.1) | |
| Proceeds from the FDIC under loss share agreements and participation agreements | 25.4 | |
| Proceeds from sale of OREO, net of repurchases | 36.6 | |
| Net change in restricted cash | 7.6 | 143.8 |
| Net cash flows provided by (used in) investing activities | (372.4) | 505.6 |
| **Cash Flows From Financing Activities** | | |
| Proceeds from the issuance of term debt | 7.2 | 519.8 |
| Repayments of term debt | (470.2) | (2,126.9) |
| Proceeds from FHLB advances | 551.0 | |
| Repayments of FHLB debt | (552.3) | (167.9) |
| Net increase in deposits | 114.2 | 908.4 |
| Collection of security deposits and maintenance funds | 70.1 | 255.5 |
| Use of security deposits and maintenance funds | (30.8) | (316.7) |
| Repurchase of common stock | | (331.7) |
| Dividends paid | (30.6) | (27.1) |
| Purchase of noncontrolling interest | | (20.5) |
| Payments on affordable housing investment credits | (4.3) | |

| | Three Months Ended March 31, | |
|---|---|---|
| Net cash flows used in financing activities | (345.7) | (1,307.1) |
| Decrease in unrestricted cash and cash equivalents | (152.1) | (668.9) |
| Unrestricted cash and cash equivalents, beginning of period | 7,470.6 | 6,155.5 |
| **Unrestricted cash and cash equivalents, end of period** | $ 7,318.5 | $ 5,486.6 |
| **Supplementary Cash Flow Disclosure** | | |
| Interest paid | $ (335.9) | $ (324.3) |
| Federal, foreign, state and local income taxes (paid) collected, net | $ (0.2) | $ (14.0) |
| **Supplementary Non Cash Flow Disclosure** | | |
| Transfer of assets from held for investment to held for sale | $ 833.4 | $ 239.4 |
| Transfer of assets from held for sale to held for investment | $ 61.1 | $ 0.7 |
| Transfer of assets from held for investment to OREO | $ 19.9 | $ |

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



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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 is a bank holding company ( BHC ) and a financial holding company ( FHC ). Through its bank subsidiary, CIT Bank, N.A., CIT provides a full range of commercial and consumer banking and related services to customers through 70 branches located in Southern California and its online bank, bankoncit.com.

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, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury ( OCC ).

**BASIS OF PRESENTATION**

**Basis of Financial Information**

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, 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 Form 10-K for the year ended December 31, 2015, which is on file with the U.S. Securities and Exchange Commission. For the quarterly period ended March 31, 2016, CIT re-organized its reportable operating segments to Commercial Banking, Transportation Finance, Consumer and Community Banking and Non-Strategic Portfolios. Refer to *Note 17 Business Segment Information* for further discussion.

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, purchase accounting adjustments, indemnification assets, goodwill, intangible assets, and contingent liabilities. Additionally where applicable, the policies conform to accounting

and reporting guidelines prescribed by bank regulatory authorities.

**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.

The results for the quarter ended March 31, 2016 contain activity of OneWest Bank, National Association ( OneWest Bank ), acquired on August 3, 2015, whereas no OneWest Bank activity for the comparable March 31, 2015 quarter is included. See *Note 2 Acquisition and Disposition Activities* for details. The current period s results of operations do not necessarily indicate the results that may be expected for any other interim period or for the full year as a whole.

**Discontinued Operations**

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, as amended by ASU 2014-08, the Financial Freedom business is reflected as discontinued operations as of the August 3, 2015 acquisition date and in the subsequent periods until ultimate disposition. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The assets of discontinued operations primarily include Home Equity Conversion Mortgage ( HECM ) loans and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for Fannie Mae, secured borrowings and contingent liabilities. Unrelated to the Financial Freedom business, continuing operations includes a portfolio of reverse mortgages, which is maintained in the Consumer and Community Banking segment.

In addition to the servicing rights, discontinued operations reflect HECM loans, which were pooled and securitized in the form of GNMA HMBS and sold into the secondary market with servicing retained. These HECM loans are insured by the Federal Housing Administration ( FHA ). Based upon the structure of the GNMA HMBS securitization program, the Company has determined that the HECM loans transferred into the program had not met all of the requirements for sale accounting and therefore, has accounted for these transfers as a financing transaction. Under a financing transaction, the transferred loans remain on the Company s statement of financial position and the proceeds received are recorded as a secured borrowing.

Discontinued Operations are discussed in *Note 2 Acquisition and Disposition Activities.*





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

**Revisions**

In preparing the financial statements for the year ended December 31, 2015, the Company discovered and corrected immaterial errors impacting the classification of certain balances between line items and categories presented in the Consolidated Statements of Cash Flows. The amounts presented comparatively for the quarter ended March 31, 2015 have been revised for these misclassifications. For the quarter ended March 31, 2015, the errors resulted in an understatement of net cash flows provided by operations of $65.4 million, an overstatement of net cash flow provided by investing activities of $12.0 million, and an understatement of net cash flows used in financing activities of $53.4 million. The errors had no impact on the Company s reported Increase (decrease) in unrestricted cash and cash equivalents or Unrestricted cash and cash equivalents for any period.

**SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies are included with the current Form 10-K on file. There were no material changes to these policies in first quarter of 2016 except for applicable updates to reflect the change in segment and classes.

**Accounting Pronouncements Adopted**

During the quarter ended March 31, 2016, the Company adopted the following Accounting Standards Updates ( ASU ) issued by the Financial Accounting Standards Board ( FASB ):

- ASU 2014-12, *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*;
- ASU 2015-01, *Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*;
- ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*;
- ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*; and
- ASU 2015-15, *Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting.*

**Stock Compensation**

ASU 2014-12 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. The ASU does not require additional disclosures.

CIT adopted this ASU effective January 1, 2016 to all awards granted or modified after the effective date. Adoption of this guidance did not have a significant impact on CIT s financial statements or disclosures.

**Extraordinary and Unusual Items**

ASU 2015-01 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, 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. Consequently, 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.

CIT adopted this ASU effective January 1, 2016. Adoption of this guidance did not have a significant impact on CIT s financial statements or disclosures.

**Consolidation**

ASU 2015-02 amended the current consolidation guidance to change 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.

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 though a contractual arrangement.

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

Under ASU 2015-02:

- More limited partnerships and similar entities will be evaluated for consolidation under the revised consolidation requirements that apply to VIEs.
- Fees paid to a decision maker or service provider are less likely to be considered a variable interest in a VIE.
- 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.
- 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.
- The deferral of consolidation requirements for certain investment companies and similar entities of the VIE in ASU 2009-17 is eliminated.

The impacts of the update include:

- A new consolidation analysis is required for VIEs, including many limited partnerships and similar entities that previously were not considered VIEs.
- 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.
- Limited partnerships and similar entities that are not VIEs will not be consolidated by the general partner.
- It is less likely that decision makers or service providers involved with a VIE will be required to consolidate the VIE.
- Entities for which decision making rights are conveyed through a contractual arrangement are less likely to be considered VIEs.
- 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.

CIT adopted ASU 2015-02 effective January 1, 2016 under the modified retrospective approach. Based on CIT s re-assessment of its VIEs under the amended guidance, the adoption of this ASU did not have a significant impact on CIT s financial statements or disclosures.

**Debt Issuance Costs**

ASU 2015-03 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).

ASU 2015-15 clarified ASU 2015-03, which did not address the balance sheet presentation of debt issuance costs that are either (1) incurred before a debt liability is recognized (e.g. before the debt proceeds are received), or (2) associated with revolving debt arrangements. ASU

2015-15 states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the LOC arrangement, regardless of whether there are outstanding borrowings under that LOC arrangement.

In accordance with the new guidance, CIT reclassified deferred debt costs previously included in other assets to borrowings in the first quarter of 2016 and conformed prior periods. The adoption of this guidance did not have a significant impact on CIT s financial statements or disclosures.

**Recent Accounting Pronouncements**

The following accounting pronouncements have been issued by the FASB but are not yet effective:

- ASU 2014-09, *Revenue from contracts with customers (Topic 606)*
- ASU 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*
- ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*
- ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*;
- ASU 2016-02, *Leases (Topic 842)*;
- ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*;
- ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*;
- ASU 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*;
- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*;
- ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting;* and





- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*.

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

ASU 2014-15 describes how entities should assess their ability to meet their obligations and sets disclosure requirements about how this information should be 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.

**Financial Instruments**

ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main objective is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments to current GAAP are summarized as follows:

n Supersede current guidance to classify equity securities into different categories (i.e. trading or available-for-sale);

n Require equity investments to be measured at fair value with changes in fair value recognized in net income, rather than other comprehensive income. This excludes those investments accounted for under the equity method, or those that result in consolidation of the investee;

n Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment (similar to goodwill);

n Eliminate the requirement to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost;

n Require the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes;

n Require an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with fair value option for financial instruments;

n Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities, or loans and receivables) on the balance sheet or accompanying notes to the financial statements;

n Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets.

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. CIT is currently evaluating the impact of adopting this amendment on its financial instruments.

**Leases**

ASU 2016-02, which is intended to increase transparency and comparability of accounting for lease transactions, will require all leases to be recognized on the balance sheet as lease assets and lease liabilities.

Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. Lease classifications by lessors are similar; operating, direct financing, or sales-type.

Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria

that are largely similar to those applied in current lease accounting, but without explicit thresholds.



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The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements.

The standard is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

**Derivatives and Hedge Accounting**

ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. An entity will, however, still need to evaluate whether it is probable that the counterparty will perform under the contract as part of its ongoing effectiveness assessment for hedge accounting. Therefore, a novation (replacing one counterparty to a derivative instrument with a new counterparty) of a derivative to a counterparty with a sufficiently high credit risk could still result in the dedesignation of the hedging relationship. The new guidance, which may be applied either on a prospective basis or a modified retrospective basis, is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. CIT is currently reviewing the impact of adopting this guidance on CIT s financial statement or disclosures.

ASU 2016-06 clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step decision sequence in ASC 815, as amended by the ASU. Accordingly, when a call (put) option is contingently exercisable, there is no requirement that an entity must assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The new guidance is effective for public business entities in interim and annual periods in fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim period for which the entity s financial statements have not been issued but would be retroactively applied to the beginning of the year that includes that interim period. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

**Equity method and joint ventures**

ASU 2016-07 eliminates the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting.

For available-for-sale securities that become eligible for the equity method of accounting, any unrealized gain or loss recorded within accumulated other comprehensive income should be recognized in earnings at the date the investment initially qualifies for the use of the equity method.

The new standard should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. For all entities, public and nonpublic, the new standard is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

**Revenue Recognition**

ASU 2014-09 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.

ASU 2015-14 deferred the effective date one year for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, which means CIT would apply the standard in their SEC filings for the first quarter of 2018. Public companies





that choose full retrospective application will need to apply the standard to amounts they report for 2016 and 2017 on the face of their full year 2018 financial statements.

ASU 2016-08 clarifies that when another party, along with the entity, is involved in providing a good or service to a customer, the entity must determine if the nature of its obligation is to provide a good or service to a customer (that is, to be a principal) or is to arrange for the good or service to be provided to the customer (that is, to act as an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. ASU 2016-08 also amends the principal-versus agent implementation guidance and illustrations in ASU 2014-09.

ASU 2016-10 clarifies identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. For identifying performance obligations, the ASU specifies that an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract. In addition, an entity is permitted to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good rather than as an additional promised service. The ASU also improves the guidance on assessing whether promises to transfer goods or services are separately identifiable. For licensing implementation, the ASU clarifies the timing of revenue recognition from a license to intellectual property. In addition, a sales-based or usage-based royalty is promised in exchange for a license and, therefore, the royalty s recognition constraint applies whenever a license is the sole or predominant item to which the royalty relates. The effective date and transition of ASU 2016-08 and 2016-10 aligns with ASU 2014-09, effective for fiscal years beginning after December 15, 2017.

CIT is currently reviewing the impact of adoption of these ASUs and has not determined the method of adoption or the effect of the standard on its ongoing financial reporting.

**Stock Compensation**

ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions to employees, including:

- Require companies to record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement; a Company would account for excess tax benefits and deficiencies as discrete items in the period in which they occur (i.e. they would be excluded from the estimated annual effective tax rate).

- Eliminate the requirement that excess tax benefits be realized (i.e. reduce income taxes payable) before being recognized, and to require excess tax benefits to be presented as an operating activity in the statement of cash flows.

- Use employee s shares to satisfy the employers statutory income tax withholding obligation. The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. Cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity.

- An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur.

For the amendments that change the recognition and measurement of share-based payment awards, the new guidance requires transition under a modified retrospective approach, with a cumulative-effect adjustment made to retained earnings as of the beginning of the fiscal period in which the guidance is adopted. Prospective application is required for the accounting for excess tax benefits and tax deficiencies and for use of the practical expedient for estimating the expected term.

An entity should apply the new guidance retrospectively for all periods presented related to the classification of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirements. It can elect to apply the new guidance either prospectively or retrospectively, however, to the presentation of excess tax benefits on the statement of cash flows.

The guidance would be effective for public entities for annual reporting periods beginning after December 15, 2016. Early adoption would be permitted. CIT is currently evaluating the effect of this ASU on its financial statements and disclosures.

**NOTE 2 ACQUISITION AND DISPOSITION ACTIVITIES**

**ACQUISITIONS**

During 2015, the Company completed the following significant business acquisition.

**OneWest Transaction**

Effective as of August 3, 2015, CIT acquired IMB HoldCo, LLC ( IMB ), the parent company of OneWest Bank. CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank, with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association. CIT paid approximately $3.4 billion as consideration,





comprised of approximately $1.9 billion in cash proceeds, approximately 30.9 million shares of CIT Group Inc. common stock (valued at approximately $1.5 billion at the time of closing), and approximately 168,000 restricted stock units of CIT (valued at approximately $8 million at the time of closing). Total consideration also included $116 million of cash retained by CIT as a holdback for certain potential liabilities relating to IMB and $2 million of cash for expenses of the holders representative. The acquisition was accounted for as a business combination, subject to the provisions of ASC 805-10-50, Business Combinations.

The acquisition added approximately $21.8 billion of assets, and $18.4 billion of liabilities to CIT s Consolidated Balance Sheet and 70 branches in Southern California. Primary reasons for the acquisition included advancing CIT s bank deposit strategy, expanding the Company s products

and services offered to small and middle market customers, and improving CIT s competitive position in the financial services industry.

**DISCONTINUED OPERATIONS**

**Reverse Mortgage Servicing**

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, the Financial Freedom business is reflected as discontinued operations. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The assets of discontinued operations primarily include Home Equity Conversion Mortgage ( HECM ) loans and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for Fannie Mae, secured borrowings and contingent liabilities. In addition, continuing operations includes a portfolio of reverse mortgages, which are maintained in the Legacy Consumer Mortgage division of the Consumer and Community Banking segment, which are serviced by Financial Freedom. Based on the Company s continuing assessment of market participants costs to service and contemplation of recent industry servicing practice changes, the Company s value for the reverse MSRs was a negative $10 million at March 31, 2016, which is unchanged from December 31, 2015.

As a mortgage servicer of residential reverse mortgage loans, the Company is exposed to contingent liabilities for breaches of servicer obligations as set forth in industry regulations established by HUD and FHA and in servicing agreements with the applicable counterparties, such as Fannie Mae and other investors. Under these agreements, the servicer may be liable for failure to perform its servicing obligations, which could include fees imposed for failure to comply with foreclosure timeframe requirements established by servicing guides and agreements to which CIT is a party as the servicer of the loans. The Company has established reserves for contingent servicing-related liabilities associated with discontinued operations. While the Company believes that such accrued liabilities are adequate, it is reasonably possible that such liabilities could ultimately exceed the Company s reserve for probable and reasonably estimable losses by up to $40 million as of March 31, 2016, which is unchanged from December 31, 2015.

Separately, a corresponding indemnification receivable from the FDIC of $65 million and $66 million at March 31, 2016 and December 31, 2015, respectively, was recognized for the loans covered by indemnification agreements with the FDIC reported in continuing operations. The indemnification receivable is measured using the same assumptions used to measure the indemnified item (contingent liability) subject to management s assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

**Condensed Balance Sheet of Discontinued Operations** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Net Finance Receivables[1] | $434.5 | $449.5 |
| Other assets[2] | 55.0 | 51.0 |
| Assets of discontinued operations | $489.5 | $500.5 |
| Secured borrowings[1] | $425.8 | $440.6 |
| Other liabilities[3] | 259.0 | 255.6 |
| Liabilities of discontinued operations | $684.8 | $696.2 |

[1] *Net finance receivables include $424.4 million and $440.2 million of securitized balances at March 31, 2016 and December 31, 2015, respectively and $10.1 million and $9.3 million of additional draws awaiting securitization, respectively.. Secured borrowings relate to those receivables.*

[2] *Amount includes servicing advances, servicer receivables and property and equipment, net of accumulated depreciation.*

[3] *Other liabilities include contingent liabilities and other accrued liabilities.*

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

The results from discontinued operations, net of tax, for the quarter ended March 31, 2016 is presented below. There was no activity from discontinued operations in the prior-year quarter.

**Condensed Statements of Operation** (dollars in millions)

| | Quarter Ended March 31, 2016 |
|---|---|
| Interest income(1) | $ 3.0 |
| Interest expense(1) | (3.0) |
| Other income | 8.8 |
| Operating expenses(2) | (16.2) |
| Loss from discontinued operation before benefit (provision) for income taxes | (7.4) |
| Benefit for income taxes(3) | 2.6 |
| Loss from discontinued operation, net of taxes | $ (4.8) |

(1) *Includes amortization for the premium associated with the HECM loans and related secured borrowings.*

(2) *For the quarter ended March 31, 2016, operating expense is comprised of $0.8 million in salaries and benefits, $3.9 million in professional and legal services and $11.5 million for other expenses such as data processing, premises and equipment, and miscellaneous charges.*

(3) *The Company s tax rate for discontinued operations is 35% for the quarter ended March 31, 2016.*

**Condensed Statement of Cash Flows** (dollars in millions)

| | Quarter Ended March 31, 2016 |
|---|---|
| Net cash flows used for operations | $(10.2) |
| Net cash flows provided by investing activities | 19.8 |

**NOTE 3 LOANS**

The following tables and data as of March 31, 2016 include the loan balances acquired in the OneWest Transaction, which were recorded at fair value at the time of the acquisition (August 3, 2015). See *Note 2 Acquisition and Disposition Activities* in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2015 for details of the OneWest Transaction.

Finance receivables, excluding those reflected as discontinued operations, consist of the following:

**Finance Receivables by Product** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Commercial Loans | $21,340.3 | $21,380.9 |

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Direct financing leases and leveraged leases | 3,210.3 | 3,427.5 |
| **Total commercial** | **24,550.6** | **24,808.4** |
| Consumer Loans | 6,858.0 | 6,863.3 |
| **Total finance receivables** | **31,408.6** | **31,671.7** |
| Finance receivables held for sale | 2,051.9 | 1,985.1 |
| Finance receivables and held for sale receivables[1] | $33,460.5 | $33,656.8 |

[1] *Assets held for sale on the Balance Sheet includes finance receivables and operating lease equipment primarily related to portfolios in Canada, China, international business air and the U.K. 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.*



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

**Finance Receivables** (dollars in millions)

| | March 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Domestic | Foreign | Total | Domestic | Foreign | Total |
| Transportation Finance | $ 776.2 | $2,010.5 | $ 2,786.7 | $ 815.1 | $2,727.0 | $ 3,542.1 |
| Commercial Banking | 21,088.8 | 348.4 | 21,437.2 | 20,607.9 | 321.3 | 20,929.2 |
| Consumer and Community Banking[1] | 7,184.7 | | 7,184.7 | 7,200.4 | | 7,200.4 |
| Total | $29,049.7 | $2,358.9 | $31,408.6 | $28,623.4 | $3,048.3 | $31,671.7 |

[1] *The Consumer and Community Banking segment includes certain commercial loans, primarily consisting of a portfolio of SBA loans. These loans are excluded from the Consumer loan balance and included in the Commercial loan balances in the tables throughout this note.*

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, 2016 | December 31, 2015 |
|---|---|---|
| Unearned income | $ (844.5) | $ (870.4) |
| Unamortized premiums / (discounts) | (22.9) | (34.0) |
| Accretable yield on purchase credit impaired ( PCI ) loans | 1,279.7 | 1,294.0 |

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Net unamortized deferred costs and (fees)[(1)] | 47.5 | 42.9 |

[(1)] *Balance relates to Commercial Banking and Transportation Finance segments.*

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**

Commercial obligor 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 the commercial loan ratings are as follows:

- Pass finance receivables in this category do not meet the criteria for classification in one of the categories below.
- 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.
- 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.







The following table summarizes commercial finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. The consumer loan risk profiles are different from commercial loans, and use loan-to-value ( LTV ) ratios in rating the credit quality, and therefore are presented separately below.

**Commercial Finance and Held for Sale Receivables Risk Rating by Class / Segment** (dollars in millions)

| Grade: | Pass | Special Mention | Classified-accruing | Classified-non-accrual | PCI Loans | Total |
|---|---|---|---|---|---|---|
| **March 31, 2016** | | | | | | |
| **Transportation Finance** | | | | | | |
| Aerospace | $ 1,507.5 | $ 84.1 | $ 34.8 | $ 21.7 | $ | $ 1,648.1 |
| Rail | 114.4 | 2.8 | 0.9 | | | 118.1 |
| Maritime Finance | 914.9 | 383.2 | 369.1 | | | 1,667.2 |
| Total Transportation | 2,536.8 | 470.1 | 404.8 | 21.7 | | 3,433.4 |
| **Commercial Banking** | | | | | | |
| Commercial Finance | 8,020.9 | 748.8 | 554.3 | 148.9 | 51.7 | 9,524.6 |

| | Pass | Special Mention | Classified-accruing | Classified-non-accrual | PCI Loans | Total |
|---|---|---|---|---|---|---|
| **Grade:** | | | | | | |
| Real Estate Finance | 4,939.4 | 277.6 | 53.4 | 7.3 | 85.2 | 5,362.9 |
| Business Capital | 5,678.9 | 437.8 | 595.5 | 59.0 | | 6,771.2 |
| Total Commercial Banking | 18,639.2 | 1,464.2 | 1,203.2 | 215.2 | 136.9 | 21,658.7 |
| **Consumer & Community Banking** | | | | | | |
| Other Consumer Banking | 303.4 | 10.8 | 16.0 | | 4.7 | 334.9 |
| **Non- Strategic Portfolios** | 943.3 | 72.7 | 57.7 | 51.1 | | 1,124.8 |
| **Total** | $22,422.7 | $2,017.8 | $1,681.7 | $288.0 | $141.6 | $26,551.8 |
| **December 31, 2015** | | | | | | |
| **Transportation Finance** | | | | | | |
| Aerospace | $ 1,635.7 | $ 65.0 | $ 46.2 | $ 15.4 | $ | $ 1,762.3 |
| Rail | 118.9 | 1.4 | 0.6 | | | 120.9 |
| Maritime Finance | 1,309.0 | 162.0 | 207.4 | | | 1,678.4 |
| Total Transportation Finance | 3,063.6 | 228.4 | 254.2 | 15.4 | | 3,561.6 |
| **Commercial Banking** | | | | | | |
| Commercial Finance | 8,215.0 | 626.4 | 389.9 | 131.5 | 69.4 | 9,432.2 |
| Real Estate Finance | 5,143.2 | 97.6 | 18.6 | 3.6 | 94.6 | 5,357.6 |
| Business Capital | 5,649.0 | 517.0 | 320.1 | 56.0 | | 6,542.1 |
| Total Commercial Banking | 19,007.2 | 1,241.0 | 728.6 | 191.1 | 164.0 | 21,331.9 |
| **Consumer & Community Banking** | | | | | | |
| Other Consumer Banking | 300.6 | 12.1 | 18.3 | | 5.3 | 336.3 |
| **Non- Strategic Portfolios** | 1,286.3 | 115.4 | 60.1 | 56.0 | | 1,517.8 |
| **Total** | $23,657.7 | $1,596.9 | $1,061.2 | $262.5 | $169.3 | $26,747.6 |

For consumer loans, the Company monitors credit risk based on indicators such as delinquencies and LTV, which the Company believes are relevant credit quality indicators.

LTV refers to the ratio comparing the loan s unpaid principal balance to the property s collateral value. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.





The following table provides a summary of the consumer portfolio credit quality. The amounts represent the carrying value, which differ from unpaid principal balances, and include the premiums or discounts and the accretable yield and non-accretable difference for PCI loans recorded in purchase accounting. Included in the consumer finance receivables are covered loans for which the Company can be reimbursed for a substantial portion of future losses under the terms of loss sharing agreements with the FDIC. Covered loans are discussed further in *Note 5 Indemnification Assets.*

Included in the consumer loan balances as of March 31, 2016 and December 31, 2015, were loans with terms that permitted negative amortization with an unpaid principal balance of $925 million and $966 million, respectively.

| | Single Family Residential | | | | | Reverse Mortgage | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Covered Loans | | Non-covered Loans | | Total Single Family Residential | Covered Loans Non- PCI | Non-covered Loans | | Total Reverse Mortgages | Total Consume Loans |
| | Non- PCI | PCI | Non- PCI | PCI | | | Non- PCI | PCI | | |
| **March 31, 2016** | | | | | | | | | | |
| Greater than 125% | $ 1.6 | $ 356.7 | $ 12.2 | $ 2.0 | $ 372.5 | $ 0.8 | $ 5.0 | $ 36.5 | $ 42.3 | $ 414 |
| 101% 125% | 2.8 | 562.6 | 12.2 | | 577.6 | 1.8 | 8.1 | 13.6 | 23.5 | 601 |
| 80% 100% | 385.4 | 574.4 | 23.6 | | 983.4 | 26.0 | 41.4 | 8.8 | 76.2 | 1,059. |
| Less than 80% | 1,618.2 | 847.0 | 1,546.3 | 6.9 | 4,018.4 | 432.9 | 311.1 | 10.8 | 754.8 | 4,773 |
| Not Applicable[(1)] | | | 9.3 | | 9.3 | | | | | 9 |
| Total | $ 2,008.0 | $ 2,340.7 | $ 1,603.6 | $ 8.9 | $ 5,961.2 | $ 461.5 | $ 365.6 | $ 69.7 | $ 896.8 | $ 6,858 |

| | Single Family Residential | | | | | Reverse Mortgage | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Covered Loans | | Non-covered Loans | | Total Single Family Residential | Covered Loans Non- PCI | Non-covered Loans | | Total Reverse Mortgages | To Cons Lo |
| | Non- PCI | PCI | Non- PCI | PCI | | | Non- PCI | PCI | | |
| **December 31, 2015** | | | | | | | | | | |
| Greater than 125% | $ 1.1 | $ 395.6 | $ 0.8 | $ 15.7 | $ 413.2 | $ 1.0 | $ 3.9 | $ 39.3 | $ 44.2 | $ |
| 101% 125% | 3.6 | 619.9 | 0.2 | 14.9 | 638.6 | 2.5 | 6.5 | 17.0 | 26.0 | |
| 80% 100% | 449.3 | 552.1 | 14.3 | 11.4 | 1,027.1 | 26.5 | 37.4 | 7.0 | 70.9 | 1,0 |
| Less than 80% | 1,621.0 | 829.3 | 1,416.1 | 12.9 | 3,879.3 | 432.6 | 312.5 | 11.1 | 756.2 | 4 |
| Not Applicable[(1)] | | | 7.8 | | 7.8 | | | | | |
| Total | $ 2,075.0 | $ 2,396.9 | $ 1,439.2 | $ 54.9 | $ 5,966.0 | $ 462.6 | $ 360.3 | $ 74.4 | $ 897.3 | $ 6 |

[(1)] *Certain Consumer Loans do not have LTV s, including the Credit Card portfolio.*

Covered loans are limited to the Consumer and Community Banking segment. The following table summarizes the covered loans (single family residential and reverse mortgages) as of March 31, 2016:

**Covered Loans** (dollars in millions)

| | PCI | Non-PCI | Total |
|---|---|---|---|
| Consumer and Community Banking loans HFI at carrying value | $ 2,340.7 | $ 2,469.5 | $ 4,810.2 |

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

**Past Due and Non-accrual Loans**

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

**Past Due Loans** (dollars in millions)

| | Past Due | | | | | | |
|---|---|---|---|---|---|---|---|
| | **30 59 Days Past Due** | **60 89 Days Past Due** | **90 Days or Greater** | **Total Past Due** | **Current[(1)]** | **PCI Loans[(2)]** | **Total Finances Receivable** |
| **March 31, 2016** | | | | | | | |
| **Transportation Finance** | | | | | | | |
| Aerospace | $ 7.1 | $ | $ 20.8 | $ 27.9 | $ 1,620.2 | $ | $ 1,648.1 |
| Rail | 5.0 | 0.8 | 7.0 | 12.8 | 105.3 | | 118.1 |
| Maritime Finance | | | | | 1,667.2 | | 1,667.2 |
| Total Transportation Finance | 12.1 | 0.8 | 27.8 | 40.7 | 3,392.7 | | 3,433.4 |
| **Commercial Banking** | | | | | | | |
| Commercial Finance | 3.8 | 43.7 | 16.1 | 63.6 | 9,417.6 | 51.7 | 9,532.9 |
| Real Estate Finance | 1.0 | | | 1.0 | 5,276.7 | 85.2 | 5,362.9 |
| Business Capital | 117.7 | 18.6 | 19.8 | 156.1 | 6,615.1 | | 6,771.2 |
| Total Commercial Banking | 122.5 | 62.3 | 35.9 | 220.7 | 21,309.4 | 136.9 | 21,667.0 |
| **Consumer & Community Banking** | | | | | | | |
| Legacy Consumer Mortgages | 18.0 | 8.2 | 35.2 | 61.4 | 2,872.5 | 2,419.3 | 5,353.2 |
| Other Consumer Banking | 2.3 | 0.5 | 2.1 | 4.9 | 1,872.5 | 4.7 | 1,882.1 |
| Total Consumer & Community Banking | 20.3 | 8.7 | 37.3 | 66.3 | 4,745.0 | 2,424.0 | 7,235.3 |
| **Non-Strategic Portfolios** | 24.3 | 5.9 | 21.6 | 51.8 | 1,073.0 | | 1,124.8 |
| Total | $179.2 | $77.7 | $122.6 | $379.5 | $30,520.1 | $2,560.9 | $33,460.5 |
| **December 31, 2015** | | | | | | | |
| **Transportation Finance** | | | | | | | |
| Aerospace | $ 1.4 | $ | $ 15.4 | $ 16.8 | $ 1,745.5 | $ | $ 1,762.3 |
| Rail | 8.5 | 2.0 | 2.1 | 12.6 | 108.3 | | 120.9 |
| Maritime Finance | | | | | 1,678.4 | | 1,678.4 |
| Total Transportation Finance | 9.9 | 2.0 | 17.5 | 29.4 | 3,532.2 | | 3,561.6 |
| **Commercial Banking** | | | | | | | |
| Commercial Finance | | | 20.5 | 20.5 | 9,342.3 | 69.4 | 9,432.2 |
| Real Estate Finance | 1.9 | | 0.7 | 2.6 | 5,260.4 | 94.6 | 5,357.6 |
| Business Capital | 131.1 | 32.8 | 26.8 | 190.7 | 6,351.4 | | 6,542.1 |
| Total Commercial Banking | 133.0 | 32.8 | 48.0 | 213.8 | 20,954.1 | 164.0 | 21,331.9 |
| **Consumer & Community Banking** | | | | | | | |

| | Past Due | | | | | | |
|---|---|---|---|---|---|---|---|
| Legacy Consumer Mortgages | 15.8 | 1.7 | 4.1 | 21.6 | 2,923.8 | 2,526.2 | 5,471.6 |
| Other Consumer Banking | 2.7 | 0.3 | 0.4 | 3.4 | 1,765.2 | 5.3 | 1,773.9 |
| Total Consumer & Community Banking | 18.5 | 2.0 | 4.5 | 25.0 | 4,689.0 | 2,531.5 | 7,245.5 |
| **Non-Strategic Portfolios** | 18.7 | 22.1 | 33.7 | 74.5 | 1,443.3 | | 1,517.8 |
| Total | $180.1 | $58.9 | $103.7 | $342.7 | $30,618.6 | $2,695.5 | $33,656.8 |

(1) *Due to their nature, reverse mortgage loans are included in Current, as they do not have contractual payments due at a specified time.*

(2) *PCI loans are written down at acquisition to their fair value using an estimate of cash flows deemed to be collectible. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due as we expect to fully collect the new carrying values of these loans.*



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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 for smaller commercial loans and 120 or more days regarding real estate mortgage loans).

Certain loans 90 days or more past due as to interest or principal are still accruing, because they are (1) well-secured and in the process of collection or (2) real estate mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due.

The following table sets forth non-accrual loans, assets received in satisfaction of loans (repossessed assets and OREO) and loans 90 days or more past due and still accruing.

**Finance Receivables on Non-Accrual Status** (dollars in millions)

| | March 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Held for Investment | Held for Sale | Total | Held for Investment | Held for Sale | Total |
| **Transportation Finance** | | | | | | |
| Aerospace | $ 0.9 | $20.8 | $ 21.7 | $ 15.4 | $ | $ 15.4 |
| Total Transportation Finance | 0.9 | 20.8 | 21.7 | 15.4 | | 15.4 |
| **Commercial Banking** | | | | | | |
| Commercial Finance | 148.9 | | 148.9 | 120.5 | 11.0 | 131.5 |
| Real Estate Finance | 7.3 | | 7.3 | 3.6 | | 3.6 |
| Business Capital | 59.0 | | 59.0 | 56.0 | | 56.0 |
| Total Commercial Banking | 215.2 | | 215.2 | 180.1 | 11.0 | 191.1 |
| **Consumer & Community Banking** | | | | | | |
| Legacy Consumer Mortgages | 6.7 | | 6.7 | 4.2 | 0.6 | 4.8 |
| Other Consumer Banking | | 0.4 | 0.4 | | 0.4 | 0.4 |

| | March 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| Total Consumer & Community Banking | 6.7 | 0.4 | 7.1 | 4.2 | 1.0 | 5.2 |
| **Non-Strategic Portfolios** | | 51.1 | 51.1 | | 56.0 | 56.0 |
| Total | $222.8 | $72.3 | $ 295.1 | $199.7 | $68.0 | $ 267.7 |
| Repossessed assets and OREO | | | 105.4 | | | 127.3 |
| Total non-performing assets | | | $400.5 | | | $395.0 |
| Commercial loans past due 90 days or more accruing | | | $ 15.2 | | | $ 15.6 |
| Consumer loans past due 90 days or more accruing | | | 29.9 | | | 0.2 |
| Total Accruing loans past due 90 days or more | | | $ 45.1 | | | $ 15.8 |

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. Reverse mortgages are not included in the non-accrual balances.

The table below summarizes the residential mortgage loans in the process of foreclosure and OREO:

**Loans in Process of Foreclosure** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| PCI | $275.3 | $320.0 |
| Non-PCI | 112.3 | 71.0 |
| Loans in process of foreclosure | 387.6 | 391.0 |
| OREO | $ 95.5 | $118.0 |

**Impaired Loans**

The Company s policy is to review for impairment finance receivables greater than $500,000 that are on non-accrual status. Consumer and small-ticket loan and lease receivables that have not been modified in a 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 by class, exclusive of finance receivables that were identified as impaired at the Acquisition 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. Impaired loans exclude PCI loans.

**Impaired Loans** (dollars in millions)

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment[3] |
|---|---|---|---|---|
| **March 31, 2016** | | | | |
| **With no related allowance recorded:** | | | | |
| **Transportation Finance** | | | | |
| Aerospace | $ 0.9 | $ 6.7 | $ | $ 0.2 |
| **Commercial Banking** | | | | |
| Commercial Finance | 10.3 | 18.5 | | 8.3 |
| Business Capital | 7.6 | 13.6 | | 6.1 |
| Real Estate Finance | 4.1 | 4.2 | | 1.5 |
| **Non-Strategic Portfolios** | | | | 4.7 |
| **With an allowance recorded:** | | | | |
| **Transportation Finance** | | | | |
| Aerospace | | | | 5.0 |
| **Commercial Banking** | | | | |
| Commercial Finance | 138.4 | 152.5 | 33.6 | 74.9 |
| Business Capital | 13.0 | 13.0 | 6.2 | 8.0 |
| Real Estate Finance | 3.2 | 3.2 | 0.4 | 0.6 |
| **Non-Strategic Portfolios** | | | | 6.1 |
| Total Impaired Loans[1] | 177.5 | 211.7 | 40.2 | 115.4 |
| Total Loans Impaired at Acquisition Date and Convenience Date[2] | 2,560.9 | 3,769.4 | 4.3 | 1,619.9 |
| Total | $2,738.4 | $3,981.1 | $44.5 | $1,735.3 |
| **December 31, 2015** | | | | |
| **With no related allowance recorded:** | | | | |
| **Commercial Banking** | | | | |
| Commercial Finance | $ 15.4 | $ 22.8 | $ | $ 6.5 |
| Business Capital | 6.3 | 9.7 | | 5.9 |
| Real Estate Finance | 0.2 | 0.8 | | 0.7 |
| **Non-Strategic Portfolios** | | | | 7.3 |
| **With an allowance recorded:** | | | | |
| **Transportation Finance** | | | | |
| Aerospace | 15.4 | 15.4 | 0.4 | 5.0 |
| **Commercial Banking** | | | | |
| Commercial Finance | 102.6 | 112.1 | 22.7 | 53.2 |
| Business Capital | 9.7 | 11.7 | 4.7 | 5.4 |
| **Non-Strategic Portfolios** | | | | 7.3 |
| Total Impaired Loans[1] | 149.6 | 172.5 | 27.8 | 91.3 |
| Total Loans Impaired at Acquisition Date and Convenience Date[2] | 2,695.5 | 3,977.3 | 4.9 | 1,108.0 |
| Total | $2,845.1 | $4,149.8 | $32.7 | $1,199.3 |

[1] *Interest income recorded for the three months ended March 31, 2016 and the year ended December 31, 2015 while the loans were impaired were $0.4 million and $1.5 million of which $0.2 million and $0.5 million was interest recognized using cash-basis method of accounting, respectively.*

[2] *Details of finance receivables that were identified as impaired at the Acquisition Date are presented under Loans Acquired with Deteriorated Credit Quality.*

[3] *Average recorded investment for the three months ended March 31, 2016 and year ended December 31, 2015.*

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. For commercial loans, the Company has established review and monitoring procedures designed to identify, as early as possible, customers that are experiencing



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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, or collect or may be subject to pilferage in a liquidation.

**Loans 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 loans that were identified as impaired as of the acquisition date of OneWest Bank. PCI loans were initially recorded at estimated fair value with no allowance for loan losses carried over, since the initial fair values reflected credit losses expected to be incurred over the remaining lives of the loans. The acquired loans are subject to the Company s internal credit review. See *Note 4 Allowance for Loan Losses.*

**Purchased Credit Impaired Loans**[1] (dollars in millions)

| March 31, 2016 | Unpaid Principal Balance | Carrying Value | Allowance for Loan Losses |
|---|---|---|---|
| **Commercial Banking** | | | |
| Commercial Finance | $ 88.2 | $ 51.7 | $2.5 |
| Real Estate Finance | 144.8 | 85.2 | 0.5 |
| **Consumer & Community Banking** | | | |
| Other Consumer Banking | 6.2 | 4.7 | |
| Legacy Consumer Mortgages | 3,530.2 | 2,419.3 | 1.3 |
| | $3,769.4 | $2,560.9 | $4.3 |

| December 31, 2015 | Unpaid Principal Balance | Carrying Value | Allowance for Loan Losses |
|---|---|---|---|
| Commercial Finance | $ 115.5 | $ 69.4 | $ 2.5 |
| Real Estate Finance | 161.1 | 94.6 | 0.6 |
| **Consumer & Community Banking** | | | |
| Other Consumer Banking | 6.8 | 5.3 | |
| Legacy Consumer Mortgages | 3,693.9 | 2,526.2 | 1.8 |
| | $3,977.3 | $ 2,695.5 | $ 4.9 |

(1) *PCI loans from prior transactions were not significant and are not included.*





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

The following table summarizes commercial PCI loans, which are monitored for credit quality based on internal risk classifications. See previous table Consumer Loan LTV Distributions for credit quality metrics on consumer PCI loans.

| | March 31, 2016 | | |
|---|---|---|---|
| **(dollars in millions)** | Non-criticized | Criticized | Total |
| Commercial Banking | $ 5.4 | $46.3 | $ 51.7 |
| Commercial Real Estate | 37.1 | 48.1 | 85.2 |

| | March 31, 2016 | | |
|---|---|---|---|
| Total | $42.5 | $94.4 | $136.9 |

| | December 31, 2015 | | |
|---|---|---|---|
| | Non-criticized | Criticized | Total |
| Commercial Banking | $ 5.3 | $ 64.1 | $ 69.4 |
| Commercial Real Estate | 33.2 | 61.4 | 94.6 |
| Total | $38.5 | $125.5 | $164.0 |

**Accretable Yield**

The excess of cash flows expected to be collected over the recorded investment (estimated fair value at acquisition) of the PCI loans represents the accretable yield and is recognized in interest income on an effective yield basis over the remaining life of the loan, or pools of loans. The accretable yield is adjusted for changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values. Further, if a loan within a pool of loans is modified, the modified loan remains part of the pool of loans. The difference between the cash flows contractually required to be paid, measured as of the acquisition date, over the expected cash flows is referred to as the non-accretable difference.

Subsequent to acquisition, we evaluate our estimates of the cash flows expected to be collected on a quarterly basis. Probable and significant decreases in expected cash flows as a result of further credit deterioration result in a charge to the provision for credit losses and a corresponding increase to the allowance for credit losses. Probable and significant increases in expected cash flows due to improved credit quality result in reversal of any previously recorded allowance for loan losses, to the extent applicable, and an increase in the accretable yield applied prospectively for any remaining increase. Changes in expected cash flows caused by changes in market interest rates or by prepayments are recognized as adjustments to the accretable yield on a prospective basis.

Changes in the accretable yield for PCI loans are summarized below for the quarter ended March 31, 2016:

| (dollars in millions) | Accretable Yield |
|---|---|
| **Balance at December 31, 2015** | $1,294.0 |
| Accretion into interest income | (49.6) |
| Reclassification from non-accretable difference | 45.0 |
| Disposals and Other | (9.7) |
| **Balance at March 31, 2016** | $1,279.7 |

**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:

- Borrower is in default with CIT or other material creditor
- Borrower has declared bankruptcy
- Growing doubt about the borrower s ability to continue as a going concern

- Borrower has (or is expected to have) insufficient cash flow to service debt
- Borrower is de-listing securities
- Borrower s inability to obtain funds from other sources
- 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:

- Assets used to satisfy debt are less than CIT s recorded investment in the receivable
- Modification of terms interest rate changed to below market rate
- Maturity date extension at an interest rate less than market rate
- The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- Capitalization of interest





- Increase in interest reserves
- Conversion of credit to Payment-In-Kind (PIK)
- Delaying principal and/or interest for a period of three months or more
- 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.

We may require some consumer borrowers experiencing financial difficulty to make trial payments generally for a period of three to four months, according to the terms of a planned permanent modification, to determine if they can perform according to those terms. These arrangements represent trial modifications, which we classify and account for as TDRs. While loans are in trial payment programs, their original terms are not considered modified and they continue to advance through delinquency status and accrue interest according to their original terms. The planned modifications for these arrangements predominantly involve interest rate reductions or other interest rate concessions; however, the exact concession type and resulting financial effect are usually not finalized and do not take effect until the loan is permanently modified. The trial period terms are developed in accordance with our proprietary programs or the U.S. Treasury s Making Homes Affordable programs for real estate 1-4 family first lien (i.e. Home Affordable Modification Program HAMP) and junior lien (i.e. Second Lien Modification Program 2MP)

mortgage loans.

At March 31, 2016, the loans in trial modification period were $89.1 million under HAMP, $0.1 million under 2MP and $2.8 million under proprietary programs. A new Streamline HAMP Program was launched in the first quarter of 2016, which resulted in an increase in HAMP modifications during the quarter, which had a balance of $26.2 million at December 31, 2015. Trial modifications with a recorded investment of $92.0 million at March 31, 2016 were accruing loans and there were no non-accruing loans. Our experience is that substantially all of the mortgages that enter a trial payment period program are successful in completing the program requirements and are then permanently modified at the end of the trial period. Our allowance process considers the impact of those modifications that are probable to occur.

The recorded investment of TDRs, excluding those classified as PCI, at March 31, 2016 and December 31, 2015 was $44.3 million and $40.2 million, of which 81% and 63%, respectively, were on non-accrual. Commercial Finance, NSP and Consumer and Community Banking receivables accounted for 69%, 13% and 12% of the total TDRs, respectively, at March 31, 2016. Commercial Banking and Transportation Finance receivables accounted for 61% and 26%, respectively of the total TDRs at December 31, 2015, and there were $2.5 million and $1.4 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, 2016 and 2015 were $16.1 million and $0.7 million, respectively. The recorded investment at the time of default of TDRs that experience a payment default (payment default is one missed payment), during the quarters ended March 31, 2016 and 2015, and for which the payment default occurred within one year of the modification totaled $5.9 million and $0.3 million, respectively. The March 31, 2016 defaults related primarily to Commercial Finance and the March 31, 2015 defaults related primarily to 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.

- The nature of modifications qualifying as TDR s based upon recorded investment at March 31, 2016 was comprised of payment deferrals for 15% and covenant relief and/or other for 85%. December 31, 2015 TDR recorded investment was comprised of payment deferrals for 13% and covenant relief and/or other for 87%.
- 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;
- 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, 2016 and 2015 was not significant;
- 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, 2016 and 2015 was not significant, as debt forgiveness is a relatively small component of the Company s modification programs; and





- 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.

**Reverse Mortgages**

Consumer loans within continuing operations include the outstanding balance of $896.8 million and $897.3 million at March 31, 2016 and December 31, 2015, respectively, related to the reverse mortgage portfolio, of which $809.5 million and $812.6 million at March 31, 2016 and December 31, 2015, respectively, was uninsured. Reverse mortgage loans are contracts in which a homeowner borrows against the equity in their home and receives cash in one lump sum payment, a line of credit, fixed monthly payments for either a specific term or for as long as the homeowner lives in the home, or a combination of these options. Reverse mortgages feature no recourse to the borrower, no required repayment during the borrower s occupancy of the home (as long as the borrower complies with the terms of the mortgage), and, in the event of foreclosure, a repayment amount cannot exceed the lesser of either the unpaid principal balance of the loan or the proceeds recovered upon sale of the home. The mortgage balance consists of cash advanced, interest compounded over the life of the loan, capitalized mortgage insurance premiums, and other servicing advances capitalized into the loan.

The uninsured reverse mortgage portfolio consists of approximately 1,900 loans with an average borrowers age of 82 years old and an unpaid principal balance of $1,099.7 million at March 31, 2016. The realizable collateral value (the lower of collectible principal and interest, or estimated value of the home) exceeds the outstanding book balance at March 31, 2016.

Reverse mortgage loans were recorded at fair value on the acquisition date. Subsequent to that, we account for uninsured reverse mortgages, which are the majority of the total, in accordance with the instructions provided by the staff of the Securities and Exchange Commission (SEC) entitled Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts. Refer to Note 1 of the Company s Annual Report on Form 10-K for further details. To determine the carrying value of these reverse mortgages as of March 31, 2016, the Company used a proprietary model which uses actual cash flow information, actuarially determined mortality assumptions, likelihood of prepayments, and estimated future collateral values (determined by applying externally published market index). In addition, drivers of cash flows include:

1) Mobility rates We used the actuarial estimates of contract termination using the Society of Actuaries mortality tables, adjusted for expected prepayments and relocations.

2) Home Price Appreciation Consistent with other projections from various market sources, we use the Moody s baseline forecast at a regional level to estimate home price appreciation on a loan-level basis.

As of March 31, 2016, the Company s estimated future advances to reverse mortgagors are as follows:

**Future Advances** (dollars in millions)

| **Year Ending:** | |
|---|---|
| 2016 | $12.7 |
| 2017 | 14.4 |
| 2018 | 11.8 |
| 2019 | 9.7 |
| 2020 | 7.9 |
| Years 2021 2025 | 21.7 |
| Years 2026 2030 | 6.6 |
| Years 2031 2035 | 1.7 |
| Thereafter | 0.4 |
| **Total**[(1),(2)] | $86.9 |

(1) *This table does not take into consideration cash inflows including payments from mortgagors or payoffs based on contractual terms.*

(2) *This table includes the reverse mortgages supported by the Company as a result of the IndyMac loss-share agreements with the FDIC. As of March 31, 2016, the Company is responsible for funding up to a remaining $48 million of the total amount. Refer to the Indemnification Asset footnote for more information on this agreement and the Company s responsibilities toward this reverse mortgage portfolio.*

**Serviced Loans**

In conjunction with the OneWest Transaction, the Company services HECM reverse mortgage loans sold to Agencies (Fannie Mae) and securitized into GNMA HMBS pools. HECM loans transferred into the HMBS program have not met all the requirements for sale accounting, and therefore, the Company has accounted for these transfers as a financing transaction with the loans remaining on the Company s statement of

financial position and the proceeds received are recorded as a secured borrowing. The pledged loans and secured borrowings are reported in Assets of discontinued operations and Liabilities of discontinued operations, respectively.

As servicer of HECM loans, the Company either chooses to repurchase the loan out of the HMBS pool upon reaching a maturity event (i.e., borrower s death or the property ceases to be the borrower s principal residence) or is required to repurchase the loan once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount. These HECM loans are repurchased at a price equal to the unpaid principal balance outstanding on the loan plus accrued interest. The repurchase transaction represents extinguishment of debt. As a result, the HECM loan basis and accounting methodology (retrospective effective interest) would carry forward. However, if the Company classifies these repurchased loans as AHFS, that classification would result in a new accounting methodology. Loans classified as AHFS are carried at LOCOM. Loans classified as HFI are not assignable to HUD and are subject to periodic impairment assessment.



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In the quarter ended March 31, 2016, the Company repurchased $24.6 million (unpaid principal balance) of additional HECM loans, of which $16.8 million were classified as AHFS and the remaining $7.8 million were classified as HFI. As of March 31, 2016, the Company had an outstanding balance of $114.8 million of HECM loans, of which $27.6 million (unpaid principal balance) is classified as AHFS with a remaining purchase discount of $0.1 million and $81.7 million is classified as HFI accounted for as PCI loans with an associated remaining purchase discount of $12.0 million. Serviced loans also include $17.7 million that are classified as HFI, which are accounted for under the effective yield method, with no remaining purchase discount.

**NOTE 4 ALLOWANCE FOR LOAN LOSSES**

The Company maintains an allowance for loan losses for estimated credit losses in its HFI loan portfolio. The allowance is adjusted through a provision for credit losses, which is charged against current period earnings, and reduced by any charge-offs for losses, net of recoveries.

The Company maintains a separate reserve for credit losses on off-balance sheet commitments, which is reported in Other Liabilities. Off-balance sheet credit exposures include items such as unfunded loan commitments, issued standby letters of credit and deferred purchase agreements. The Company s methodology for assessing the appropriateness of this reserve is similar to the allowance process for outstanding loans.

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

| | Transportation Finance | Commercial Banking | Consumer & Community Banking | Non-Strategic Portfolios | Corporate and Other | Total |
|---|---|---|---|---|---|---|
| **Quarter Ended March 31, 2016** | | | | | | |
| Balance December 31, 2015 | $ 39.4 | $ 310.5 | $ 10.3 | $ | $ | $ 360.2 |
| Provision for credit losses | 22.7 | 73.5 | 3.1 | | | 99.3 |
| Other[(1)] | 0.2 | (5.1) | 1.3 | | | (3.6) |
| Gross charge-offs[(2)] | (19.6) | (35.8) | (0.7) | | | (56.1) |
| Recoveries | | 4.0 | 0.8 | | | 4.8 |
| Balance March 31, 2016 | $ 42.7 | $ 347.1 | $ 14.8 | $ | $ | $ 404.6 |
| **Allowance balance at March 31, 2016** | | | | | | |
| Loans individually evaluated for impairment | $ | $ 40.2 | $ | $ | $ | $ 40.2 |
| Loans collectively evaluated for impairment | 42.7 | 303.9 | 13.5 | | | 360.1 |
| | | 3.0 | 1.3 | | | 4.3 |

| | Transportation Finance | Commercial Banking | Consumer & Community Banking | Non-Strategic Portfolios | Corporate and Other | Total |
|---|---|---|---|---|---|---|
| Loans acquired with deteriorated credit quality[3] | | | | | | |
| Allowance for loan losses | $ 42.7 | $ 347.1 | $ 14.8 | $ | $ | $ 404.6 |
| Other reserves[1] | $ | $ 48.1 | $ 0.1 | $ | $ | $ 48.2 |
| **Finance receivables at March 31, 2016** | | | | | | |
| Loans individually evaluated for impairment | $ 0.9 | $ 176.6 | $ | $ | $ | $ 177.5 |
| Loans collectively evaluated for impairment | 2,785.8 | 21,123.7 | 4,760.7 | | | 28,670.2 |
| Loans acquired with deteriorated credit quality[3] | | 136.9 | 2,424.0 | | | 2,560.9 |
| Ending balance | $2,786.7 | $21,437.2 | $7,184.7 | $ | $ | $31,408.6 |
| Percent of loans to total loans | 8.9% | 68.3% | 22.9% | | | 100% |



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

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

| | Transportation Finance | Commercial Banking | Consumer & Community Banking | Non-Strategic Portfolios | Corporate and Other | Total |
|---|---|---|---|---|---|---|
| **Quarter Ended March 31, 2015** | | | | | | |
| Balance December 31, 2014 | $ 26.5 | $ 282.4 | $ | $ 37.5 | $ | $ 346.4 |
| Provision for credit losses | 6.4 | 24.4 | | 3.8 | | 34.6 |
| Other[1] | (0.2) | (1.8) | | (1.6) | | (3.6) |
| Gross charge-offs[2] | | (22.6) | | (4.0) | | (26.6) |
| Recoveries | | 3.3 | | 2.4 | | 5.7 |
| Balance March 31, 2015 | $ 32.7 | $ 285.7 | $ | $ 38.1 | $ | $ 356.5 |
| **Allowance balance at March 31, 2015** | | | | | | |
| Loans individually evaluated for impairment | $ | $ 13.4 | $ | $ 1.4 | $ | $ 14.8 |
| Loans collectively evaluated for impairment | 32.7 | 272.3 | | 36.7 | | 341.7 |
| Loans acquired with deteriorated credit quality[3] | | | | | | |
| Allowance for loan losses | $ 32.7 | $ 285.7 | $ | $ 38.1 | $ | $ 356.5 |
| Other reserves[1] | $ 0.5 | $ 36.6 | $ | $ 0.2 | $ | $ 37.3 |
| **Finance receivables at March 31, 2015** | | | | | | |
| Loans individually evaluated for impairment | $ | $ 48.3 | $ | $ 19.4 | $ | $ 67.7 |

| | Transportation Finance | Commercial Banking | Consumer & Community Banking | Non-Strategic Portfolios | Corporate and Other | Total |
|---|---|---|---|---|---|---|
| Loans collectively evaluated for impairment | 2,944.1 | 15,010.5 | | 1,406.9 | | 19,361.5 |
| Loans acquired with deteriorated credit quality[3] | | 0.1 | | | | 0.1 |
| Ending balance | $2,944.1 | $15,058.9 | $ | $1,426.3 | $ | $19,429.3 |
| Percentage of loans to total loans | 15.2% | 77.5% | | 7% | | 100% |

[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 loans that were charged off and reimbursed by the FDIC under the indemnification provided by the FDIC, sales and foreign currency translations.*

[2] *Gross charge-offs of amounts specifically reserved in prior periods included $7 million charged directly to the Allowance for loan losses for the quarter to date March 31, 2016 related to Commercial Banking. Gross charge-offs included $21 million charged directly to the Allowance for loan losses for the year ended December 31, 2015. $1 million related to TF, $15 million related to Commercial Finance and $5 million related to NSP.*

[3] *Represents loans considered impaired as part of the OneWest transaction and are accounted for under the guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality).*

**NOTE 5 INDEMNIFICATION ASSETS**

The Company acquired the indemnifications provided by the FDIC under the loss sharing agreements from previous transactions entered into by OneWest Bank. The loss share agreements with the FDIC relates to the FDIC-assisted transactions of IndyMac in March 2009 ( IndyMac Transaction ), First Federal in December 2009 ( First Federal Transaction ) and La Jolla in February 2010 ( La Jolla Transaction ). Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modification, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are received usually within 60 days of submission.

In connection with the lndyMac, First Federal and La Jolla Transactions, the FDIC indemnified the Company against certain future losses for covered loans. In addition, in connection with the IndyMac Transaction, the Company recorded an indemnification receivable for estimated reimbursements due from the FDIC for loss exposure arising from breach in origination and servicing obligations associated with covered reverse mortgage loans sold to the Agencies prior to March 2009 pursuant to the loss share agreement with the FDIC.







Below provides the carrying value of the recognized indemnification assets and related receivable/payable balance with the FDIC associated with indemnified losses under the IndyMac and La Jolla Transactions as of March 31, 2016 and December 31, 2015, respectively.

**Indemnification Assets** (dollars in millions)

| | March 31, 2016 | | |
|---|---|---|---|
| | IndyMac Transaction | La Jolla Transaction | Total |

| | March 31, 2016 | | |
|---|---|---|---|
| Loan indemnification | $310.8 | $ 2.5 | $313.3 |
| Reverse mortgage indemnification | 10.7 | | 10.7 |
| Agency claims indemnification | 65.4 | | 65.4 |
| Total | $386.9 | $ 2.5 | $389.4 |
| Receivable from (Payable to) the FDIC | $ 19.8 | $(1.6) | $ 18.2 |

| | December 31, 2015 | | |
|---|---|---|---|
| | IndyMac Transaction | La Jolla Transaction | Total |
| Loan indemnification | $338.6 | $ 0.3 | $338.9 |
| Reverse mortgage indemnification | 10.3 | | 10.3 |
| Agency claims indemnification | 65.6 | | 65.6 |
| Total | $414.5 | $ 0.3 | $414.8 |
| Receivable from (Payable to) the FDIC | $ 18.6 | $(1.9) | $ 16.7 |

The Company separately recognizes a net receivable (recorded in other assets) for the claim submissions filed with the FDIC and a net payable (recorded in other liabilities) for the remittances due to the FDIC for previously submitted claims that were later recovered by investor (e.g., guarantor payments, recoveries).

**IndyMac Transaction**

There are three components to the IndyMac indemnification program described below: 1. Single family residential ( SFR ) Mortgages, 2. Reverse Mortgages, and 3. Certain Servicing Obligations.

**SFR Mortgages Indemnification Asset**

The FDIC indemnifies the Company against certain credit losses on SFR mortgage loans based on specified thresholds. Prior to the OneWest acquisition, the cumulative losses of the SFR portfolio exceeded the First Loss Tranche ($2.551 billion) with the excess losses reimbursed 80% by the FDIC. As of March 31, 2016, the Company projects the cumulative losses will reach the final loss threshold of meets or exceeds stated threshold ($3.826 billion) in May 2017 at which time the excess losses will be reimbursed 95% by the FDIC.

The following table summarizes the submission of qualifying losses (net of recoveries) for reimbursement from the FDIC since inception of the loss share agreement as of March 31, 2016 and December 31, 2015, respectively:

**Submission of Qualifying Losses for Reimbursement** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Unpaid principal balance | $4,232.8 | $4,372.8 |
| Cumulative losses incurred | 3,662.2 | 3,623.4 |
| Cumulative claims | 3,647.0 | 3,608.4 |
| Cumulative reimbursement | 838.5 | 802.6 |

**Reverse Mortgages Indemnification Asset**

The FDIC indemnifies the Company against losses on the first $200.0 million of funds advanced post March 2009, and to fund any advances above $200.0 million.

As of December 31, 2015, $152.4 million had been advanced on the reverse mortgage loans. No additional advances were made for the quarter ended March 31, 2016. Prior to the OneWest acquisition, the cumulative loss submissions and reimbursements totaled $1.8 million from the FDIC. From August 3, 2015 (the acquisition date of OneWest Bank) through March 31, 2016, the Company was reimbursed $0.7 million from the FDIC for the cumulative losses incurred.





**Indemnification from Certain Servicing Obligations**

Subject to certain requirements and limitations, the FDIC agreed to indemnify the Company, among other things, for third party claims from the Agencies related to the selling representations and warranties of Indy Mac as well as liabilities arising from the acts or omissions, including, without limitation, breaches of servicer obligations of IndyMac for SFR mortgage loans and reverse mortgage loans as follows:

**SFR mortgage loans sold to the Agencies**

The FDIC indemnification for third party claims by the Agencies for servicer obligations expired as of the acquisition date; however, for any claims, issues or matters relating to the servicing obligations that are known or identified as of the end of the expired term, the FDIC indemnification protection continues until resolution of such claims, issues or matters.

The Company had no submitted claims from acquisition date through March 31, 2016. Prior to the OneWest acquisition, the cumulative loss submissions and reimbursements totaled $5.7 million from the FDIC to cover third party claims made by the Agencies for SFR loans.

**Reverse mortgage loans sold to the Agencies**

The FDIC indemnifies the Company through March 2019 for third party claims made by the Agencies relating to any liabilities or obligations imposed on the seller of HECM loans acquired by the Agencies from IndyMac resulting from servicing errors or servicing obligations prior to March 2009.

The Company had no submitted claims from acquisition date through March 31, 2016. Prior to the OneWest acquisition, the cumulative loss submissions totaled $11.2 million and reimbursements totaled $10.7 million from the FDIC to cover third party claims made by the Agencies for reverse mortgage loans.

**First Federal Transaction**

The FDIC agreed to indemnify the Company against certain losses on SFR, and commercial loans based on established thresholds.

As of March 31, 2016, the loss share agreements covering the SFR mortgage loans remain in effect (expiring in December 2019) while the agreement covering commercial loans expired (in December 2014). However, pursuant to the terms of the shared-loss agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (December 2017). The loss thresholds apply to the covered loans collectively. Pursuant to the loss share agreement, the first $932 million (First Loss Tranche) of cumulative losses are borne by the Company without reimbursement by the FDIC.

The following table summarizes the submission of qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

**Submission of Qualifying Losses for Reimbursement** (dollars in millions)

| | March 31, 2016 | | |
|---|---|---|---|
| | **SFR** | **Commercial**[1] | **Total** |

| | March 31, 2016 | | |
|---|---|---|---|
| | | | |
| Unpaid principal balance | $ 1,407.3 | $ | $ 1,407.3 |
| Cumulative losses incurred | 411.5 | 9.0 | 420.5 |
| Cumulative claims | 411.0 | 9.0 | 420.0 |
| Cumulative reimbursement | | | |

| | December 31, 2015 | | |
|---|---|---|---|
| | SFR | Commercial[(1)] | Total |
| Unpaid principal balance | $ 1,456.8 | $ | $ 1,456.8 |
| Cumulative losses incurred | 408.5 | 9.0 | 417.5 |
| Cumulative claims | 407.2 | 9.0 | 416.2 |
| Cumulative reimbursement | | | |

(1) *Due to the expiration of the loss share agreement covering commercial loans in December 2014, the outstanding unpaid principal balance eligible for reimbursement is zero. As provided by the loss share agreement, the loss recoveries for commercial loans extend for three years from expiration date (December 2017). As such, the cumulative losses incurred, claim submissions and reimbursements for commercial loans are reduced by the reported recoveries.*

As reflected above, the cumulative losses incurred have not reached the specified level ($932 million) for FDIC reimbursement and the Company does not project to reach the specified level of losses. Accordingly, no indemnification asset was recognized in connection with the First Federal Transaction.





Separately, as part of the loss sharing agreement, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by December 2019. As the Company does not project to reach the First Loss Tranche ($932 million) for FDIC reimbursement, the Company does not expect that such true-up payment will be required for the First Federal portfolio.

**La Jolla Transaction**

The FDIC agreed to indemnify the Company against certain losses on SFR, and commercial loans HFI based on established thresholds.

As of March 31, 2016, the loss share agreement covering the SFR mortgage loans remain in effect (expiring in February 2020) while the agreement covering commercial loans expired (in March 2015). However, pursuant to the terms of the loss share agreement, the loss recovery provisions for commercial loans extend for three years past the expiration date (March 2018). The loss thresholds apply to the covered loans collectively. Pursuant to the loss share agreement, the Company s cumulative losses since the acquisition date by OneWest Bank are reimbursed by the FDIC at 80% until the stated threshold ($1.007 billion) is met.

The following table summarizes the submission of cumulative qualifying losses for reimbursement from the FDIC since inception of the loss share agreement:

**Submission of Qualifying Losses for Reimbursement** (dollars in millions)

| | March 31, 2016 | | |
|---|---|---|---|
| | SFR | Commercial[1] | Total |
| Unpaid principal balance | $82.4 | $ | $ 82.4 |
| Cumulative losses incurred | 56.2 | 355.6 | 411.8 |
| Cumulative claims | 56.2 | 355.6 | 411.8 |
| Cumulative reimbursement | 45.0 | 284.5 | 329.5 |

| | December 31, 2015 | | |
|---|---|---|---|
| | SFR | Commercial[1] | Total |
| Unpaid principal balance | $89.3 | $ | $ 89.3 |
| Cumulative losses incurred | 56.2 | 359.5 | 415.7 |
| Cumulative claims | 56.2 | 359.5 | 415.7 |
| Cumulative reimbursement | 45.0 | 287.6 | 332.6 |

[1] *Due to the expiration of the loss share agreement covering commercial loans in March 2015, the outstanding unpaid principal balance eligible for reimbursement is zero. As provided by the loss share agreement, the loss recoveries for commercial loans extend for three years from expiration date (March 2018). As such, the cumulative losses incurred, claim submissions and reimbursements for commercial loans are reduced by the reported recoveries.*

As part of the loss share agreement with La Jolla, the Company is required to make a true-up payment to the FDIC in the event that losses do not exceed a specified level by the tenth anniversary of the agreement (February 2020). The Company currently expects that such payment will be required based upon its forecasted loss estimates for the La Jolla portfolio as the actual and estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses. As of March 31, 2016 and December 31, 2015, an obligation of $58.0 million and $56.9 million, respectively, has been recorded as a FDIC true-up liability for the contingent payment measured at estimated fair value. Refer to Note 10 *Fair Value* for further discussion.





**NOTE 6 INVESTMENT SECURITIES**

Investments include debt and equity securities. The Company s debt securities include U.S. Government Agency securities, U.S. Treasury securities, residential mortgage-backed securities ( MBS ), and supranational and foreign government securities. Equity securities include common stock and warrants, along with restricted stock in the FHLB and FRB.

**Investment Securities** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Available-for-sale securities | | |
| Debt securities | $ 1,983.3 | $ 2,007.8 |
| Equity securities | 14.5 | 14.3 |
| **Held-to-maturity securities** | | |

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Debt securities[(1)] | 291.1 | 300.1 |
| **Securities Carried at Fair Value with Changes Recorded in Net Income** | | |
| Debt securities | 323.0 | 339.7 |
| **Non-marketable investments[(2)]** | 284.9 | 291.9 |
| **Total investment securities** | $ 2,896.8 | $ 2,953.8 |

[(1)] *Recorded at amortized cost.*

[(2)] *Non-marketable investments include securities of the FRB and FHLB carried at cost of $261.3 million at March 31, 2016 and $263.5 million at December 31, 2015. The remaining non-marketable investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method, other investments carried at cost, which 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, totaling $23.6 million and $28.4 million in March 31, 2016 and December 31, 2015, respectively.*

Realized investment gains totaled $0.7 million and $0.7 million for the quarters ended March 31, 2016 and 2015, respectively, and exclude losses from OTTI.

In addition, the Company maintained $7.1 billion and $6.8 billion of interest bearing deposits at March 31, 2016 and December 31, 2015, respectively, which are cash equivalents and are classified separately on the balance sheet.

The following table presents interest and dividends on interest bearing deposits and investments:

**Interest and Dividend Income** (dollars in millions)

| | Quarters Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Interest income investments / reverse repos | $19.2 | $4.1 |
| Interest income interest bearing deposits | 8.4 | 4.0 |
| Dividends investments | 3.3 | 0.5 |
| Total interest and dividends | $30.9 | $8.6 |



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**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 |
|---|---|---|---|---|
| **March 31, 2016** | | | | |
| Debt securities AFS | | | | |
| Mortgage-backed Securities | | | | |
| U.S. government agency securities | $ 144.0 | $ 1.4 | $ (0.1) | $ 145.3 |
| Non-agency securities | 549.6 | 1.0 | (10.0) | 540.6 |
| U.S. government agency obligations | 996.7 | 0.4 | | 997.1 |
| Supranational and foreign government securities | 300.3 | | | 300.3 |
| Total debt securities AFS | 1,990.6 | 2.8 | (10.1) | 1,983.3 |
| Equity securities AFS | 14.4 | 0.3 | (0.2) | 14.5 |
| Total securities AFS | $ 2,005.0 | $ 3.1 | $ (10.3) | $ 1,997.8 |
| **December 31, 2015** | | | | |
| Debt securities AFS | | | | |
| Mortgage-backed Securities | | | | |
| U.S. government agency securities | $ 148.4 | $ | $ (0.9) | $ 147.5 |
| Non-agency securities | 573.9 | 0.4 | (7.2) | 567.1 |
| U.S. government agency obligations | 996.8 | | (3.7) | 993.1 |
| Supranational and foreign government securities | 300.1 | | | 300.1 |
| Total debt securities AFS | 2,019.2 | 0.4 | (11.8) | 2,007.8 |
| Equity securities AFS | 14.4 | 0.1 | (0.2) | 14.3 |
| Total securities AFS | $ 2,033.6 | $ 0.5 | $ (12.0) | $ 2,022.1 |

The following table presents the debt securities AFS by contractual maturity dates:

**Securities AFS Maturities** (dollars in millions)

| | March 31, 2016 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Weighted Average Yield |
| **Mortgage-backed securities U.S. government agency securities** | | | |
| Due after 10 years | $ 144.0 | $ 145.3 | 3.27 % |
| **Total** | 144.0 | 145.3 | 3.27 % |
| **Mortgage-backed securities non-agency securities** | | | |
| After 5 but within 10 years | 25.7 | 25.4 | 4.92 % |
| Due after 10 years | 523.9 | 515.2 | 5.75 % |
| **Total** | 549.6 | 540.6 | 5.71 % |
| **U.S. government agency obligations** | | | |
| After 1 but within 5 years | 996.7 | 997.1 | 1.20 % |
| **Total** | 996.7 | 997.1 | 1.20 % |
| **Supranational and foreign government securities** | | | |
| Due within 1 year | 300.3 | 300.3 | 0.33 % |
| **Total** | 300.3 | 300.3 | 0.33 % |
| **Total debt securities available-for-sale** | $ 1,990.6 | $ 1,983.3 | 2.47 % |

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

The following table summarizes the gross unrealized losses and estimated fair value of AFS securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position.

**Securities AFS Gross Unrealized Loss** (dollars in millions)

| | March 31, 2016 | | | |
|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | |
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| Debt securities AFS | | | | |
| Mortgage-backed securities | | | | |
| U.S. government agency securities | $ 27.4 | $ (0.1) | $ | $ |
| Non-agency securities | 454.0 | (10.0) | | |
| Total debt securities AFS | 481.4 | (10.1) | | |
| Equity securities AFS | 0.2 | (0.2) | | |
| **Total securities available-for-sale** | $ 481.6 | $ (10.3) | $ | $ |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | |
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| Debt securities AFS | | | | |
| Mortgage-backed securities | | | | |
| U.S. government agency securities | $ 147.0 | $ (0.9) | $ | $ |
| Non-agency securities | 495.5 | (7.2) | | |
| U.S. government agency obligations | 943.0 | (3.7) | | |
| Total debt securities AFS | 1,585.5 | (11.8) | | |
| Equity securities AFS | 0.2 | (0.2) | | |
| **Total securities available-for-sale** | $1,585.7 | $ (12.0) | $ | $ |

**Purchased Credit-Impaired AFS Securities**

In connection with the OneWest acquisition, the Company classified AFS mortgage-backed securities as PCI due to evidence of credit deterioration since issuance and for which it is probable that the Company will not collect all principal and interest payments contractually required at the time of purchase. Accounting for these adjustments is discussed in *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, 2015.

Changes in the accretable yield for PCI securities are summarized below for the quarter ended March 31, 2016:

**Changes in Accretable Yield** (dollars in millions)

| | Total |
|---|---|
| **Balance at December 31, 2015** | $ 189.0 |
| Accretion into interest income | (7.8) |
| Reclassifications from non-accretable difference | 3.9 |
| **Balance at March 31, 2016** | $ 185.1 |

The estimated fair value of PCI securities was $532.9 million and $559.6 million with a par value of $692.9 million and $717.1 million as of March 31, 2016, and December 31, 2015, respectively.





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

**Securities Carried at Fair Value with Changes Recorded in Net Income** (dollars in millions)

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **March 31, 2016** | | | | |
| Mortgage-backed Securities Non-agency | $ 328.5 | $ 0.3 | $ (5.8) | $ 323.0 |
| Total securities held at fair value with changes recorded in net income | $ 328.5 | $ 0.3 | $ (5.8) | $ 323.0 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2015** | | | | |
| Mortgage-backed Securities Non-agency | $ 343.8 | $ 0.3 | $ (4.4) | $ 339.7 |
| Total securities held at fair value with changes recorded in net income | $ 343.8 | $ 0.3 | $ (4.4) | $ 339.7 |

**Securities Carried at Fair Value with changes Recorded in Net Income Amortized Cost and Fair Value Maturities** (dollars in millions)

| | March 31, 2016 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Weighted Average Yield |
| **Mortgage-backed securities non-agency securities** | | | |

| | March 31, 2016 | | |
|---|---|---|---|
| After 5 but within 10 years | $ 0.2 | $ 0.2 | 9.80% |
| Due after 10 years | 328.3 | 322.8 | 4.86% |
| **Total** | $328.5 | $323.0 | 4.86% |

**Debt Securities Held-to-Maturity**

The carrying value and fair value of securities HTM at March 31, 2016 and December 31, 2015 were as follows:

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

| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **March 31, 2016** | | | | |
| *Mortgage-backed securities* | | | | |
| U.S. government agency securities | $ 141.6 | $ 1.7 | $ (0.9) | $ 142.4 |
| State and municipal | 31.5 | | (0.9) | 30.6 |
| Foreign government | 2.4 | 0.1 | | 2.5 |
| Corporate foreign | 115.6 | 4.4 | (2.0) | 118.0 |
| Total debt securities held-to-maturity | $ 291.1 | $ 6.2 | $ (3.8) | $ 293.5 |
| **December 31, 2015** | | | | |
| *Mortgage-backed securities* | | | | |
| U.S. government agency securities | $ 147.2 | $ 1.1 | $ (2.6) | $ 145.7 |
| State and municipal | 37.1 | | (1.6) | 35.5 |
| Foreign government | 13.5 | | | 13.5 |
| Corporate foreign | 102.3 | 4.5 | | 106.8 |
| Total debt securities held-to-maturity | $ 300.1 | $ 5.6 | $ (4.2) | $ 301.5 |





The following table presents the debt securities HTM by contractual maturity dates:

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

| | March 31, 2016 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Weighted Average Yield |
| **Mortgage-backed securities U.S. government agency securities** | | | |

| | March 31, 2016 | | |
|---|---|---|---|
| After 5 but within 10 years | $ 1.3 | $ 1.3 | 2.15% |
| Due after 10 years | 140.3 | 141.1 | 2.43% |
| **Total** | 141.6 | 142.4 | 2.42% |
| **State and municipal** | | | |
| Due within 1 year | 0.6 | 0.6 | 1.81% |
| After 1 but within 5 years | 1.2 | 1.2 | 2.25% |
| After 5 but within 10 years | 0.6 | 0.6 | 2.70% |
| Due after 10 years | 29.1 | 28.2 | 2.29% |
| **Total** | 31.5 | 30.6 | 2.29% |
| **Foreign government** | | | |
| After 1 but within 5 years | 2.4 | 2.5 | 2.43% |
| **Total** | 2.4 | 2.5 | 2.43% |
| **Corporate Foreign securities** | | | |
| Due within 1 year | 11.6 | 11.6 | 0.76% |
| After 1 but within 5 years | 104.0 | 106.4 | 4.54% |
| **Total** | 115.6 | 118.0 | 4.16% |
| **Total debt securities held-to-maturity** | $291.1 | $293.5 | 3.10% |

The following table summarizes the gross unrealized losses and estimated fair value of HTM securities aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position.

**Debt Securities HTM Gross Unrealized Loss** (dollars in millions)

| | March 31, 2016 | | | |
|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | |
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| Mortgage-backed securities | | | | |
| U.S. government agency securities | $19.3 | $(0.1) | $42.7 | $(0.8) |
| State and municipal | | | 24.5 | (0.9) |
| Corporate Foreign | 64.0 | (2.0) | | |
| **Total securities held-to-maturity** | $83.3 | $(2.1) | $67.2 | $(1.7) |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | |
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| Mortgage-backed securities | | | | |
| U.S. government agency securities | $62.2 | $(0.9) | $40.7 | $(1.7) |
| State and municipal | 3.1 | (0.1) | 28.2 | (1.5) |
| **Total securities held-to-maturity** | $65.3 | $(1.0) | $68.9 | $(3.2) |

**Other Than Temporary Impairment ("OTTI")**

The Company conducted and documented its periodic review of all securities with unrealized losses, which it performs to evaluate whether the impairment is other than temporary.

For PCI securities, management determined certain PCI securities with unrealized losses were deemed credit-related and recognized OTTI credit-related losses of $2.0 million as permanent write-downs for the quarter ended March 31, 2016. There were no PCI securities for the quarter ended March 31, 2015.







The Company reviewed debt securities AFS and HTM with unrealized losses and determined that the unrealized losses were not OTTI. The unrealized losses were not credit-related and the Company does not have an intent to sell and believes it is not more-likely-than-not that the Company will have to sell prior to the recovery of the amortized cost basis.

The Company reviewed equity securities classified as AFS with unrealized losses and determined that the unrealized losses were not OTTI. The unrealized losses were not credit-related.

There were no unrealized losses on non-marketable investments.

**NOTE 7 DEPOSITS**

The following table presents detail on the type, maturities and weighted average interest rates of deposits.

**Deposits** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Deposits Outstanding | $32,892.7 | $32,782.2 |
| Weighted average contractual interest rate | 1.26% | 1.26% |
| Weighted average remaining number of days to maturity | 827 days | 864 days |

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Daily average deposits | $32,888.3 | $23,277.8 |
| Maximum amount outstanding | 33,152.8 | 32,899.6 |
| Weighted average contractual interest rate for the year | 1.27% | 1.45% |

The following table provides further detail of deposit.

**Deposits Rates and Maturities** (dollars in millions)

| | March 31, 2016 |
|---|---|

| | March 31, 2016 | |
|---|---|---|
| | Amount | Average Rate |
| Deposits no stated maturity | | |
| Non-interest-bearing checking | $ 948.0 | |
| Interest-bearing checking | 3,034.0 | 0.53% |
| Money market | 5,572.0 | 0.82% |
| Savings | 4,751.9 | 0.84% |
| Other | 147.4 | NM[(1)] |
| Total checking and savings deposits | 14,453.3 | |
| Certificates of deposit, remaining contractual maturity: | | |
| Within one year | $ 8,125.0 | 1.16% |
| One to two years | 3,248.2 | 1.39% |
| Two to three years | 1,402.1 | 1.86% |
| Three to four years | 2,285.7 | 2.32% |
| Four to five years | 1,329.8 | 2.34% |
| Over five years | 2,032.8 | 3.17% |
| Total certificates of deposit | 18,423.6 | |
| Premium / discount | (0.9) | |
| Purchase accounting adjustments | 16.7 | |
| Total Deposits | $ 32,892.7 | 1.26 % |

*(1) Not Meaningful includes certain deposits such as escrow accounts, security deposits and other similar accounts.*





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

The following table presents the maturity profile of other time deposits with a denomination of $100,000 or more.

**Certificates of Deposit $100 Thousand or More** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| U.S. certificates of deposit: | | |
| Three months or less | $ 1,465.9 | $ 1,476.5 |
| After three months through six months | 1,166.7 | 1,462.6 |
| After six months through twelve months | 3,322.8 | 2,687.2 |
| After twelve months | 9,131.2 | 9,245.8 |
| Total U.S. certificates of deposit $100 thousand or more | $ 15,086.6 | $ 14,872.1 |

**NOTE 8 BORROWINGS**

The following table presents the carrying value of outstanding borrowings.

**Borrowings** (dollars in millions)

| | March 31, 2016 | | | December 31, 2015 |
|---|---|---|---|---|
| | CIT Group Inc. | Subsidiaries | Total | Total[1] |
| Senior Unsecured | $10,587.3 | $ | $10,587.3 | $10,636.3 |
| Secured borrowings: | | | | |
| Structured financings | | 4,309.0 | 4,309.0 | 4,687.9 |
| FHLB advances | | 3,116.3 | 3,116.3 | 3,117.6 |
| **Total Borrowings** | $10,587.3 | $7,425.3 | $18,012.6 | $18,441.8 |

[1] *December 31, 2015 balances for Senior Unsecured and Structured Financing were adjusted to include deferred debt issuance costs of $41.4 million and $55.9 million, respectively, compared to balances presented in the Company s Annual Report on Form 10-K for the year ended December 31, 2015, upon adoption and in accordance with the provision in ASU 2015-03. Previously these were included in other assets.*

**Unsecured Borrowings**

***Revolving Credit Facility***

There were no outstanding borrowings under the Second Amended and Restated Revolving Credit and Guaranty Agreement (the Revolving Credit Facility ) at March 31, 2016 and December 31, 2015. The amount available to draw upon at March 31, 2016 was approximately $1.4 billion, with the remaining amount of approximately $0.1 billion being utilized for issuance of letters of credit to customers.

The Revolving Credit Facility has a total commitment amount of $1.5 billion and the maturity date of the commitment is January 26, 2018. 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 to customers. The applicable margin charged under the facility is 2.25% for LIBOR Rate loans and 1.25% 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.

The Revolving Credit Facility is unsecured and is guaranteed by nine of the Company s domestic operating subsidiaries. The facility was amended in February 2016 to extend the final maturity date of the lenders commitments and modify the applicable margin, which depends on the Company s long-term senior unsecured, non-credit enhanced debt rating used to calculate the interest rate for LIBOR Rate and Base Rate loans. The applicable required minimum guarantor asset coverage ratio ranges from 1.50:1.00 to1.0:1.0 and was 1.375: 1.000 at March 31, 2016. The amendment also added Fitch Ratings Ltd. as a provider of the Company s long-term senior unsecured, non-credit enhanced 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.



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**Senior Unsecured Notes**

Senior unsecured notes include notes issued under the shelf registration that expires in January 2018. The following tables present the principal amounts by maturity date.

**Senior Unsecured Notes** (dollars in millions)

| Maturity Date | Rate % | Date of Issuance | Par Value |
|---|---|---|---|
| May 2017 | 5.000% | May 2012 | $ 1,208.7 |
| August 2017 | 4.250% | August 2012 | 1,725.8 |
| March 2018 | 5.250% | March 2012 | 1,465.0 |
| April 2018 | 6.625% | March 2011 | 695.0 |
| February 2019 | 5.500% | February 2012 | 1,750.0 |
| 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% | | $ 10,594.5 |

The Indentures for the senior 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, holders of the senior unsecured notes will have the right to require the Company, as applicable, to repurchase all or a portion of the senior 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**

**FHLB Advances**

As a member of the FHLB of San Francisco, CIT Bank, N.A. can access financing based on an evaluation of its creditworthiness, statement of financial position, size and eligibility of collateral. The interest rates charged by the FHLB for advances typically vary depending upon maturity, the cost of funds of the FHLB, and the collateral provided for the borrowing and the advances are secured by certain Bank assets and bear either a fixed or floating interest rate. The FHLB advances are collateralized by a variety of consumer and commercial loans and leases, including SFR mortgage loans, reverse mortgage loans, multi-family mortgage loans, commercial real estate loans, certain foreclosed properties and certain amounts receivable under a loss sharing agreement with the FDIC, commercial loans, leases and/or equipment.

As of March 31, 2016, the Company had $5.6 billion of financing availability with the FHLB, of which $2.5 billion was unused and available. FHLB Advances as of March 31, 2016 have a weighted average rate of 0.90%. The following table includes the total outstanding FHLB Advances, and respective pledged assets.

**FHLB Advances with Pledged Assets Summary** (dollars in millions)

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | FHLB Advances | Pledged Assets | FHLB Advances | Pledged Assets |
| Total | $ 3,116.3 | $ 6,649.0 | $ 3,117.6 | $ 6,783.1 |

**Structured Financings**

Set forth in the following table are amounts primarily related to and owned by consolidated VIEs. Creditors of these VIEs 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. Structured financings as of March 31, 2016 had a weighted average rate of 3.48%, which ranged from 0.75% to 6.11%.





**Structured Financings and Pledged Assets Summary**[(1)] (dollars in millions)

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | **Secured Borrowing** | **Pledged Assets** | **Secured Borrowing** | **Pledged Assets** |
| Rail[(2)] | $ 885.4 | $1,351.5 | $ 917.0 | $1,336.1 |
| Aerospace[(2)] | 2,031.0 | 3,676.9 | 2,091.5 | 3,732.2 |
| **Subtotal Transportation Finance** | 2,916.4 | 5,028.4 | 3,008.5 | 5,068.3 |
| Commercial Finance | | 0.2 | | 0.2 |
| Business Capital | 925.5 | 2,479.3 | 1,128.6 | 2,434.1 |
| **Subtotal Commercial Banking** | 925.5 | 2,479.5 | 1,128.6 | 2,434.3 |
| Non-Strategic Portfolios | 467.1 | 631.7 | 550.8 | 712.5 |
| **Total** | $4,309.0 | $8,139.6 | $4,687.9 | $8,215.1 |

(1) *As part of our liquidity management strategy, the Company pledges assets to secure financing transactions (which include securitizations), and for other purposes as required or permitted by law while CIT Bank, N.A. also pledges assets to secure borrowings from the FHLB and FRB.*

(2) *At March 31, 2016, the GSI TRS related borrowings and pledged assets, respectively, of $1.1 billion and $1.7 billion were included in Transportation Finance. The GSI TRS is described in Note 9 Derivative Financial Instruments.*

Not included in the above table are liabilities of discontinued operations consisting of $425.8 million of secured borrowings related to HECM loans securitized in the form of GNMA HMBS, which were sold prior to the OneWest Transaction to third parties. See *Note 2 Acquisitions and Disposition Activities*.

**FRB**

The Company has a borrowing facility with the FRB Discount Window that can be used for short-term, typically overnight, borrowings. The borrowing capacity is determined by the FRB based on the collateral pledged.

There were no outstanding borrowings with the FRB Discount Window as of March 31, 2016 or December 31, 2015.

At March 31, 2016 we had pledged assets (including collateral for the FRB discount window) of $17.4 billion, which included $12.0 billion of loans (including amounts held for sale), $4.5 billion of operating lease assets, $0.8 billion of cash and $0.1 billion of investment securities.

**Variable Interest Entities ( VIEs )**

Below describes the results of the Company s assessment of its variable interests to determine its current status with regards to being the primary beneficiary of a VIE.

***Consolidated 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 structured financings 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.



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***Unconsolidated VIEs***

Unconsolidated VIEs include GSE securitization structures, private-label securitizations and limited partnership interests where the Company s involvement is limited to an investor interest where the Company does not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE and limited partnership interests.

As a result of the OneWest Transaction, the Company has certain contractual obligations related to the HECM loans and the GNMA HMBS securitizations. The Company, as servicer of these HECM loans, is currently obligated to fund future borrower advances, which include fees paid to taxing authorities for borrowers unpaid taxes and insurance, mortgage insurance premiums and payments made to borrowers for line of credit draws on HECM loans. In addition, the Company capitalizes the servicing fees and interest income earned and is obligated to fund guarantee fees associated with the GNMA HMBS. The Company periodically pools and securitizes certain of these funded advances through issuance of HMBS to third-party security holders, which did not qualify for sale accounting and rather, are treated as financing transactions. As a financing transaction, the HECM loans and related proceeds from the issuance of the HMBS recognized as secured borrowings remain on the Company s Consolidated Balance Sheet. Due to the Company s planned exit of third party servicing, HECM loans of $ 434.5 million and $449.5 million were included in Assets of discontinued operations and the associated secured borrowing of $425.8 million and $440.6 million (including an unamortized premium balance of $11.9 million and $13.2 million) were included in Liabilities of discontinued operations at March 31, 2016 and December 31, 2015, respectively.

As servicer, the Company is required to repurchase the HECM loans once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount or when the property forecloses to OREO, which reduces the secured borrowing balance. Additionally the Company services $180.8 million and $189.6 million of HMBS outstanding principal balance at March 31, 2016 and December 31, 2015, respectively, for transferred loans securitized by IndyMac for which OneWest Bank prior to the acquisition had purchased the mortgage servicing rights ( MSRs ) in connection with the IndyMac Transaction. The carrying value of the MSRs was not significant at March 31, 2016 and December 31, 2015. As the HECM loans are federally insured by the FHA and the secured borrowings guaranteed to the investors by GNMA, the Company does not believe maximum loss exposure as a result of its involvement is material or quantifiable.

For Agency and private label securitizations where the Company is not the servicer, the maximum exposure to loss represents the recorded investment based on the Company s beneficial interests held in the securitized assets. These interests are not expected to absorb losses or receive benefits that are significant to the VIE.

As a limited partner, the nature of the Company s ownership interest in tax credit equity investments is limited in its ability to direct the activities that drive the economic performance of the entity, as these entities are managed by the general or managing partner. As a result, the Company was not deemed to be the primary beneficiary of these VIEs.

The table below presents potential losses that would be incurred under hypothetical circumstances, such that the value of its interests and any associated collateral declines to zero and at the same time assuming no consideration of recovery or offset from any economic hedges. The Company believes the possibility is remote under this hypothetical scenario; accordingly, this required disclosure is not an indication of expected loss.

**Unconsolidated VIEs** (dollars in millions)

| | **Unconsolidated VIEs Carrying Value March 31, 2016** | | **Unconsolidated VIEs Carrying Value December 31, 2015** | |
|---|---|---|---|---|
| | **Securities** | **Partnership Investment** | **Securities** | **Partnership Investment** |
| Agency securities | $ 145.3 | $ | $ 147.5 | $ |
| Non agency securities Other servicer | 863.6 | | 906.8 | |
| Tax credit equity investments | | 121.8 | | 125.0 |
| Total Assets | $1,008.9 | $121.8 | $1,054.3 | $125.0 |
| Commitments to tax credit investments | $ | $ 11.4 | $ | $ 15.7 |
| Total Liabilities | $ | $ 11.4 | $ | $ 15.7 |
| Maximum loss exposure[(1)] | $1,008.9 | $121.8 | $1,054.3 | $125.0 |

[(1)] *Maximum loss exposure to the unconsolidated VIEs excludes the liability for representations and warranties, corporate guarantees and also excludes servicing advances.*



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**NOTE 9 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 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, 2015 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, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **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 | $ 790.3 | $ 0.2 | $ (31.1) | $ 787.6 | $ 45.5 | $ (0.3) |
| Total Qualifying Hedges | 790.3 | 0.2 | (31.1) | 787.6 | 45.5 | (0.3) |
| **Non-Qualifying Hedges** | | | | | | |
| Interest rate swaps[(2)] | 4,739.4 | 91.2 | (87.6) | 4,645.7 | 45.1 | (38.9) |
| Written options | 3,028.9 | 0.3 | (1.5) | 3,346.1 | 0.1 | (2.5) |
| Purchased options | 2,363.3 | 1.5 | (0.3) | 2,342.5 | 2.2 | (0.1) |
| Foreign currency forward contracts | 1,106.7 | 5.0 | (40.0) | 1,624.2 | 47.8 | (6.6) |
| Total Return Swap (TRS) | 1,168.2 | | (36.7) | 1,152.8 | | (54.9) |
| Equity Warrants | 1.0 | | | 1.0 | 0.3 | |
| Interest Rate Lock Commitments | 8.5 | 0.2 | | 9.9 | 0.1 | |
| Credit derivatives | 194.3 | | (0.3) | 37.6 | | (0.3) |
| Total Non-qualifying Hedges | 12,610.3 | 98.2 | (166.4) | 13,159.8 | 95.6 | (103.3) |
| Total Hedges | $13,400.6 | $98.4 | $(197.5) | $13,947.4 | $141.1 | $(103.6) |

(1) *Presented on a gross basis.*

(2) *Fair value balances include accrued interest.*

**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, the unutilized portion of the TRS is accounted for as a derivative and recorded at its estimated fair value. 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 derivative of $1,168.2 million at March 31, 2016 and $1,152.8 million at December 31, 2015 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 $956.8 million at March 31, 2016 and $972.2 million at December 31, 2015 under the CFL and BV 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 CFL and BV Facilities, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

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

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

- CIT s funding costs for similar financings based on current market conditions;
- Forecasted usage of the long-dated facilities through the final maturity date in 2028; and
- 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 $36.7 million and $54.9 million was recorded at March 31, 2016 and December 31, 2015, respectively. The decrease in the liability of $18.2 million was recognized as an increase to Other Income for the quarter ended March 31, 2016. The change in value of $1.0 million in the quarter ended March 31, 2015, was recognized as a reduction to Other Income.

**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. Derivative transactions are documented under an International Swaps and Derivatives Association ( ISDA ) agreement.

**Offsetting of Derivative Assets and Liabilities** (dollars in millions)

| | | | | Gross Amounts not offset in the Consolidated Balance Sheet | | |
|---|---|---|---|---|---|---|
| | Gross Amount of Recognized Assets (Liabilities) | Gross Amount Offset in the Consolidated Balance Sheet | Net Amount Presented in the Consolidated Balance Sheet | Derivative Financial Instruments(1) | Cash Collateral Pledged/ (Received)(1)(2) | Net Amount |
| **March 31, 2016** | | | | | | |
| Derivative assets | $ 98.4 | $ | $ 98.4 | $ (7.5) | $ (0.1) | $ 90.8 |
| Derivative liabilities | (197.5) | | (197.5) | 7.5 | 145.2 | (44.8) |
| **December 31, 2015** | | | | | | |
| Derivative assets | $ 141.1 | $ | $ 141.1 | $ (9.7) | $ (82.7) | $ 48.7 |
| Derivative liabilities | (103.6) | | (103.6) | 9.7 | 31.8 | (62.1) |

(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 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 of 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 income.

**Derivative Instrument Gains and Losses** (dollars in millions)

| | | Quarters Ended March 31, | |
|---|---|---|---|
| **Derivative Instruments** | **Gain/(Loss) Recognized** | **2016** | **2015** |
| **Non Qualifying Hedges** | | | |
| Interest rate swaps | Other income | $ (2.9 ) | $ (0.2 ) |
| Interest rate options | Other income | 0.4 | 0.5 |
| Foreign currency forward contracts | Other income | (33.9 ) | 86.2 |
| Equity warrants | Other income | (0.3 ) | |
| Total Return Swap (TRS) | Other income | 18.2 | (1.0 ) |
| Credit Derivatives | Other income | 0.9 | |
| Total Non-qualifying Hedges | | (17.6 ) | 85.5 |
| **Total derivatives-income statement impact** | | $ (17.6 ) | $ 85.5 |

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, 2016** | | | | | | |
| Foreign currency forward contracts | net investment hedges | $ 1.8 | $ | $ 1.8 | $ (38.0) | $ (39.8) |
| **Total** | | $ 1.8 | $ | $ 1.8 | $ (38.0) | $ (39.8) |
| **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 |

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

**NOTE 10 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* 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.

Disclosures that follow in this note exclude assets and liabilities classified as discontinued operations.

**Financial Assets and Liabilities Measured at Estimated Fair Value on a Recurring Basis**

The following table summarizes the Company s assets and liabilities measured at estimated fair value on a recurring basis, including those management elected under the fair value option.

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

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **March 31, 2016** | | | | |
| **Assets** | | | | |
| Debt Securities AFS | $1,983.3 | $ | $1,442.7 | $ 540.6 |
| Securities carried at fair value with changes recorded in net income | 323.0 | | | 323.0 |
| Equity Securities AFS | 14.5 | 0.2 | 14.3 | |
| FDIC receivable | 54.4 | | | 54.4 |
| Derivative assets at fair value non-qualifying hedges(1) | 98.2 | | 98.0 | 0.2 |
| Derivative assets at fair value qualifying hedges(1) | 0.2 | | 0.2 | |
| Total | $2,473.6 | $ 0.2 | $1,555.2 | $ 918.2 |
| **Liabilities** | | | | |
| Derivative liabilities at fair value non-qualifying hedges(1) | $ (166.4) | $ | $ (129.4) | $ (37.0) |
| Derivative liabilities at fair value qualifying hedges(1) | (31.1) | | (31.1) | |
| Consideration holdback liability | (61.4) | | | (61.4) |
| FDIC True-up Liability | (58.0) | | | (58.0) |
| Total | $ (316.9) | $ | $ (160.5) | $ (156.4) |
| **December 31, 2015** | | | | |
| **Assets** | | | | |
| Debt Securities AFS | $2,007.8 | $ | $1,440.7 | $ 567.1 |
| Securities carried at fair value with changes recorded in net income | 339.7 | | | 339.7 |
| Equity Securities AFS | 14.3 | 0.3 | 14.0 | |
| FDIC receivable | 54.8 | | | 54.8 |
| Derivative assets at fair value non-qualifying hedges(1) | 95.6 | | 95.6 | |

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Derivative assets at fair value qualifying hedges[1] | 45.5 | | 45.5 | |
| Total | $2,557.7 | $ 0.3 | $1,595.8 | $ 961.6 |
| **Liabilities** | | | | |
| Derivative liabilities at fair value non-qualifying hedges[1] | $ (103.3) | $ | $ (47.8) | $ (55.5) |
| Derivative liabilities at fair value qualifying hedges[1] | (0.3) | | (0.3) | |
| Consideration holdback liability | (60.8) | | | (60.8) |
| FDIC True-up Liability | (56.9) | | | (56.9) |
| Total | $ (221.3) | $ | $ (48.1) | $ (173.2) |

[1] *Derivative fair values include accrued interest*







*Debt and Equity Securities Classified as AFS and Securities Carried at Fair Value with Changes Recorded in Net Income* Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1, Level 2 or Level 3 inputs. Debt securities classified as AFS included investments in U.S. federal government agency and supranational 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 quoted prices in active markets. For Agency pass-through MBS, which are classified as Level 2, the Company generally determines estimated fair value utilizing prices obtained from independent broker dealers and recent trading activity for similar assets. Debt securities classified as AFS and securities carried at fair value with changes recorded in net income represent non-Agency MBS, the market for such securities is not active and the estimated fair value was determined using a discounted cash flow technique. The significant unobservable assumptions, which are verified to the extent possible using broker dealer quotes, are estimated by type of underlying collateral, including credit loss assumptions, estimated prepayment speeds and appropriate discount rates. Given the lack of observable market data, the estimated fair value of the non-agency MBS is classified as Level 3.

*FDIC Receivable* The Company elected to measure its receivable under a participation agreement with the FDIC in connection with the IndyMac Transaction at estimated fair value under the fair value option. The participation agreement provides the Company a secured interest in certain homebuilder, home construction and lot loans, which entitle the Company to a 40% share of the underlying loan cash flows. The receivable is valued by first grouping the loans into similar asset types and stratifying the loans based on their underlying key features such as product type, current payment status and other economic attributes in order to project future cash flows.

Projected future cash flows are estimated by taking the Company s share (40%) of the future cash flows from the underlying loans and real estate properties that include proceeds and interest offset by servicing expenses and servicing fees. Estimated fair value of the FDIC receivable is based on a discounted cash flow technique using significant unobservable inputs, including prepayment rates, default rates, loss severities and liquidation assumptions.

To determine the estimated fair value, the cash flows are discounted using a market interest rate that represents an overall weighted average discount rate based on the underlying collateral specific discount rates. Due to the reduced liquidity that exists for such loans and lack of observable market data available, this requires the use of significant unobservable inputs; as a result these measurements are classified as Level 3.

*Derivative Assets and Liabilities* The Company s financial derivatives include interest rate swaps, floors, caps, forwards and credit derivatives. These derivatives are valued using models that incorporate inputs depending on the type of derivative, such as, interest rate curves, foreign exchange rates and volatility. Readily observable market inputs to models can be validated to external sources, including industry pricing services, or corroborated through recent trades, broker dealer quotes, yield curves, or other market-related data. As such, these derivative instruments are valued using a Level 2 methodology. In addition, these derivative values incorporate an assessment of the risk of counterparty nonperformance, measured based on the Company s evaluation of credit risk. For certain customer-related positions and credit derivatives, the risk of nonperformance cannot be observed in the market, therefore the credit valuation adjustments require the derivative measurement to be classified as Level 3. The credit valuation adjustment for nonperformance risk is determined by referring to credit risk adjustments for similar positions in the marketplace and then comparing to actual results quarterly and recalibrating as appropriate.

*FDIC True-up Liability* In connection with the La Jolla Transaction, the Company recognized a FDIC True-up liability due to the FDIC 45 days after the tenth anniversary of the loss share agreement (the maturity) because the actual and estimated cumulative losses on the acquired covered PCI loans are lower than the cumulative losses originally estimated by the FDIC at the time of acquisition. The FDIC True-up liability was recorded at estimated fair value as of the acquisition date and is remeasured to fair value at each reporting date until the contingency is resolved. The FDIC True-up liability was valued using the discounted cash flow method based on the terms specified in the loss share agreement with the FDIC, the actual FDIC payments collected and significant unobservable inputs, including a risk-adjusted discount rate (reflecting the Company s credit risk plus a liquidity premium), prepayment and default rates. Due to the significant unobservable inputs used to calculate the estimated fair value, these measurements are classified as Level 3.

*Consideration Holdback Liability* In connection with the OneWest acquisition, the parties negotiated 4 separate holdbacks related to selected trailing risks, totaling $116 million, which reduced the cash consideration paid at closing. Any unapplied Holdback funds at the end of the respective holdback periods, which range from 1 5 years, are payable to the former OneWest shareholders. Unused funds for any of the four holdbacks cannot be applied against another holdback amount. The range of potential holdback to be paid is from $0 to $116 million. Based on management s estimate of the probability of each holdback it was determined that the probable amount of holdback to be paid was $62.4 million. The amount expected to be paid was discounted based on CIT s cost of funds. This contingent consideration was measured at fair value at the acquisition date and is re-measured at fair value in subsequent accounting periods, with the changes in fair value recorded in the statement of income, until the related





contingent issues are resolved. Gross payments, which are determined based on the Company s probability assessment, are discounted at a rate approximating the Company s average coupon rate on deposits and borrowings. Due to the significant unobservable inputs used to calculate the estimated fair value, these measurements are classified as Level 3.

The following tables summarize information about significant unobservable inputs related to the Company s categories of Level 3 financial assets and liabilities measured on a recurring basis as of March 31, 2016.

**Quantitative Information about Level 3 Fair Value Measurements Recurring** (dollars in millions)

| Financial Instrument | Estimated Fair Value | Valuation Technique(s) | Significant Unobservable Inputs | Range of Inputs | W A |
|---|---|---|---|---|---|
| **March 31, 2016** | | | | | |
| **Assets** | | | | | |
| Securities AFS | $ 540.6 | Discounted cash flow | Discount Rate | 0.0% 61.4 % | |
| | | | Prepayment Rate | 2.4% 21.4 % | |
| | | | Default Rate | 0.0% 9.7 % | |
| | | | Loss Severity | 0.2% 83.5 % | |

| Financial Instrument | Estimated Fair Value | Valuation Technique(s) | Significant Unobservable Inputs | Range of Inputs | W A |
|---|---|---|---|---|---|
| Securities carried at fair value with changes recorded in net income | 323.0 | Discounted cash flow | Discount Rate | 0.0% 70-5 % | |
| | | | Prepayment Rate | 5.1% 23.5 % | |
| | | | Default Rate | 0.0% 6.0 % | |
| | | | Loss Severity | 7.4% 38.9 % | |
| FDIC Receivable | 54.4 | Discounted cash flow | Discount Rate | 7.8% 18.4 % | |
| | | | Prepayment Rate | 2.0% 14.0 % | |
| | | | Default Rate | 6.0% 36.0 % | |
| | | | Loss Severity | 20.0% 65.0 % | |
| Derivative assets non-qualifying | 0.2 | Internal valuation model | Borrower Rate | 3.1% 4.4 % | |
| **Total Assets** | $ 918.2 | | | | |
| **Liabilities** | | | | | |
| FDIC True-up liability | $ (58.0) | Discounted cash flow | Discount Rate | 4.2 % 4.2 % | |
| Consideration holdback liability | (61.4) | Discounted cash flow | Payment Probability | 0% 100 % | |
| | | | Discount Rate | 3.0% 3.0 % | |
| Derivative liabilities non-qualifying | (37.0) | Market Comparables[1] | | | |
| **Total Liabilities** | $(156.4) | | | | |



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**Quantitative Information about Level 3 Fair Value Measurements Recurring** (dollars in millions) (continued)

| Financial Instrument | Estimated Fair Value | Valuation Technique(s) | Significant Unobservable Inputs | Range of Inputs | Weighted Average |
|---|---|---|---|---|---|
| **December 31, 2015** | | | | | |
| **Assets** | | | | | |
| Securities AFS | $ 567.1 | Discounted cash flow | Discount Rate | 0.0% 94.5 % | 6.4% |
| | | | Prepayment Rate | 2.7% 20.8 % | 9.2% |
| | | | Default Rate | 0.0% 9.5 % | 4.1% |
| | | | Loss Severity | 0.2% 83.5 % | 36.4% |
| Securities carried at fair value with changes recorded in net income | 339.7 | Discounted cash flow | Discount Rate | 0.0% 19.9 % | 6.3% |

| Financial Instrument | Estimated Fair Value | Valuation Technique(s) | Significant Unobservable Inputs | Range of Inputs | Weighted Average |
|---|---|---|---|---|---|
| | | | Prepayment Rate | 2.5% 22.4 % | 11.5% |
| | | | Default Rate | 0.0% 5.9 % | 4.1% |
| | | | Loss Severity | 3.8% 39.0 % | 25.1% |
| FDIC Receivable | 54.8 | Discounted cash flow | Discount Rate | 7.8% 18.4 % | 9.4% |
| | | | Prepayment Rate | 2.0% 14.0 % | 3.6% |
| | | | Default Rate | 6.0% 36.0 % | 10.8% |
| | | | Loss Severity | 20.0% 65.0% | 31.6% |
| **Total Assets** | $ 961.6 | | | | |
| **Liabilities** | | | | | |
| FDIC True-up liability | $ (56.9) | Discounted cash flow | Discount Rate | 4.1 % 4.1 % | 4.1% |
| Consideration holdback liability | (60.8) | Discounted cash flow | Payment Probability | 0.0% 100 % | 53.8% |
| | | | Discount Rate | 3.0% 3.0 % | 3.0% |
| Derivative liabilities - non qualifying | (55.5) | Market Comparables[(1)] | | | |
| **Total Liabilities** | $(173.2) | | | | |

(1) *The valuation of these derivatives is primarily related to the GSI facilities which is based on several factors using a discounted cash flow methodology, including a) funding costs for similar financings based on current market conditions; b) forecasted usage of long-dated facilities through the final maturity date in 2028; and c) forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.*

The level of aggregation and diversity within the products disclosed in the tables results in certain ranges of inputs being wide and unevenly distributed across asset and liability categories. For instruments backed by residential real estate, diversity in the portfolio is reflected in a wide range for loss severity due to varying levels of default. The lower end of the range represents high performing loans with a low probability of default while the higher end of the range relates to more distressed loans with a greater risk of default.

The valuation techniques used for the Company s Level 3 assets and liabilities, as presented in the previous tables, are described as follows:

- *Discounted cash flow* Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument and then discounting those cash flows at a rate of return that results in the estimated fair value amount. The Company utilizes both the direct and indirect valuation methods. Under the direct method, contractual cash flows are adjusted for expected losses. The adjusted cash flows are discounted at a rate which considers other costs and risks, such as market risk and liquidity. Under the indirect method, contractual cash flows are discounted at a rate which reflects the costs and risks associated with the likelihood of generating the contractual cash flows.

- *Market comparables* Market comparable(s) pricing valuation techniques are used to determine the estimated fair value of certain instruments by incorporating known inputs such as recent transaction prices, pending transactions, or prices of other similar investments which require significant adjustment to reflect differences in instrument characteristics.

- *Internal valuation model* The internal model for rate lock valuation uses the spread on borrower mortgage rate and the Fannie Mae pass through rate and applies a conversion factor to assess the derivative value.

Significant unobservable inputs presented in the previous tables are those the Company considers significant to the estimated fair value of the Level 3 asset or liability. The Company considers unobservable inputs to be significant if, by their exclusion, the estimated fair value of the Level 3 asset or

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

liability would be significantly impacted based on qualitative factors such as nature of the instrument, type of valuation technique used, and the significance of the unobservable inputs on the values relative to other inputs used within the valuation. Following is a description of the significant unobservable inputs provided in the tables.

- *Default rate* is an estimate of the likelihood of not collecting contractual amounts owed expressed as a constant default rate.
- *Discount rate* is a rate of return used to present value the future expected cash flows to arrive at the estimated fair value of an instrument. The discount rate consists of a benchmark rate component and a risk premium component. The benchmark rate component, for example, LIBOR or U.S. Treasury rates, is generally observable within the market and is necessary to appropriately reflect the time value of money. The risk premium component reflects the amount of compensation market participants require due to the uncertainty inherent in the instruments cash flows resulting from risks such as credit and liquidity.
- *Loss severity* is the percentage of contractual cash flows lost in the event of a default.
- *Prepayment rate* is the estimated rate at which forecasted prepayments of principal of the related loan or debt instrument are expected to occur, expressed as a constant prepayment rate ( CPR ).
- *Payment Probability* is an estimate of the likelihood the consideration holdback amount will be required to be paid expressed as a percentage.
- *Borrower rate* Mortgage rate committed to the borrower by CIT Bank. Effective for up to 90 days.

As reflected above, the Company generally uses discounted cash flow techniques to determine the estimated fair value of Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs and assumptions and as a result, changes in these unobservable inputs (in isolation) may have a significant impact to the estimated fair value. Increases in the probability of default and loss severities will result in lower estimated fair values, as these increases reduce expected cash flows. Increases in the discount rate will result in lower estimated fair values, as these increases reduce the present value of the expected cash flows.

Alternatively a change in one unobservable input may result in a change to another unobservable input due to the interrelationship among inputs, which may counteract or magnify the estimated fair value impact from period to period. Generally, the value of the Level 3 assets and liabilities estimated using a discounted cash flow technique would decrease (increase) upon an increase (decrease) in discount rate, default rate, loss severity or weighted average life inputs. Discount rates are influenced by market expectations for the underlying collateral performance, and therefore may directionally move with probability and severity of default; however, discount rates are also impacted by broader market forces, such as competing investment yields, sector liquidity, economic news, and other macroeconomic factors. There is no direct interrelationship between prepayments and discount rate. Prepayment rates generally move in the opposite direction of market interest rates. Increase in the probability of default will generally be accompanied with an increase in loss severity, as both are impacted by underlying collateral values.

The following table summarizes the changes in estimated fair value for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3):

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

| | Securities-AFS | Securities carried at fair value with changes recorded in net income | FDIC Receivable | Derivative assets-non qualifying[1] | Derivative liabilities-non-qualifying[2] | FDIC True-up Liability | Consideration holdback Liability |
|---|---|---|---|---|---|---|---|

| | Securities-AFS | Securities carried at fair value with changes recorded in net income | FDIC Receivable | Derivative assets-non qualifying[1] | Derivative liabilities-non-qualifying[2] | FDIC True-up Liability | Consideration holdback Liability |
|---|---|---|---|---|---|---|---|
| **December 31, 2015** | $567.1 | $339.7 | $54.8 | $ | $(55.5) | $(56.9) | $(60.8) |
| Included in earnings | (1.5) | (1.0) | 2.8 | 0.2 | 18.5 | (1.1) | (0.6) |
| Included in comprehensive income | (2.1) | | | | | | |
| Impairment | (2.0) | | | | | | |
| Paydowns | (20.9) | (15.7) | (3.2) | | | | |
| **Balance as of March 31, 2016** | $540.6 | $323.0 | $54.4 | $0.2 | $(37.0) | $(58.0) | $(61.4) |
| **December 31, 2014** | $ | $ | $ | $ | $(26.6) | $ | $ |
| Included in earnings | | | | | (0.5) | | |
| **Balance as of March 31, 2015** | $ | $ | $ | $ | $(27.1) | $ | $ |

[1] *Valuation of Interest Rate Lock Commitments.*

[2] *Primarily includes the valuation of the derivatives related to the GSI facilities and written options on certain CIT Bank CDs.*





The Company monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in the observability of key inputs to a fair value measurement may result in a transfer of assets or liabilities between Level 1, 2 and 3. The Company s policy is to recognize transfers in and transfers out as of the end of the reporting period. For the quarters ended March 31, 2016 and 2015, there were no transfers into or out of Level 3.

**Financial Assets Measured at Estimated Fair Value on a Non-recurring Basis**

Certain assets or liabilities are required to be measured at estimated fair value on a nonrecurring basis subsequent to initial recognition. Generally, these adjustments are the result of LOCOM or other impairment accounting. In determining the estimated fair values during the period, the Company determined that substantially all the changes in estimated fair value were due to declines in market conditions versus instrument specific credit risk. This was determined by examining the changes in market factors relative to instrument specific factors.

The following table presents financial assets measured at estimated fair value on a non-recurring basis for which a non-recurring change in fair value has been recorded in the current year:

**Carrying Value of Assets Measured at Fair Value on a Non-recurring Basis** (dollars in millions)

| | | Fair Value Measurements at Reporting Date Using: | | | |
|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total (Losses) |
| **Assets** | | | | | |

| | | Fair Value Measurements at Reporting Date Using: | | | |
|---|---|---|---|---|---|
| **March 31, 2016** | | | | | |
| Assets held for sale | $ 1,871.0 | $ | $ 18.3 | $ 1,852.7 | $ (21.5) |
| Impaired loans | 88.3 | | | 88.3 | (27.0) |
| Total | $ 1,959.3 | $ | $ 18.3 | $ 1,941.0 | $ (48.5) |
| **December 31, 2015** | | | | | |
| Assets held for sale | $ 1,648.3 | $ | $ 31.0 | $ 1,617.3 | $ (32.0) |
| Other real estate owned and repossessed assets | 127.3 | | | 127.3 | (5.7) |
| Impaired loans | 127.6 | | | 127.6 | (21.9) |
| Total | $ 1,903.2 | $ | $ 31.0 | $ 1,872.2 | $ (59.6) |

**Assets of continuing operations that are measured at fair value on a non-recurring basis are as follows:**

Loans are transferred from held for investment to AHFS 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 AHFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance.

*Assets Held for Sale* Assets held for sale are recorded at the lower of cost or fair value on the balance sheet. 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 technique, all of which are Level 3 inputs. In those instances where third party valuations were utilized, the most significant assumptions were the discount rates which ranged from 4.4% to 13.6%. The estimated fair value of assets held for sale with impairment at the reporting date was $1,871.0 million.

*Other Real Estate Owned* Other real estate owned represents collateral acquired from the foreclosure of secured real estate loans. Other real estate owned is measured at LOCOM less disposition costs. Estimated fair values of other real estate owned are reviewed on a quarterly basis and any decline in value below cost is recorded as impairment. Estimated fair value is generally based upon broker price opinions or independent appraisals, adjusted for costs to sell. The estimated costs to sell are incremental direct costs to transact a sale, such as broker commissions, legal fees, closing costs and title transfer fees. The costs must be essential to the sale and would not have been incurred if the decision to sell had not been made. The significant unobservable input is the appraised value or the sales price and thus is classified as Level 3. As of the reporting date, OREO carrying value approximates fair value.

*Impaired Loans* 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, the present value of expected future cash flows discounted at the contract s effective interest rate, or observable market prices. The significant unobservable inputs result in the Level 3 classification. As of the reporting date, the carrying value of impaired loans approximates fair value.

**Fair Value Option**

The Company has an irrevocable option to elect fair value for the initial and subsequent measurement of the FDIC receivable acquired by OneWest Bank in the IndyMac Transaction, as it was determined at the time of election that this treatment would allow a better economic offset

of the changes in estimated fair values of the loans.

The following table summarizes the differences between the carrying value of the FDIC Receivable based upon the Bank s contractual right to 40% of the cash flows of the underlying collateral measured at estimated fair value under the fair value option and the aggregate unpaid principal amount of the underlying collateral.

| | March 31, 2016 | | |
|---|---|---|---|
| (dollars in millions) | Estimated Fair Value Carrying Amount | Aggregate Unpaid Principal | Difference Between Estimated Fair Value and 100% Aggregate Unpaid Principal Balance |
| **FDIC Receivable** | $ 54.4 | $ 196.4 | $ 142.0 |

| | December 31, 2015 | | |
|---|---|---|---|
| (dollars in millions) | Estimated Fair Value Carrying Amount | Aggregate Unpaid Principal | Difference Between Estimated Fair Value and 100% Aggregate Unpaid Principal Balance |
| **FDIC Receivable** | $ 54.8 | $ 204.5 | $ 149.7 |

The gains and losses due to changes in the estimated fair value of the FDIC receivable under the fair value option are included in earnings for the quarter ended March 31, 2016 and shown in the Financial Assets and Liabilities Measured at Estimated Fair Value on a Recurring Basis section of this Note.



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**Fair Values of Financial Instruments**

The carrying values 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)

| | | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| **March 31, 2016** | | | | | |
| **Financial Assets** | | | | | |
| Cash and interest bearing deposits | $ 8,141.8 | $ 8,141.8 | $ | $ | $ 8,141.8 |
| Derivative assets at fair value non-qualifying hedges | 98.2 | | 98.0 | 0.2 | 98.2 |
| Derivative assets at fair value qualifying hedges | 0.2 | | 0.2 | | 0.2 |
| Assets held for sale (excluding leases) | 1,018.1 | 20.6 | 28.2 | 976.7 | 1,025.5 |

| | | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| Loans (excluding leases) | 28,198.3 | | 982.9 | 26,222.3 | 27,205.2 |
| Investment securities[(1)] | 2,896.8 | 0.3 | 1,686.4 | 1,212.5 | 2,899.2 |
| Indemnification assets[(2)] | 323.3 | | | 284.1 | 284.1 |
| Other assets subject to fair value disclosure and unsecured counterparty receivables[(3)] | 1,149.2 | | | 1,149.2 | 1,149.2 |
| **Financial Liabilities** | | | | | |
| Deposits[(4)] | (32,934.0) | | | (33,254.9) | (33,254.9) |
| Derivative liabilities at fair value non-qualifying hedges | (166.4) | | (129.4) | (37.0) | (166.4) |
| Derivative liabilities at fair value qualifying hedges | (31.1) | | (31.1) | | (31.1) |
| Borrowings[(4)] | (18,132.3) | | (16,049.3) | (2,541.3) | (18,590.6) |
| Credit balances of factoring clients | (1,361.0) | | | (1,361.0) | (1,361.0) |
| Other liabilities subject to fair value disclosure[(5)] | (1,825.6) | | | (1,825.6) | (1,825.6) |
| **December 31, 2015** | | | | | |
| **Financial Assets** | | | | | |
| Cash and interest bearing deposits | $ 8,301.5 | $ 8,301.5 | $ – | $ | $ 8,301.5 |
| Derivative assets at fair value non-qualifying hedges | 95.6 | | 95.6 | | 95.6 |
| Derivative assets at fair value qualifying hedges | 45.5 | | 45.5 | | 45.5 |
| Assets held for sale (excluding leases) | 738.8 | 21.8 | 55.8 | 669.1 | 746.7 |
| Loans (excluding leases) | 28,244.2 | | 975.5 | 26,509.1 | 27,484.6 |
| Investment securities | 2,953.8 | 11.5 | 1,678.7 | 1,265.0 | 2,955.2 |
| Indemnification assets | 348.4 | | | 323.2 | 323.2 |
| Other assets subject to fair value disclosure and unsecured counterparty receivables[(3)] | 1,004.5 | | | 1,004.5 | 1,004.5 |
| **Financial Liabilities** | | | | | |
| Deposits[(4)] | (32,813.8) | | | (32,972.2) | (32,972.2) |
| Derivative liabilities at fair value non-qualifying hedges | (103.3) | | (47.8) | (55.5) | (103.3) |
| Derivative counterparty liabilities at fair value | (0.3) | | (0.3) | | (0.3) |
| Borrowings[(4)] | (18,717.1) | | (16,358.2) | (2,808.8) | (19,167.0) |
| Credit balances of factoring clients | (1,344.0) | | | (1,344.0) | (1,344.0) |
| Other liabilities subject to fair value disclosure[(5)] | (1,943.5) | | | (1,943.5) | (1,943.5) |

[(1)] *Level 3 estimated fair value at March 31, 2016, includes debt securities AFS ($540.6 million), debt securities carried at fair value with changes recorded in net income ($323.0 million), non-marketable investments ($285.0 million), and debt securities HTM ($64.0 million). Level 3 estimated fair value at December 31, 2015 included debt securities AFS ($567.1 million), debt securities carried at fair value with changes recorded in net income ($339.7 million), non-marketable investments ($291.9 million), and debt securities HTM ($66.3 million).*

[(2)] *The indemnification assets at March 31, 2016, included in the above table does not include Agency claims indemnification ($65.4 million) and Loan indemnification ($0.7 million), as they are not considered financial instruments. The indemnification assets at December 31, 2015 included in the above table does not include Agency claims indemnification ($65.6 million) and Loan indemnification ($0.7) million, as they are not considered financial instruments.*

[(3)] *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*

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

(5) *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.*





The methods and assumptions used to estimate the fair value of each class of financial instruments are explained below:

*Cash and interest bearing deposits*  The carrying values of cash and cash equivalents are at face amount. The impact of the time value of money from the unobservable discount rate for restricted cash is inconsequential as of March 31, 2016 and December 31, 2015. Accordingly cash and cash equivalents and restricted cash approximate estimated fair value and are classified as Level 1.

*Derivatives*  The estimated fair values of derivatives were calculated using observable market data and represent the gross 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 inputs. See *Note 9  Derivative Financial Instruments* for notional principal amounts and fair values.

*Investment Securities*  Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1, Level 2 or Level 3 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 quoted prices in active markets. Debt securities classified as HTM include government agency securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. For debt securities HTM where no market rate was available, Level 3 inputs were utilized. Debt securities 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 utilize Level 3 inputs to estimate fair value and 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 partnership equity interests, we use the net asset value provided by the fund manager as an appropriate measure of fair value.

*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, $20.2 million carrying amount at March 31, 2016 was valued using quoted prices, which are Level 1 inputs, and $27.8 million carrying amount at March 31, 2016 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 technique, all of which are Level 3 inputs. Commercial loans are generally valued individually, which small ticket commercial loans are valued on an aggregate portfolio basis.

*Loans*  Within the Loans category, there are several types of loans as follows:

- *Commercial Loans*  Of the loan balance above, approximately $1.0 billion at both March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015. 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, 2016 was $27.2 billion, which was 96.4% of carrying value. The fair value of loans at December 31, 2015 was $27.5 billion, which was 97.3% 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, the present value of expected cash flows utilizing the current market rate for such loan, or observable market price. 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, 2016, the UPB related to impaired loans totaled $211.7 million. Including related allowances, these loans are carried at $137.3 million, or 64.9% of UPB. Of these amounts, $43.0 million and $22.9 million of UPB and carrying value, respectively, relate to loans with no specific allowance. As of December 31, 2015 the UPB related to impaired loans totaled $172.5 million and including related allowances, these loans were carried at $121.8 million, or 70.6% of UPB. Of these amounts, $33.3 million and $21.9 million of UPB and carrying value, respectively, 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.

- *PCI loans* These loans are valued by grouping the loans into performing and non-performing groups and stratifying the loans based on common risk characteristics such as product type, FICO score and





other economic attributes. Due to a lack of observable market data, the estimated fair value of these loan portfolios was based on an internal model using unobservable inputs, including discount rates, prepayment rates, delinquency roll-rates, and loss severities. Due to the significance of the unobservable inputs, these instruments are classified as Level 3.

- *Jumbo Mortgage Loans* The estimated fair value was determined by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Due to the unobservable nature of the inputs used in deriving the estimated fair value of these instruments, these loans are classified as Level 3.

*Indemnification Assets* The Company s indemnification assets relating to the SFR loans purchased in the OneWest Bank Transaction are measured on the same basis as the related indemnified item, the underlying SFR and commercial loans. The estimated fair values reflect the present value of expected reimbursements under the indemnification agreements based on the loan performance discounted at an estimated market rate, and classified as Level 3. See Loans Held for Investment above for more information.

*Deposits* The estimated fair value of deposits with no stated maturity, such as demand deposit accounts (including custodial deposits), money market accounts, and savings accounts is the amount payable on demand at the reporting date.

The estimated fair value of time deposits is determined using a discounted cash flow analysis. The discount rate for the time deposit accounts is derived from the rate currently offered on alternate funding sources with similar maturities. 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.

**Borrowings**

- Unsecured debt Approximately $11.0 billion par value at March 31, 2016 and $10.7 billion par value at December 31, 2015 were valued using market inputs, which are Level 2 inputs.

- Structured financings Approximately $5.1 billion par value at March 31, 2016 and $5.1 billion par value at December 31, 2015 were valued using market inputs, which are Level 2 inputs. Where market estimates were not available for approximately $2.5 billion and $2.7 billion par value at March 31, 2016 and December 31, 2015, 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.

- FHLB Advances Estimated fair value is based on a discounted cash flow model that utilizes benchmark interest rates and other observable market inputs. The discounted cash flow model uses the contractual advance features to determine the cash flows with a zero spread to the forward FHLB curve, which are discounted using observable benchmark interest rates. As the model inputs can be observed in a liquid

market and the model does not require significant judgment, FHLB advances are classified as Level 2.

*Credit balances of factoring clients* The impact of the time value of money from the unobservable discount rate for credit balances of factoring clients is inconsequential due to the short term nature of these balances (typically 90 days or less) as of March 31, 2016 and December 31, 2015. Accordingly, credit balances of factoring clients approximate estimated fair value and are classified as Level 3.

**NOTE 11 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, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Unrealized | Income Taxes | Net Unrealized | Gross Unrealized | Income Taxes | Net Unrealized |
| Foreign currency translation adjustments | $ (24.2) | $(20.3) | $ (44.5) | $ (29.8) | $(35.9) | $ (65.7) |
| Changes in benefit plan net gain (loss) and prior service (cost)/credit | (75.4) | 7.0 | (68.4) | (76.3) | 7.0 | (69.3) |
| Unrealized net gains (losses) on available for sale securities | (7.2) | 2.7 | (4.5) | (11.4) | 4.3 | (7.1) |
| Total accumulated other comprehensive loss | $(106.8) | $(10.6) | $(117.4) | $(117.5) | $(24.6) | $(142.1) |



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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 | Unrealized net gains (losses) on available for sale securities | Total AOCI |
|---|---|---|---|---|
| **Balance as of December 31, 2015** | $ (65.7) | $(69.3) | $(7.1) | $(142.1) |
| AOCI activity before reclassifications | 16.5 | (0.1) | 2.6 | 19.0 |
| Amounts reclassified from AOCI | 4.7 | 1.0 | | 5.7 |
| Net current period AOCI | 21.2 | 0.9 | 2.6 | 24.7 |
| **Balance as of March 31, 2016** | $ (44.5) | $(68.4) | $(4.5) | $(117.4) |

| | Foreign currency translation adjustments | Changes in benefit plan net gain (loss) and prior service (cost) credit | 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) |

**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 $4.7 million and $3.5 million for the quarters ended March 31, 2016 and 2015, respectively. The change in income taxes associated with foreign currency translation adjustments was $15.6 million and $(19.1) million for the quarters ended March 31, 2016 and 2015, respectively.

The changes in benefit plans net gain/(loss) and prior service (cost)/credit reclassification adjustments impacting net income was $1.0 million for the three months ended March 31, 2016 and was insignificant in the prior year quarter. The change in income taxes associated with changes in benefit plans net gain/(loss) and prior service (cost)/credit was insignificant for the quarter ended March 31, 2016 and was approximately $0.3 million for the quarter ended March 31, 2015.

There were no reclassification adjustments impacting net income for unrealized gains (losses) on available for sale securities for the quarters ended March 31, 2016 and 2015. The change in income taxes associated with net unrealized gains on available for sale securities was $(1.6) million and approximately $0.2 million for the quarters ended March 31, 2016 and 2015, respectively.

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, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | | |
| | Gross Amount | Tax | Net Amount | Gross Amount | Tax | Net Amount | Affected Income Statement line item |
| Foreign currency translation adjustments gains (losses) | $3.6 | $ 1.1 | $4.7 | $3.5 | $ | $3.5 | Other Income |
| Changes in benefit plan net gain/(loss) and prior service (cost)/credit gains (losses) | 1.1 | (0.1) | 1.0 | | | | Operating Expenses |
| Total Reclassifications out of AOCI | $4.7 | $ 1.0 | $5.7 | $3.5 | $ | $3.5 | |

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

**NOTE 12 REGULATORY CAPITAL**

The Company and the Bank are each subject to various regulatory capital requirements administered by the FRB and the OCC. Quantitative measures established by regulation to ensure capital adequacy require that the Company and the Bank each maintain minimum amounts and ratios of Total, Tier 1 and Common Equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. We compute capital ratios in accordance with Federal Reserve capital guidelines and OCC capital guidelines for assessing adequacy of capital for the Company and CIT Bank, respectively. At March 31, 2016 and December 31, 2015, the regulatory capital guidelines applicable to the Company were based on the Basel III Final Rule.

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, 2016.

The following table summarizes the actual and minimum required capital ratios:

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

| | CIT | | CIT Bank, N.A. | |
|---|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2016** | **December 31, 2015** |
| **Tier 1 Capital** | | | | |
| Total stockholders equity[1] | $11,125.8 | $10,978.1 | $ 5,598.2 | $ 5,606.4 |
| Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interests | 73.4 | 76.9 | 4.4 | 7.0 |
| Adjusted total equity | 11,199.2 | 11,055.0 | 5,602.6 | 5,613.4 |
| Less: Goodwill[2] | (1,126.3) | (1,130.8) | (824.6) | (830.8) |
| Disallowed deferred tax assets | (873.9) | (904.5) | | |
| Disallowed intangible assets[2] | (76.7) | (53.6) | (84.3) | (58.3) |
| Other Tier 1 components | | (0.1) | | |
| Common Equity Tier 1 Capital | 9,122.3 | 8,966.0 | 4,693.7 | 4,724.3 |
| Tier 1 Capital | 9,122.3 | 8,966.0 | 4,693.7 | 4,724.3 |
| **Tier 2 Capital** | | | | |
| Qualifying allowance for credit losses and other reserves[3] | 452.9 | 403.3 | 423.6 | 374.7 |
| Total qualifying capital | $ 9,575.2 | $ 9,369.3 | $ 5,117.3 | $ 5,099.0 |
| Risk-weighted assets | $68,495.8 | $69,563.6 | $36,475.5 | $36,809.5 |
| **Common Equity Tier 1 Capital (to risk-weighted assets):** | | | | |
| Actual | 13.3% | 12.9% | 12.9% | 12.8% |
| Effective minimum ratios under Basel III guidelines[4] | 5.125% | 4.5% | 5.125% | 4.5% |
| **Tier 1 Capital (to risk-weighted assets):** | | | | |
| Actual | 13.3% | 12.9% | 12.9% | 12.8% |
| Effective minimum ratios under Basel III guidelines[4] | 6.625% | 6.0% | 6.625% | 6.0% |

| | CIT | | CIT Bank, N.A. | |
|---|---|---|---|---|
| **Total Capital (to risk-weighted assets):** | | | | |
| Actual | 14.0% | 13.5% | 14.0% | 13.9% |
| Effective minimum ratios under Basel III guidelines[(4)] | 8.625% | 8.0% | 8.625% | 8.0% |
| **Tier 1 Leverage Ratio:** | | | | |
| Actual | 13.9% | 13.5% | 10.8% | 10.9% |
| Required minimum ratio for capital adequacy purposes | 4.0% | 4.0% | 4.0% | 4.0% |

[(1)] *See Consolidated Balance Sheets for the components of Total stockholders equity.*

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

[(3)] *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.*

[(4)] *Required ratios under the Basel III Final Rule in effect as of the reporting date.*



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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; (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 the prior regulations. Prior to 2015, the Company had been subject to the guidelines under Basel I.

The Basel III Final Rule also prescribed new approaches for risk weightings. Of these, CIT will calculate risk weightings using the Standardized Approach. 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 mortgage backed securities, credit-enhancing interest-only strips or unsettled security/commodity transactions.

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. In addition, 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.

**NOTE 13 INCOME TAXES**

The Company s global effective income tax rate from continuing operations for the first quarter was 26% and excluding discrete tax items was 31%, driven by the geographic mix of earnings. The net discrete tax benefit of $11.1 million for the current quarter primarily included a $13.9 million tax benefit including interest and penalties from favorable actions taken by the tax authorities related to uncertain tax positions taken on certain prior year non-U.S. tax returns, which were partially offset by other miscellaneous net tax expense items.

The quarterly income tax expense is based on an updated projection of the Company s annual effective tax rate. This updated annual effective tax rate is applied to the year-to-date consolidated pre-tax income to determine the interim provision for income taxes before discrete items. The

impact of any change in the projected annual effective tax rate from the prior quarter is reflected in the quarterly income tax expense. 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 2016 effective tax rate may vary from the currently projected tax rate due to changes in these factors.

As of December 31, 2015, CIT had cumulative U.S. federal net operating loss carry-forwards ( NOLs ) of $5.7 billion, of which $2.9 billion was related to pre-emergence losses. These NOLs will expire between 2027 and 2033. Pursuant to Section 382 of the Internal Revenue Code, the Company is generally subject to a $265 million annual limitation on the use of its $2.9 billion of pre-emergence NOLs, of which approximately $1.2 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 2015 Annual Report on Form 10-K, management concluded that it was more likely than not that the Company would 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 full utilization of the U.S. federal net operating loss carry-forwards ( NOLs ) and partial utilization of the U.S. state NOLs. The forecast of future taxable income for the Company reflected a long-term view of growth and returns that management believed is more likely than not of being realized.

The Company retained a valuation allowance of $250 million against the U.S. state deferred tax assets ( DTAs ) on NOLs at December 31, 2015.

The Company maintained a valuation allowance of $21 million against certain non-U.S. reporting entities net DTAs at March 31, 2016, down from $91 million at December 31, 2015. In January 2016, the Company sold its U.K. equipment finance business. Thus, in the first quarter of 2016, there was a reduction of approximately $70 million to the respective U.K. reporting entities net DTAs along with their associated valuation allowances. In the evaluation process related to the net DTAs of the Company s other international reporting entities, uncertainties surrounding the future international business operations have made it challenging to reliably project future taxable income. Management will continue to assess the forecast of future taxable income as the business plans for these international reporting entities evolve and evaluate potential tax planning strategies to utilize these net DTAs.

The Company s ability to recognize DTAs will be evaluated on a quarterly basis to determine if there are any significant events that would affect our ability to utilize existing DTAs. If events are identified that affect our ability to utilize our DTAs, valuation allowances may be adjusted accordingly.





While GAAP equity increased as a result of the recognition of net DTAs corresponding to the release of the aforementioned valuation allowances, there was minimal benefit on regulatory capital.

**Liabilities for Uncertain Tax Positions**

The Company s potential liability for uncertain tax positions before interest and penalties totaled $41.1 million at March 31, 2016 and $46.7 million at December 31, 2015. The decrease in the balance this quarter is mainly associated with favorable tax actions taken by the tax authorities related to uncertain tax positions taken on certain prior year non-U.S. income tax returns.

The Company anticipates changes to its uncertain tax positions from resolution of open tax matters and closure of statutes. Management estimates that the total potential liability before interest and penalties may be reduced by up to $5 million within the next twelve months. If these amounts are resolved in favor of the Company, they will have a favorable impact on the effective tax rate in future periods. The Company s accrued liability for interest and penalties totaled $12 million at March 31, 2016 and $18 million at December 31, 2015. The change in balance is mainly related to the interest and penalties associated with the decrease in the above mentioned uncertain tax position taken on certain prior-year non-U.S. income tax returns. The Company recognizes accrued interest and penalties on unrecognized tax benefits in income tax expense.

**NOTE 14 COMMITMENTS**

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

**Commitments** (dollars in millions)

| | March 31, 2016 | | | December 31, 2015 |
|---|---|---|---|---|
| | Due to Expire | | | |
| | Within One Year | After One Year | Total Outstanding | Total Outstanding |
| **Financing Commitments** | | | | |
| Financing assets | $1,450.4 | $5,373.9 | $6,824.3 | $7,385.6 |
| **Letters of credit** | | | | |
| Standby letters of credit | 49.1 | 275.2 | 324.3 | 315.3 |
| Other letters of credit | 24.6 | | 24.6 | 18.3 |
| **Guarantees** | | | | |
| Deferred purchase agreements | 1,583.5 | | 1,583.5 | 1,806.5 |
| Guarantees, acceptances and other recourse obligations | 1.3 | | 1.3 | 0.7 |
| **Purchase and Funding Commitments** | | | | |
| Aerospace purchase commitments | 571.2 | 8,937.6 | 9,508.8 | 9,618.1 |
| Rail and other purchase commitments | 720.8 | 90.1 | 810.9 | 898.2 |

**Financing Commitments**

**Commercial**

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 $764 million at March 31, 2016 and $859 million at December 31, 2015. 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 $411 million at March 31, 2016 and $406 million at December 31, 2015. 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 $1.7 billion of undrawn financing commitments at March 31, 2016 and $1.7 billion at December 31, 2015 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, 2016, substantially all undrawn financing commitments were senior facilities. Most of the Company s undrawn and available financing commitments are in the Commercial Banking segment.



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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.

**Consumer**

Financing commitments in the table above include $48 million associated with discontinued operations at March 31, 2016 consisting of HECM reverse mortgage loan commitments.

In conjunction with the OneWest Transaction, the Company is committed to fund draws on certain reverse mortgages in conjunction with loss sharing agreements with the FDIC. The FDIC agreed to indemnify the Company for losses on the first $200 million of draws that occur subsequent to the purchase date. In addition, the FDIC agreed to fund any other draws in excess of the $200 million. The Company s net exposure for loan commitments on the reverse mortgage draws on those purchased loans was $48 million at March 31, 2016. See *Note 5 Indemnification Assets* for further discussion on loss sharing agreements with the FDIC. In addition, as servicer of HECM loans, the Company is required to repurchase the loan out of the GNMA HMBS securitization pools once the outstanding principal balance is equal to or greater than 98% of the maximum claim amount.

Also included was the Company s commitment to fund draws on certain home equity lines of credit ( HELOCs ). Under the HELOC participation and servicing agreement entered into with the FDIC, the FDIC agreed to reimburse the Company for a portion of the draws that the Company made on the purchased HELOCs.

**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 ninety 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 $1,498 million and $1,720 million of DPA credit protection at March 31, 2016 and December 31, 2015, 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 $86 million and $87 million available under DPA credit line agreements, net of the amount of DPA credit protection provided at March 31, 2016 and December 31, 2015, 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 internal customer and facility credit ratings. The liability recorded in Other Liabilities related to the DPAs totaled $4.5 million and $4.4 million at March 31, 2016 and December 31, 2015, 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 ) and The Boeing Company ( Boeing ). 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, 138 aircraft remain to be purchased from Airbus, Boeing and Embraer at March 31, 2016. Aircraft deliveries are scheduled periodically through 2020. Commitments exclude unexercised options to order additional aircraft.

The Company s rail business entered into commitments to purchase railcars from multiple manufacturers. At March 31, 2016, approximately 6,200 railcars remain to be purchased from manufacturers with deliveries through 2018.





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

Rail equipment purchase commitments are at fixed prices subject to price increases for certain materials.

Other vendor purchase commitments primarily relate to Equipment Finance.

**Other Commitments**

The Company has commitments to invest in affordable housing investments, and other investments qualifying for community reinvestment tax credits. These commitments are payable on demand. As of March 31, 2016, these commitments were $11 million. These commitments are recorded in accrued expenses and Other liabilities in the condensed Consolidated Statement of Financial Position.

**NOTE 15 CONTINGENCIES**

**Litigation**

CIT is involved, and from time to time in the future may be involved, in a number of pending and threatened 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 $190 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, 2016. 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.

The foregoing statements about CIT s Litigation are based on the Company s judgments, assumptions, and estimates and are necessarily subjective and uncertain. The Company has several hundred threatened and pending judicial, regulatory and arbitration proceedings at various stages. Several of the Company s Litigation matters are described below.

**BRAZILIAN TAX MATTER**

Banco Commercial Investment Trust do Brasil S.A. ( Banco CIT ), CIT s Brazilian bank subsidiary, was sold in a stock sale in the fourth quarter of 2015, thereby transferring the legal liabilities of Banco CIT to the buyer. Under the terms of the stock sale, CIT remains liable for indemnification to the buyer for any losses resulting from certain ICMS tax appeals relating to disputed local tax assessments on leasing services

and importation of equipment (the ICMS Tax Appeals ).

Notices of infraction were issued to Banco CIT relating to the payment of Imposto sobre Circulaco de Mercadorias e Servicos ( ICMS ) taxes charged by Brazilian states in connection with the importation of equipment. The state of São Paulo claims that Banco CIT should have paid it ICMS tax for tax years 2006 2009 because Banco CIT, the purchaser, was located in São Paulo. Instead, Banco CIT paid ICMS tax to the states of Espirito Santo where the imported equipment arrived. A regulation issued by São Paulo in December 2013 reaffirms a 2009 agreement by São Paulo to conditionally recognize ICMS tax payments made to Espirito Santo. An assessment related to taxes paid to Espirito Santo was upheld in a ruling issued by the administrative court in May 2014. That ruling has been appealed. Another assessment related to taxes paid to Espirito Santo remains pending. Petitions seeking recognition of the taxes paid to Espirito Santo have been filed in a general amnesty program. In conjunction with the stock sale, the Company posted a letter of credit in the amount of 76 million Reais ($21 million USD) to secure the indemnity obligation for the ICMS Tax Appeals.

**HUD OIG INVESTIGATION**

In 2009, OneWest Bank acquired the reverse mortgage loan portfolio and related servicing rights of Financial Freedom Senior Funding Corporation, including HECM loans, from the FDIC as Receiver for IndyMac Federal Bank. HECM loans are insured by the Federal Housing Administration ( FHA ), administered by the Department of Housing and Urban Development ( HUD ). Subject to certain



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requirements, the loans acquired from the FDIC are covered by indemnification agreements. In addition, Financial Freedom is the servicer of HECM loans owned by the Federal National Mortgage Association (FNMA) and other third party investors. Beginning in the third quarter of 2015, HUD s Office of Inspector General ( OIG ), served a series of subpoenas on the Company regarding HECM loans. The subpoenas request documents and other information related to the HECM loan business and the curtailment of interest payments on HECM insurance claims. The Company is responding to the subpoenas and does not have sufficient information to make an assessment of the outcome or the impact of the HUD OIG investigation.

**Servicer Obligations**

As a servicer of residential mortgage loans, the Company is exposed to contingent obligations for breaches of servicer obligations as set forth in industry regulations established by HUD and FHA and in servicing agreements with the applicable counterparties, such as Fannie Mae and other investors, which could include fees imposed for failure to comply with foreclosure timeframe requirements.

The Company has established reserves for contingent servicing-related liabilities associated with continuing operations. While the Company believes that such accrued liabilities are adequate, it is reasonably possible that such losses could ultimately exceed the Company s liability for probable and reasonably estimable losses by up to approximately $5 million as of March 31, 2016, which is unchanged from December 31, 2015.

**Indemnification Obligations**

In connection with the OneWest acquisition, CIT assumed the obligation to indemnify Ocwen Loan Servicing, LLC ( Ocwen ) against certain claims that may arise from servicing errors which are deemed attributable to the period prior to June 2013, when OneWest sold its servicing business to Ocwen, such as repurchase demands, non-recoverable servicing advances and compensatory fees imposed by the GSEs for servicer delays in completing the foreclosure process within the prescribed timeframe established by the servicer guides or agreements, exclusive of losses or repurchase obligations and certain Agency fees, and which are limited to an aggregate amount of $150.0 million and expire three years from closing (February 2017). Ocwen is responsible for liabilities arising from servicer obligations following the service transfer date because substantially all risks and rewards of ownership have been transferred; except for certain Agency fees or loan repurchase amounts on foreclosures completed on or before 90 days following the applicable transfer date. As of March 31, 2016, the cumulative indemnification obligation totaled approximately $49.0 million, which reduced the Company s $150.0 million maximum potential indemnity obligation to Ocwen. Because of the uncertainty in the ultimate resolution and estimated amount of the indemnification obligation, it is reasonably possible that the obligation could exceed the Company s recorded liability by up to approximately $15 million as of March 31, 2016, which is unchanged from December 31, 2015.

In addition, CIT assumed OneWest Bank s obligations to indemnify Specialized Loan Servicing, LLC ( SLS ) against certain claims that may arise that are attributable to the period prior to September 2013, the servicing transfer date, when OneWest sold a portion of its servicing business to SLS, such as repurchase demands and non-recoverable servicing advances. SLS is responsible for substantially all liabilities arising from servicer obligations following the service transfer date.

**NOTE 16 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Steven Mnuchin, a Director, and through March 31, 2016, Vice Chairman of CIT and CIT Bank and previously the Chairman and CEO of IMB and Chairman of OneWest Bank, is also Chairman, CEO, and principal owner of Dune Capital Management LP, a privately owned investment firm ( Dune Capital ). Through Dune Capital, Mr. Mnuchin owns or controls interests in several entities that have made various investments in the media and entertainment industry, including Relativity Media LLC, a media production and distribution company ( Relativity ).

On October 2, 2014, Mr. Mnuchin purchased certain classes of equity interests in and was appointed as co-chairman of the Board of Relativity Holdings LLC ( Relativity ). As a result, several revolving credit facilities and term loan facilities that previously existed among OneWest Bank and certain other banks, as lenders, and certain subsidiaries and affiliates of Relativity (the Borrowers ), including one revolving credit facility that was increased in size after October 2, 2014, and certain deposits of the Borrowers with OneWest Bank, were considered to be related party transactions. Prior to October 2, 2014, James Wiatt, a director of both IMB and OneWest Bank, was also a director of Relativity. After Mr. Mnuchin joined the Board of Relativity on October 2, 2014, all subsequent actions between OneWest Bank and the Borrowers were approved by the full Board of OneWest Bank, excluding Mr. Mnuchin and Mr. Wiatt. As of March 31, 2016 and December 31, 2015, the contractual loan commitments by CIT Bank, N.A. (formerly OneWest Bank) to the Borrowers were $32.1 million and $39.9 million, of which $30.7 million and $38.5 million were outstanding, and the deposits totaled $25.2 million and $40.7 million, respectively. Effective as of May 29, 2015, Mr. Mnuchin ceased to be co-chairman of the Board of Relativity. Relativity filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code on July 30, 2015 seeking protection for itself and certain of its subsidiaries. On April 14, 2016, Relativity emerged from bankruptcy. Mr. Mnuchin holds no equity in Relativity.

During the third quarter of 2015, Strategic Credit Partners Holdings LLC (the JV ), a joint venture between CIT





Group Inc. ( CIT ) and TPG Special Situations Partners ( TSSP ), was formed. The JV extends credit in senior-secured, middle-market corporate term loans, and, in certain circumstances, is a participant to such loans. Participation could be in corporate loans originated by CIT. The JV may acquire other types of loans, such as subordinate corporate loans, second lien loans, revolving loans, asset backed loans and real estate loans. Through March 31, 2016, loans of $85 million were sold to the joint venture, while our investment was $6.3 million and $4.6 million at March 31, 2016 and December 31, 2015, respectively. CIT also maintains an equity interest of 10% in the JV.

During 2014, the Company formed two joint ventures (collectively TC-CIT Aviation ) between CIT Aerospace and Century Tokyo Leasing Corporation ( CTL ). CIT records its net investment under the equity method of accounting. Under the terms of the agreements, TC-CIT Aviation will acquire commercial aircraft that will be leased to airlines around the globe. CIT Aerospace is responsible for arranging future aircraft acquisitions, negotiating leases, servicing the portfolio and administering the entities. Initially, CIT Aerospace sold 14 commercial aircraft to TC-CIT Aviation in transactions with an aggregate value of approximately $0.6 billion; including nine aircraft sold in 2014 and five aircraft sold in the first quarter of 2015 (these five aircraft were sold at an aggregate amount of $240 million). In addition to the initial 14 commercial aircraft, CIT sold 5 commercial aircraft with an aggregate value of $226 million in the year ended December 31, 2015. There were no aircraft sold to TC-CIT Aviation in the first quarter of 2016. CIT also made and maintains a minority equity investment in TC-CIT Aviation in the amount of approximately $57 million. CTL made and maintains a majority equity interest in the joint venture and is a lender to the companies.

CIT invests in various trusts, partnerships, and limited liability corporations established in conjunction with structured financing transactions of equipment, power and infrastructure projects. CIT s interests in these entities were entered into in the ordinary course of business. Other assets included approximately $238 million and $224 million at March 31, 2016 and December 31, 2015, respectively, of investments in non-consolidated entities relating to such transactions that are accounted for under the equity or cost methods.

The combination of investments in and loans to non-consolidated entities represents the Company s maximum exposure to loss, as the Company does not provide guarantees or other forms of indemnification to non-consolidated entities.

As of March 31, 2016 and December 31, 2015, a wholly-owned subsidiary of the Company subserviced loans for a related party with unpaid principal balances of $196.4 million and $204.5 million, respectively.

**NOTE 17 BUSINESS SEGMENT INFORMATION**

We changed our segment reporting effective January 1, 2016, following the previously announced reorganized management structure. CIT manages its business and reports its financial results in four operating segments: Commercial Banking, Transportation Finance, Consumer and Community Banking, and Non-Strategic Portfolios ( NSP ), and a fifth non-operating segment, Corporate and Other.

The following summarizes changes to our segment presentation from December 31, 2015:

- Commercial Banking (formerly North America Banking, or NAB ) no longer includes the Consumer Banking division or the Canadian lending and equipment finance business. Commercial Banking is comprised of three divisions, Commercial Finance, Real Estate Finance, and Business Capital. Business Capital includes the former Equipment Finance and Commercial Services divisions.

- Transportation Finance (formerly Transportation & International Finance or TIF ) no longer includes the China and the U.K. businesses. Transportation Finance is comprised of three divisions, Aerospace, Rail, and Maritime Finance.

- Consumer and Community Banking is a new segment that includes Legacy Consumer Mortgages (the former LCM segment) and other banking divisions that were included in the former NAB segment (Consumer Banking, Mortgage Lending, Wealth Management, and SBA Lending).

- NSP includes businesses that we no longer consider strategic, including those in Canada and China and recently exited U.K., that had been included in the former NAB and TIF segments. Historic data will also include other businesses and portfolios that have been sold, such as Mexico and Brazil.

All prior period comparisons are conformed to the current period presentation.

**Management s Policy in Identifying Reportable Segments**

CIT s reportable segments are comprised of divisions that are 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. The Board of Directors and executive management receive and review financial data at the segment level.

**Types of Products and Services**

CIT manages its business and report its financial results in four operating segments: Commercial Banking, Transportation Finance, Consumer and Community





Banking, and Non-Strategic Portfolios ( NSP ) and a fifth non-operating segment, Corporate and Other.

Commercial Banking provides a range of lending, leasing and deposit products, as well as ancillary products and services, including factoring, cash management and advisory services, to small and medium- sized companies and consumers in the U.S. Lending products 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. These are primarily composed of senior secured loans collateralized by accounts receivable, inventory, machinery & equipment, real estate, and intangibles, to finance the various needs of our customers, such as working capital, plant expansion, acquisitions and

recapitalizations. Loans are originated through direct relationships with borrowers or through relationships with private equity sponsors. Revenues generated by Commercial Banking include interest earned on loans, rents collected on leased assets, fees and other revenue from banking and leasing activities and capital markets transactions, and commissions earned on factoring and related activities.

Transportation Finance offers secured lending and leasing products to midsize and larger companies across the aerospace, rail and maritime industries. Revenues are generated by rents collected on leased assets, interest on loans, fees, and gains from assets sold.

Consumer and Community Banking, through its 70 branches and on-line channel, offers deposits and lending to borrowers who are buying or refinancing homes and custom loan products tailored to the clients financial needs. Products include checking, savings, certificates of deposit, residential mortgage loans, and investment advisory services. The segment includes a wealth management group that offers banking services to high net worth individuals. The segment also originates qualified Small Business Administration ( SBA ) 504 and 7(a) loans.

Consumer and Community Banking also consists of legacy portfolios of single family residential mortgages and reverse mortgages, certain of which are covered by loss sharing agreements with the FDIC. Certain Covered Loans in this segment were previously acquired by OneWest Bank in connection with the lndyMac, First Federal and La Jolla transactions. The FDIC indemnified OneWest Bank against certain future losses sustained on these loans. CIT may now be reimbursed for losses under the terms of the loss share agreements with the FDIC. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., due to foreclosure, short-sale, charge-offs or a restructuring of a single family residential mortgage loan pursuant to an agreed upon loan modification framework). Reimbursements approved by the FDIC are usually received within 60 days of submission.

NSP consists of portfolios that we no longer consider strategic. The 2016 balances reflect activity from portfolios in Canada and China, as well as from the sale of a U.K portfolio. These portfolios include equipment financing, secured lending and leasing to small and middle-market businesses. The prior periods also include activity from other international portfolios in Mexico and Brazil, which were sold in August and December 2015, respectively, and the U.K., which was sold in January 2016.

**Corporate and Other**

Certain items are not allocated to operating segments and are included in Corporate & Other. Some of the more significant items include interest income on investment securities, a portion of 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 (operating expenses), certain intangible asset amortization expenses (other expenses) and loss on debt extinguishments.





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

**Segment Profit and Assets**

The following table presents segment data. Results and period end balances as of and for the quarter ended March 31, 2015 do not contain any activity of OneWest Bank.

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

| | Commercial Banking | Transportation Finance | Consumer and Community Banking | Non-Strategic Portfolios | Corporate & Other | Total CIT |
|---|---|---|---|---|---|---|
| **For the quarter ended March 31, 2016** | | | | | | |
| Interest income | $ 287.1 | $ 52.7 | $ 103.2 | $ 25.0 | $ 27.4 | $ 495.4 |
| Interest expense | (73.6) | (148.1) | (8.9) | (14.5) | (41.3) | (286.4) |

| | Commercial Banking | Transportation Finance | Consumer and Community Banking | Non-Strategic Portfolios | Corporate & Other | Total CIT |
|---|---|---|---|---|---|---|
| Provision for credit losses | (73.5) | (22.7) | (3.1) | | | (99.3) |
| Rental income on operating leases | 27.1 | 544.5 | | 3.8 | | 575.4 |
| Other income | 55.5 | 18.8 | 8.1 | 14.5 | 4.0 | 100.9 |
| Depreciation on operating lease equipment | (20.0) | (155.3) | | | | (175.3) |
| Maintenance and other operating lease expenses | | (56.2) | | | | (56.2) |
| Operating expenses / loss on debt extinguishment | (158.4) | (60.7) | (82.2) | (12.2) | (36.6) | (350.1) |
| Income (loss) from continuing operations before (provision) benefit for income taxes | $ 44.2 | $ 173.0 | $ 17.1 | $ 16.6 | $(46.5) | $ 204.4 |
| **Select Period End Balances** | | | | | | |
| Loans | $21,437.2 | $ 2,786.7 | $7,184.7 | $ | $ | $31,408.6 |
| Credit balances of factoring clients | (1,361.0) | | | | | (1,361.0) |
| Assets held for sale | 229.7 | 754.7 | 50.6 | 1,176.2 | | 2,211.2 |
| Operating lease equipment, net | 292.6 | 16,373.1 | | | | 16,665.7 |
| **For the quarter ended March 31, 2015** | | | | | | |
| Interest income | $ 181.3 | $ 42.7 | $ | $ 52.8 | $ 4.2 | $ 281.0 |
| Interest expense | (64.8) | (150.6) | | (38.0) | (17.9) | (271.3) |
| Provision for credit losses | (24.4) | (6.4) | | (3.8) | | (34.6) |
| Rental income on operating leases | 23.1 | 496.7 | | 10.8 | | 530.6 |
| Other income | 63.6 | 35.4 | | (6.2) | (6.4) | 86.4 |
| Depreciation on operating lease equipment | (17.2) | (136.0) | | (3.6) | | (156.8) |
| Maintenance and other operating lease expenses | | (46.1) | | | | (46.1) |

| | Commercial Banking | Transportation Finance | Consumer and Community Banking | Non-Strategic Portfolios | Corporate & Other | Total CIT |
|---|---|---|---|---|---|---|
| Operating expenses / loss on debt extinguishment | (131.3) | (67.2) | | (37.0) | (6.1) | (241.6) |
| Income (loss) from continuing operations before (provision) benefit for income taxes | $ 30.3 | $ 168.5 | $ | $ (25.0) | $(26.2) | $ 147.6 |
| **Select Period End Balances** | | | | | | |
| Loans | $15,058.9 | $ 2,944.1 | $ | $1,426.3 | $ | $19,429.3 |
| Credit balances of factoring clients | (1,505.3) | | | | | (1,505.3) |
| Assets held for sale | 87.6 | 254.6 | | 709.7 | | 1,051.9 |
| Operating lease equipment, net | 225.4 | 14,622.8 | | 39.6 | | 14,887.8 |



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**NOTE 18 GOODWILL**

The following table summarizes the goodwill balance by segment:

| | Transportation Finance | Commercial Banking | Consumer & Community Banking | Total |
|---|---|---|---|---|
| December 31, 2015 | $245.0 | $602.3 | $351.0 | $1,198.3 |
| Additions, Other activity[(1)] | 3.0 | (22.2) | 16.0 | (3.2) |
| March 31, 2016 | $248.0 | $580.1 | $367.0 | $1,195.1 |

[(1)] *Includes purchase accounting measurement period adjustments, and foreign exchange translation adjustments in Transportation Finance.*

The December 31, 2015 goodwill included amounts from CIT s emergence from bankruptcy in 2009, its 2014 acquisitions of Capital Direct Group and its subsidiaries ( Direct Capital ), and Nacco, an independent full service railcar lessor, and its 2015 acquisition of OneWest. On January 31, 2014, CIT acquired 100% of the outstanding shares of Paris-based Nacco, an independent full service railcar lessor in Europe. The

purchase price was approximately $250 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date, resulting in $77 million of goodwill. On August 1, 2014, CIT Bank acquired 100% of Direct Capital, a U.S. based lender providing equipment financing to small and mid-sized businesses operating across a range of industries. The purchase price was approximately $230 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date resulting in approximately $170 million of goodwill. In addition, intangible assets of approximately $12 million were recorded relating mainly to the valuation of existing customer relationships and trade names.

On August 3, 2015, CIT acquired 100% of IMB HoldCo LLC, the parent company of OneWest Bank. The purchase price was approximately $3.4 billion and the acquired assets and liabilities were recorded at their preliminary estimated fair value as of the acquisition date resulting in $663.0 million of goodwill recorded as of December 31, 2015. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows (that may reflect collateral values), market conditions and other future events that are highly subjective in nature and may require adjustments, which can be updated throughout the year following the acquisition. Subsequent to the acquisition, management continued to review information relating to events or circumstances existing at the acquisition date. This review resulted in adjustments to the acquisition date valuation amounts, which decreased the goodwill balance to $656.8 million. $367.0 million of the goodwill balance is associated with the Consumer and Community Banking business segment. The remaining goodwill was allocated to the Commercial Finance and Commercial Real Estate reporting units in Commercial Banking.

Once goodwill has been assigned, it no longer retains its association with a particular event or acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of goodwill.



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

# Item 3. Quantitative and Qualitative Disclosures about Market Risk

## BACKGROUND

CIT Group Inc., together with its subsidiaries (collectively 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 nearly $60 billion of earning assets at March 31, 2016. CIT is a bank holding company ( BHC ) and a financial holding company ( FHC ). Through its bank subsidiary, CIT Bank, N.A., CIT provides a full range of banking and related services to commercial and individual customers through 70 branches located in southern California, through its online banking, and through other offices in the U.S. and internationally.

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, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury ( OCC ). Prior to the OneWest Transaction, CIT Bank was regulated by the Federal Deposit Insurance Corporation ( FDIC ) and the Utah Department of Financial Institutions ( UDFI ).

Effective as of August 3, 2015, CIT Group Inc. ( CIT ) acquired IMB HoldCo LLC ( IMB ), the parent company of OneWest Bank, National Association, a national bank ( OneWest Bank ). Upon acquisition, CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank (the OneWest Transaction ), with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association ( CIT Bank, N.A. ). Note 2 Acquisitions and Disposition Activities in *Item 1. Consolidated Financial Statements* summarizes the acquisition of OneWest Bank; however, see our Annual Report on Form 10-K for the year ended December 31, 2015, *Note 2 Acquisition and Disposition Activities* in Item 8. Financial Statements and Supplementary Data for details on the assets acquired and liabilities assumed, along with the assumptions used to value those assets and liabilities.

The consolidated financial statements include the effects of preliminary Purchase Accounting Adjustments ( PAA ) upon completion of the OneWest Transaction, as required by U.S. GAAP. Accretion and amortization of certain PAA are included in the consolidated Statements of Income, primarily impacting Net Finance Revenue (Interest income and interest expense) and Non-interest expenses.

*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 is included in Part 1 *Item 1. Business Overview* of our Annual Report on Form 10-K for the year ended December 31, 2015.

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 financial measures to comparable financial measures based on U.S. GAAP.

**SEGMENT UPDATES**

We changed our segment reporting effective January 1, 2016, following the previously announced reorganized management structure. CIT manages its business and reports its financial results in four operating segments: Commercial Banking, Transportation Finance, Consumer and Community Banking, and Non-Strategic Portfolios ( NSP ), and a fifth non-operating segment, Corporate and Other.

The following summarizes changes to our segment presentation from December 31, 2015:

- Commercial Banking (formerly North America Banking, or NAB ) no longer includes the Consumer Banking division or the Canadian lending and equipment finance business. Commercial Banking is comprised of three divisions, Commercial Finance, Real Estate Finance, and Business Capital. Business Capital includes the former Equipment Finance and Commercial Services divisions.

- Transportation Finance (formerly Transportation & International Finance or TIF ) no longer includes the China and the U.K. businesses. Transportation Finance is comprised of three divisions, Aerospace, Rail, and Maritime Finance.

- Consumer and Community Banking is a new segment that includes Legacy Consumer Mortgages (the former LCM segment) and other banking divisions that were included in the former NAB segment (Consumer Banking, Mortgage Lending, Wealth Management, and SBA Lending).

- NSP includes businesses that we no longer consider strategic, including those in Canada and China and the recently exited U.K., that had been included in the former NAB and TIF segments. Historic data will also include other businesses and portfolios that have been sold, such as Mexico and Brazil.



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All prior period comparisons are conformed to the current period presentation.

**SUMMARY OF 2016 FINANCIAL RESULTS**

As discussed briefly below and in more detail in various sections, our 2016 results reflected increased business compared to the prior-year quarter, which was driven by the inclusion of OneWest Bank activity. Where helpful, to more fully understand our operating results, we have included comparisons to the prior quarter in addition to the prior-year quarter.

***Net income*** was $147 million, $0.73 per diluted share for the first quarter of 2016, compared to net income of $104 million, $0.59 per diluted share, for the year-ago quarter, which reflects results prior to the acquisition of OneWest Bank, and $145 million, $0.72 per diluted share in the prior quarter. Income from continuing operations for the first quarter was $152 million, $0.75 per diluted share compared to $104 million, $0.59 per diluted share in the year-ago quarter and $151 million, $0.75 per diluted share in the prior quarter.

Income from continuing operations includes net after-tax benefits of $4 million from discrete items related to our strategic initiatives. Discrete items include benefits from the sale of the U.K. Equipment Finance platform and a discrete tax item related to an international portfolio previously sold, which were partially offset by restructuring charges resulting from operating expense reduction initiatives, an impairment on the Non-Strategic Portfolio and currency translation adjustment ( CTA ) charges. In addition to these items, income this quarter included higher credit

loss provisions for the oil and gas, and maritime portfolios which were partially offset by a mark-to-market benefit on the total return swap ( TRS ).

***Income from continuing operations, before provision for income taxes*** totaled $204 million, up from $148 million for the prior-year quarter and $141 million in the prior quarter. Pre-tax income for 2016 reflected higher other income, partially offset by higher credit costs.

***Net finance revenue***[(1)] ( NFR ) was $553 million in the current quarter, compared to $337 million in the prior-year quarter and $528 million in the prior quarter. Average earning assets were essentially flat compared to the prior quarter reflecting growth in Rail, Commercial Finance, Business Capital and other consumer mortgage lending portfolios, offset by run-off in the Legacy Consumer Mortgage portfolio and the sale of the U.K. Equipment Finance business. The increase in NFR and average earning assets from the prior-year quarter reflects the acquisition of OneWest Bank. Net finance revenue as a percentage of average earning assets ( net finance margin or NFM ) increased from both the prior-year and prior quarters. The increase from the prior-year quarter reflects the benefits from the OneWest Bank acquisition. The increase from the prior quarter was driven by lower maintenance and other operating lease costs and higher collections on remarketed aircraft and loan prepayments in Transportation Finance offset by change in mix of assets resulting from the run off or sale of higher yielding assets.

***Provision for credit losses*** of $99 million increased over both the prior-year and prior quarters and includes $31 million related to the energy portfolio, $14 million related to the maritime portfolio and charge-offs of $11 million related to two loans in the Aerospace loan portfolio.

***Credit metrics*** reflect non-accrual loans of $295 million increased over both the prior-year and prior quarters, primarily due to increases in the energy portfolio. Net charge-offs were $51 million, increased over both the prior-year and prior quarters. Excluding the impact relating to assets transferred to held for sale in all periods, net charge-offs were $42 million (0.53% of average finance receivables), compared to $10 million (0.20%) in the prior-year quarter and $13 million (0.16%) in the prior quarter. The current quarter net charge offs includes $15 million in the energy (oil and gas) portfolio and $11 million related to two Aerospace loans.

***Other income*** of $101 million was up from $86 million in the prior-year quarter and $30 million in the prior quarter and included episodic items, such as approximately $10 million of net benefits from international business exits and an $18 million benefit from the mark-to-market on the TRS. The prior quarter included a loss on the sale of the Brazil platform primarily related to the recognition of $51 million of CTA losses.

***Operating expenses*** were $349 million, $242 million and $358 million in the current quarter, prior-year quarter and prior quarter, respectively. Operating expenses excluding restructuring costs and intangible asset amortization[(2)] were $322 million in the current quarter reflecting the sale of Non-Strategic Portfolios and the streamlining of the management structure. These benefits were partially offset by annual benefit restarts and costs associated with the strategic initiatives, primarily costs associated with the OneWest Bank integration and the Commercial Air separation. The prior quarter reflected lower compensation and benefits from adjusting accruals related to incentive compensation and changes to benefit plans. The increase from the prior year reflects the addition of OneWest Bank. The net efficiency ratio[(3)] improved to 49% reflecting higher other income and net finance revenue, partially offset by higher operating expenses. Headcount at March 31, 2016 was 4,740, up from 3,360 a year-ago due to the OneWest addition and down from 4,900 in the prior quarter, reflecting strategic initiatives. Restructuring costs this quarter relate to strategic initiatives to reduce operating expenses, while the amortization of intangibles is primarily due to the OneWest Bank acquisition.

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[(1)] *Net finance revenue and average earning assets are non-GAAP measures; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.*

[(2)] *Operating expenses excluding restructuring costs and intangible asset amortization is a non-GAAP measure; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.*

[(3)] *Net efficiency ratio is a non-GAAP measure. See Non-GAAP Measurements for reconciliation of non-GAAP to GAAP financial information.*



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***Provision for income taxes*** of $53 million for the quarter included a $14 million discrete tax benefit from the resolution of a tax position on an international portfolio that had been previously sold. The prior quarter was an income tax benefit of $10 million reflecting $15 million in

discrete benefits from the resolution of a tax position on an international portfolio previously sold and included a positive impact from the year-end true up to reflect the full year actual geographic mix of earnings. The current effective tax rate was 26% and excluding discrete items was 31% for the quarter. Cash taxes were minimal compared to net payments of $14 million in the prior-year quarter and net receipts of $17 million in the prior quarter.

***Total assets of continuing operations***[(4)] at March 31, 2016 were $66.6 billion, down slightly from $66.9 billion at December 31, 2015.

- *Financing and leasing assets* ( FLA ), which includes loans, operating lease equipment and assets held for sale ( AHFS ), were essentially flat at $50.3 billion compared to December 31, 2015 as the 2% growth in Commercial Banking, along with an increase in certain consumer portfolios, was offset by sales and run-off in the Non-Strategic Portfolios and loans in Legacy Consumer Mortgages.

- *Cash (cash and due from banks* and *interest bearing deposits)* totaled $8.1 billion, down slightly from $8.3 billion at December 31, 2015.

- *Investment securities* totaled $2.9 billion, essentially flat compared to December 31, 2015.

***Deposits*** increased slightly to $32.9 billion from December 31, 2015. The proportion of business funded by deposits was similarly up.

***Borrowings*** were $18.0 billion, down from $18.4 billion at December 31, 2015, mostly reflecting repayments on secured borrowings, along with modest repurchases of unsecured borrowings.

***Capital ratios*** remain well above required levels. All regulatory capital ratios increased from the prior quarter resulting from current period earnings and a reduction in risk weighted assets reflecting the mix of assets while the decline from the prior-year quarter reflects the acquisition of OneWest Bank.

**2016 PRIORITIES**

CIT is committed to positioning the Company to deliver long-term value for shareholders while maintaining a strong risk management culture. CIT s strategic priorities to advance its transition to a leading national middle market bank include:

1. **Focusing on Core Businesses:** Invest in growth and strengthen its capabilities with respect to its primary lending, leasing, and depository solutions for small business and middle market customers while we:

n Complete the separation of the Commercial Air business by the end of 2016;

n Complete the sales of the Canada and China businesses; and

n Complete the integration of OneWest Bank by year end.

2. **Improve Profitability and Return Capital:** Achieve a return on tangible common equity (ROTCE) of 10 percent by 2018 by executing on initiatives to:

n Reduce operating expenses by $125 million by 2018;

n Optimize the size of the BHC and improve funding costs by growing its deposit base and transitioning the deposit mix to lower cost deposits;

n Increase net revenue by building out the investment portfolio; and

n Return excess capital to shareholders, subject to regulatory approvals.

3. **Maintain Strong Risk Management:** The improvement in CIT s credit ratings reflects the strength of its franchises, robust liquidity and capital positions, and the expansion and diversification of deposit funding. Additionally:

n Maintain strong underwriting standards with focus on appropriate risk adjusted returns throughout cycles and leverage expertise as an asset-backed lender; and

- Maintain its culture of compliance and integrity.

During the quarter, we made advances on the above priorities:

- We closed the sale of the U.K. equipment finance business;
- We continued the separation process of the Commercial Air business;
- We continued to evaluate our businesses for alignment with our strategy to become a leading national middle market bank and transferred international business air to assets held for sale;
- We continued to review expenses and operating efficiencies, which resulted in additional organizational streamlining, which will lead to future cost savings; and
- We maintained our strong regulatory capital ratios.

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[4] *Total assets from continuing operations is a non-GAAP measure. See Non-GAAP Measurements for reconciliation of non-GAAP financial information.*



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## DISCONTINUED OPERATION

**Reverse Mortgage Servicing**

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired with the OneWest Transaction. Pursuant to ASC 205-20, as amended by ASU 2014-08, the Financial Freedom business is reflected as discontinued operations as of the August 3, 2015 acquisition date and as of March 31, 2016. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The assets of discontinued operations include loans of approximately $435 million at March 31, 2016, primarily Home Equity Conversion Mortgage ( HECM ) loans, and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for Fannie Mae, secured borrowings and contingent liabilities. In addition, continuing operations includes a portfolio of reverse mortgages of $897 million at March 31, 2016, which are in the Consumer and Community Banking segment and are serviced by Financial Freedom.

Further details of the discontinued business, along with condensed balance sheet and income statement items are included in *Note 2 Acquisition and Disposition Activities* in *Item 1. Consolidated Financial Statements*. See also *Note 15 Contingencies* for discussion related to the servicing business.

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

## NET FINANCE REVENUE

The following tables present management s view of consolidated NFR.

**Net Finance Revenue**[(1)] (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| Interest income | $ 495.4 | $ 510.4 | $ 281.0 |
| Rental income on operating leases | 575.4 | 550.9 | 530.6 |
| Finance revenue | 1,070.8 | 1,061.3 | 811.6 |
| Interest expense | (286.4) | (286.7) | (271.3) |
| Depreciation on operating lease equipment | (175.3) | (166.8) | (156.8) |
| Maintenance and other operating lease expenses | (56.2) | (79.6) | (46.1) |
| Net finance revenue | $ 552.9 | $ 528.2 | $ 337.4 |
| Average Earning Assets ( AEA ) | $59,206.4 | $59,141.4 | $41,841.1 |
| Net finance margin | 3.74% | 3.57% | 3.23% |

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(1) *NFR and AEA are non-GAAP measures; see Non-GAAP Financial Measurements sections for a reconciliation of non-GAAP to GAAP financial information.*

NFR and NFM are key metrics used by management to measure the profitability of our earning assets. NFR includes interest and yield-related fee income on our loans and capital leases, rental income on our operating lease equipment, and interest and dividend income on cash and investments, less funding costs and depreciation, maintenance and other operating lease expenses from our operating lease equipment. Since our asset composition includes a high level of operating lease equipment (28% of AEA for the quarter ended March 31, 2016), 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, maintenance and other operating lease expenses) from operating leases.



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The following table includes average balances from revenue generating assets along with the respective revenues and average balances of deposits and borrowings with the respective interest expenses.

**Average Balances and Rates[1] for the quarters ended** (dollars in millions)

| | March 31, 2016 | | | December 31, 2015 | | | Marc | |
|---|---|---|---|---|---|---|---|---|
| | Average Balance | Revenue / Expense | Average Rate (%) | Average Balance | Revenue / Expense | Average Rate (%) | Average Balance | R |
| Interest bearing deposits | $ 7,114.0 | $ 8.4 | 0.47% | $ 6,671.6 | $ 5.3 | 0.32% | $ 5,951.6 | |
| Securities purchased under agreements to | | | | 25.0 | | | 575.0 | |

| | March 31, 2016 | | | December 31, 2015 | | | Marc |
|---|---|---|---|---|---|---|---|
| resell | | | | | | | |
| Investment securities | 2,923.5 | 22.5 | 3.08% | 3,334.9 | 25.0 | 3.00% | 1,497.2 |
| Loans (including held for sale and credit balances of factoring clients)(2)(3) | 32,045.0 | 467.6 | 5.84% | 32,590.6 | 480.9 | 5.90% | 18,642.1 |
| Operating lease equipment, net (including held for sale)(4) | 16,721.3 | 343.9 | 8.23% | 16,073.4 | 304.5 | 7.58% | 15,189.5 |
| Indemnification assets | 401.7 | (3.1 ) | (3.09)% | 445.8 | (0.8 ) | (0.72)% | |
| Average earning assets(2) | $59,205.5 | 839.3 | 5.67% | $59,141.3 | 814.9 | 5.51% | $41,855.4 |
| Deposits | $31,829.1 | $ 99.5 | 1.25% | $31,538.3 | $ 99.2 | 1.26% | $16,275.6 |
| Borrowings | 18,210.4 | 186.9 | 4.11 % | 18,805.9 | 187.5 | 3.99 % | 17,477.4 |
| Total interest-bearing liabilities | $50,039.5 | 286.4 | 2.29% | $50,344.2 | 286.7 | 2.28% | $33,753.0 |
| NFR and NFM | | $552.9 | 3.74% | | $528.2 | 3.57% | |

| | March 2016 Over December 2015 Comparison | | | March 2016 Over March 2015 Comparison | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) Due To Change In: | | | Increase (Decrease) Due To Change In: | | |
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest bearing deposits | $ 0.5 | $ 2.6 | $ 3.1 | $ 1.4 | $ 3.0 | $ 4.4 |
| Securities purchased under agreements to resell | | | | | (0.7) | (0.7) |
| Investments | (3.2) | 0.7 | (2.5) | 11.0 | 7.6 | 18.6 |
| Loans (including held for sale and net of credit balances of factoring clients)(2)(3) | (8.0) | (5.3) | (13.3) | 195.7 | (0.5) | 195.2 |
| Operating lease equipment, net (including held for sale)(4) | 13.3 | 26.1 | 39.4 | 31.5 | (15.3) | 16.2 |
| Indemnification assets | 0.3 | (2.6) | (2.3) | (3.1) | | (3.1) |
| Total earning assets | $ 2.9 | $21.5 | $ 24.4 | $236.5 | $ (5.9) | $230.6 |
| Deposits | $ 0.9 | $ (0.6) | $ 0.3 | $ 48.6 | $(18.1) | $ 30.5 |
| Borrowings | (6.1) | 5.5 | (0.6) | 7.5 | (22.9) | (15.4) |

| | March 2016 Over December 2015 Comparison | | | March 2016 Over March 2015 Comparison | | |
|---|---|---|---|---|---|---|
| Total interest-bearing liabilities | $ (5.2) | $ 4.9 | $ (0.3) | $ 56.1 | $(41.0) | $ 15.1 |

(1) *Average rates are impacted by PAA accretion and amortization.*

(2) *The balance and 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.*

The increase in average earning assets from the year-ago quarter reflects the acquisition of OneWest Bank. Average earning assets were essentially flat compared to the prior quarter reflecting growth in Rail, Commercial Finance, Business Capital and other consumer mortgage lending portfolios offset by run-off in the Legacy Consumer Mortgage portfolio and the sale of the U.K. equipment finance business. Compared to the prior-year quarter, finance revenues increased 32%, generated by the higher AEA and accretion of $66 million resulting from the fair value discount on earning assets recorded for purchase accounting, along with new business volume. Finance revenues were up slightly from the prior quarter on higher rental revenue on operating lease equipment. The yield on AEA of 5.67% was down from the prior-year quarter, driven by the continued low rate environment and an increased mix of low yielding cash and securities stemming from the OneWest Bank acquisition. Interest on loans was flat at 5.84%, reflecting the benefit from accretion of purchase accounting adjustments as a result of the





acquisition that offset continued yield compression in certain loan classes, as well as lower interest recoveries and lower prepayments. Compared to the prior quarter, the yield on AEA of 5.67% was up from 5.51%, mostly driven by the lower maintenance and other operating lease expenses, which improved the yield on operating lease equipment. We continued to grow our operating lease portfolio, which primarily consists of transportation related assets, aircraft and railcars, resulting in the higher average balance. Operating lease revenues and yields are discussed later in this section. Revenues generated on our cash deposits and investments are indicative of the existing low rate environment and were not significant in any of the periods. Revenues on cash deposits and investments have grown compared to the prior-year quarter as the investments from the OneWest Bank acquisition, mostly MBSs, carry a higher rate of return than the previously owned investment portfolio and include a purchase accounting adjustment that accretes into income, thus increasing the yield.

Compared to the prior-year quarter, the increase in average interest bearing liabilities reflects the deposits acquired, along with growth, and the acquired borrowings, essentially all FHLB advances. While interest expense was up modestly in amount, the overall rate as a % of AEA was down due to the higher percentage of AEA being funded by deposits, along with lower rates in nearly all deposit and borrowing categories and a higher mix of low cost deposits. Compared to the prior quarter, interest expense and average balances were essentially flat. Interest expense for the current and prior quarters was reduced by $6 million each, reflecting the accretion of purchase accounting adjustments on borrowings and deposits. Interest expense on deposits was up from the prior-year quarter, driven by the higher balances and partially offset by a net benefit from purchase accounting accretion. The decline in rate was the result of the lower cost deposits from OneWest Bank. Interest expense on borrowings is a function of the products and was mostly impacted by the OneWest Bank acquisition, which increased FHLB advances. FHLB advances had lower rates than our average borrowings in the prior-year quarter, thus reducing the average rate. The increase in rate on borrowings from the prior quarter reflects borrowings mix, as secured borrowings were down slightly, which carry a lower rate than unsecured.

The composition of our funding was significantly impacted by the OneWest Bank acquisition in 2015. At March 31, 2016, December 31, 2015, and March 31, 2015 our funding mix was as follows:

**Borrowing Mix**

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|---|---|---|---|
| Deposits | 65% | 64% | 50% |
| Unsecured | 21% | 21% | 32% |
| Secured Borrowings: | | | |
| Structured financings | 8% | 9% | 18% |
| FHLB Advances | 6% | 6% | 0% |

These proportions will fluctuate in the future depending upon our funding activities.

The following table details further the rates of interest bearing liabilities.

**Average Balances and Rates** (dollars in millions)

| | Quarter Ended March 31, 2016 | | | Quarter Ended December 31, 2015 | | | Quarter Ended March 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Expense | Rate % | Average Balance | Interest Expense | Rate % | Average Balance | Interest Expense | Rate % |
| **Deposits** | | | | | | | | | |
| CDs | $18,341.8 | $ 73.6 | 1.61% | $18,166.9 | $ 73.3 | 1.61% | $10,411.6 | 54.5 | 2.09% |
| Interest-bearing checking | 3,069.1 | 4.0 | 0.52% | 3,161.9 | 4.1 | 0.52% | | | |
| Savings | 4,801.1 | 10.9 | 0.91% | 4,753.7 | 11.5 | 0.97% | 3,986.8 | 9.8 | 0.98% |
| Money markets | 5,617.1 | 11.2 | 0.80% | 5,455.8 | 10.6 | 0.78% | 1,877.1 | 4.8 | 1.02% |
| Total deposits[1] | 31,829.1 | 99.7 | 1.25% | 31,538.3 | 99.5 | 1.26% | 16,275.5 | 69.1 | 1.70% |
| **Borrowings** | | | | | | | | | |
| Unsecured notes | 10,615.5 | 138.0 | 5.20% | 10,646.3 | 138.1 | 5.19% | 11,278.9 | 145.8 | 5.17% |
| Secured borrowings | 4,478.0 | 43.5 | 3.89% | 4,991.3 | 45.6 | 3.66% | 5,985.9 | 56.3 | 3.76% |
| FHLB advances | 3,116.9 | 5.4 | 0.69% | 3,168.3 | 3.8 | 0.48% | 212.7 | 0.2 | 0.38% |
| Total borrowings | 18,210.4 | 186.9 | 4.11% | 18,805.9 | 187.5 | 3.99% | 17,477.5 | 202.3 | 4.63% |
| Total interest-bearing liabilities | $50,039.5 | $286.6 | 2.29% | $50,344.2 | $287.0 | 2.28% | $33,753.0 | $271.4 | 3.22% |

(1) *Excludes certain deposits such as escrow accounts, security deposits, and other similar accounts, therefore totals may differ from other average balances included in this document.*

Deposits and borrowings are also discussed in *Funding and Liquidity*. See *Select Financial Data (Average Balances)* section for more information on borrowing rates.

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The following table depicts selected earning asset yields and margin related data for our segments, plus select divisions within the segments.

**Average Yield and Other Data** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| **Commercial Banking** | | | |
| AEA | $20,727.0 | $20,944.0 | $14,356.5 |
| NFR | 220.6 | 224.4 | 122.4 |
| Gross yield | 6.06% | 5.95% | 5.69% |
| NFM | 4.26% | 4.29% | 3.41% |
| **AEA** | | | |
| Commercial Finance | $ 9,545.4 | $ 9,979.3 | $ 6,706.4 |
| Real Estate Finance | 5,334.6 | 5,159.2 | 1,777.7 |
| Business Capital | 5,847.0 | 5,805.5 | 5,872.4 |
| **Gross yield** | | | |
| Commercial Finance | 5.03% | 5.08% | 4.41% |
| Real Estate Finance | 5.44% | 5.23% | 3.94% |
| Business Capital | 8.32% | 8.07% | 7.69% |
| **NFR** | | | |
| Commercial Finance | $ 90.6 | $ 98.5 | $ 44.0 |
| Real Estate Finance | 54.4 | 51.4 | 10.0 |
| Business Capital | 75.6 | 74.5 | 68.4 |
| **NFM** | | | |
| Commercial Finance | 3.80% | 3.95% | 2.62% |
| Real Estate Finance | 4.08% | 3.99% | 2.25% |
| Business Capital | 5.17% | 5.13% | 4.66% |
| **Transportation Finance** | | | |
| AEA | $20,619.5 | $19,784.2 | $18,880.8 |
| NFR | 237.6 | 197.0 | 206.7 |
| Gross yield | 11.59% | 11.48% | 11.43% |
| NFM | 4.61% | 3.98% | 4.38% |
| **AEA** | | | |
| Aerospace | $12,050.9 | $11,594.3 | $11,907.7 |
| Rail | 6,882.4 | 6,599.3 | 5,923.9 |
| Maritime Finance | 1,686.2 | 1,590.6 | 1,049.2 |
| **Gross yield** | | | |
| Aerospace | 11.18% | 11.07% | 10.41% |
| Rail | 13.73% | 13.71% | 14.64% |
| Maritime Finance | 5.75% | 5.24% | 5.00% |
| **NFR** | | | |
| Aerospace | $ 119.6 | $ 92.8 | $ 101.7 |
| Rail | 100.2 | 89.0 | 96.2 |
| Maritime Finance | 17.8 | 15.2 | 8.8 |
| **NFM** | | | |
| Aerospace | 3.97% | 3.20% | 3.42% |

| | Quarters Ended | | |
|---|---|---|---|
| Rail | 5.82% | 5.39% | 6.50% |
| Maritime Finance | 4.22% | 3.82% | 3.35% |



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**Average Yield and Other Data** (dollars in millions) (continued)

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| **Consumer and Community Banking** | | | |
| AEA | $7,757.8 | $7,845.9 | $ |
| NFR | 94.3 | 96.3 | |
| Gross yield | 5.32% | 5.58% | |
| NFM | 4.86% | 4.91% | |
| **AEA** | | | |
| Other Consumer Banking | $1,941.8 | $1,840.5 | $ |
| Legacy Consumer Mortgages | 5,816.0 | 6,005.4 | |
| **Gross yield** | | | |
| Other Consumer Banking | 3.65% | 3.78% | |
| Legacy Consumer Mortgages | 5.87% | 6.13% | |
| **NFR** | | | |
| Other Consumer Banking | $ 34.0 | $ 28.4 | $ |
| Legacy Consumer Mortgages | 60.3 | 67.9 | |
| **NFM** | | | |
| Other Consumer Banking | 7.00% | 6.17% | |
| Legacy Consumer Mortgages | 4.15% | 4.52% | |
| **Non-Strategic Portfolios** | | | |
| AEA | $1,516.8 | $1,953.8 | $2,718.4 |
| NFR | 14.3 | 24.5 | 22.0 |
| Gross yield | 7.59% | 9.52% | 9.36% |
| NFM | 3.77% | 5.02% | 3.24% |

Gross yields (interest income plus rental income on operating leases as a % of AEA) were up in the commercial segments, Commercial Banking and Transportation Finance. Gross yields in Commercial Banking were up from the prior year and prior quarters in each of the divisions, except a slight decline in Commercial Finance compared to the prior quarter reflecting lower accretion income. Compared to the prior-year quarter, gross yields also benefited from purchase accounting accretion. Purchase accounting accretion totaled $19 million and $22 million in Commercial Finance for the current and prior quarters and $20 million and $17 million in Real Estate Finance, respectively.

Gross yields in Transportation Finance increased from the prior-year quarter as the increase in Aerospace was partially offset by a decline in gross yields in Rail, reflecting reduced utilization in energy-related railcars and lease rates on new leases below the existing portfolio. Compared to the prior quarter, yields in Aerospace and Rail benefited from lower maintenance and operating lease expenses, which were elevated last quarter. The higher yield in Maritime Finance reflects a benefit from a prepayment in the current quarter.

Consumer and Community Banking was acquired in 2015 as part of the OneWest Transaction. Therefore, there are no prior year comparisons. Gross yields were down from the prior quarter, mostly due to mortgage loans in LCM. Gross yields also benefited from purchase accounting accretion. Purchase accounting accretion totaled $27 million and $31 million for the current and prior quarters, essentially all of which is in LCM.

NSP contains run-off portfolios, and as a result, gross yields varied due to asset sales and lower balances.

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

**Net Operating Lease Data** (dollars in millions)

| | Quarters Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2016 | | December 31, 2015 | | March 31, 2015 | |
| Rental income on operating leases | $ 575.4 | 13.84% | $ 550.9 | 13.81% | $ 530.6 | 14.26% |
| Depreciation on operating lease equipment | (175.3) | (4.22)% | (166.8) | (4.18)% | (156.8) | (4.21)% |
| Maintenance and other operating lease expenses | (56.2) | (1.35)% | (79.6) | (2.00)% | (46.1) | (1.24)% |
| Net operating lease revenue and % | $ 343.9 | 8.27% | $ 304.5 | 7.63% | $ 327.7 | 8.81% |
| Average Operating Lease Equipment ( AOL ) | $ 16,634.5 | | $ 15,955.6 | | $ 14,881.1 | |

Net operating lease revenue was primarily generated from the commercial air and rail portfolios. Net operating lease revenue was up compared to the prior-year and prior quarters, as the benefit from growth in the portfolio offset lower rates and lower utilization. In addition, maintenance and other operating lease expenses was down from the elevated level in the prior quarter, due to lower levels of equipment returns.



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Aircraft utilization remains strong, with all equipment either leased or under a commitment at year-end, and all but two of the 17 aircraft scheduled for delivery in the next twelve months have lease commitments. Rail utilization declined to 94% from 96% at December 31, 2015, reflecting pressures in demand for cars that transport crude, coal and steel, a trend that is expected to continue and approximately 40% of the total railcar order-book has lease commitments.

Depreciation on operating lease equipment mostly reflects transportation equipment balances and includes amounts related to impairments on equipment in the portfolio. Depreciation expense as a percentage of AOL was fairly constant in the presented quarters. Once a long-lived asset is classified as AHFS, 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 AHFS, but there is no related depreciation expense. The amount of suspended depreciation on operating lease equipment in AHFS totaled $3 million, $8 million and $3 million for the current, prior-year and prior quarters, respectively. Operating lease equipment in AHFS totaled $145 million at March 31, 2016, $93 million at December 31, 2015, and $279 million at March 31, 2015.

Maintenance and other operating lease expenses primarily relate to the rail portfolio and to a lesser extent aircraft re-leasing. Maintenance and other operating lease expenses was up compared to the prior-year quarter reflecting increased maintenance, freight and storage costs in rail and growth in the portfolios, and down from the prior quarter, which included elevated transition costs on several aircraft.

The factors noted above affecting rental income, depreciation, and maintenance and other operating lease expenses drove the net operating lease revenue as a percent of AOL.

Upon emergence from bankruptcy in 2009, CIT applied Fresh Start Accounting ( FSA ) in accordance with GAAP. The most significant remaining discount at March 31, 2016, related to operating lease equipment ($1.3 billion related to rail operating lease equipment and $0.5 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.

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

## CREDIT METRICS

During the quarter ended March 31, 2016, our non-accrual loans increased and we recorded higher charge-offs. Thus, our provision for credit losses increased, and our allowance for loan losses grew.

Non-accrual loans of $295 million (0.94% of finance receivables) increased over December 31, 2015, primarily due to increases in the energy portfolio. If market conditions remain unchanged, the portfolio will likely experience additional downward credit migration. Non-accruals are presented in a table and discussed later in this section.

The provision for credit losses reflects loss adjustments related to loans recorded at amortized cost, off-balance sheet commitments, and related reimbursements under indemnification agreements. The provision for credit losses of $99 million increased over both the prior and year-ago quarters and includes $31 million related to the energy portfolio, $14 million related to the maritime portfolio and discrete charge-offs of $11 million in the Aerospace loan portfolio.

Net charge-offs of $51 million (0.65% of average finance receivables ( AFR )) in the current quarter included $9 million of receivables transferred to AHFS, mostly related to business aircraft. Excluding assets transferred to held for sale, net charge-offs were $42 million (0.53% of AFR), up from $13 million (0.16%) in the prior quarter and $10 million (0.20%) in the year-ago quarter. The current quarter net charge offs includes $15 million in the energy (oil and gas) portfolio and $11 million related to two Aerospace loans. Recoveries of $5 million were down slightly from the prior and year-ago quarters. Net charge-offs are presented in a table and discussed later in this section.



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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** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| **Allowance beginning of period** | $360.2 | $335.0 | $346.4 |
| Provision for credit losses(1) | 99.3 | 57.6 | 34.6 |
| Other(1) | (3.6) | (0.5) | (3.6) |
| Net additions | 95.7 | 57.1 | 31.0 |
| Gross charge-offs(2) | (56.1) | (37.8) | (26.6) |
| Recoveries | 4.8 | 5.9 | 5.7 |
| Net Charge-offs | (51.3) | (31.9) | (20.9) |
| **Allowance end of period** | $404.6 | $360.2 | $356.5 |
| **Provision for credit losses** | | | |
| Specific reserves on impaired loans | $ 21.8 | $ 0.9 | $ 2.4 |

| | Quarters Ended | | |
|---|---|---|---|
| Non-specific reserves | 26.2 | 24.8 | 11.3 |
| Net charge-offs | 51.3 | 31.9 | 20.9 |
| Total | $ 99.3 | $ 57.6 | $ 34.6 |
| **Allowance for loan losses** | | | |
| Specific reserves on impaired loans | $ 40.2 | $ 27.8 | $ 14.8 |
| Non-specific reserves | 364.4 | 332.4 | 341.7 |
| Total | $404.6 | $360.2 | $356.5 |
| **Ratio** | | | |
| Allowance for loan losses as a percentage of total loans | 1.29% | 1.14% | 1.83% |
| Allowance for loan losses as a percent of finance receivable/Commercial | 1.61% | 1.43% | 1.83% |
| Allowance for loan losses plus principal loss discount as a percent of finance receivables (before the principal loss discount)/Commercial | 1.87% | 1.79% | 1.83% |
| Allowance for loan losses plus principal loss discount as a percent of finance receivables (before the principal loss discount)/Consumer | 7.86% | 8.62% | |

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(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.*

(2) *Gross charge-offs of $9 million, $19 million and $11 million for the quarters ended March 31, 2016, December 31, 2015 and March 31, 2015, respectively, related to the transfer of receivables to AHFS.*

The allowance for loan losses was $405 million (1.29% of finance receivables, 1.52% excluding loans subject to loss sharing agreements with the FDIC) at March 31, 2016, compared to $360 million (1.14% of finance receivables, 1.35% excluding loans subject to loss sharing agreements with the FDIC) at December 31, 2015 and $357 million (1.83% of finance receivables) at March 31, 2015. The increase from the prior and year-ago quarters is concentrated in the energy and maritime portfolios, although there were also modest increases across other industries. Including the impact of the principal loss discount on credit impaired loans, which is essentially a reserve for credit losses on the discounted loans, the commercial loan allowance to finance receivables was 1.87% compared to 1.79% at December 31, 2015. The consumer loans ratio was 7.86% at March 31, 2016 and 8.62% at December 31, 2015, respectively, as most of the consumer loans purchased were credit impaired and are partially covered by loss sharing agreements with the FDIC. The decrease over prior quarter is driven by the shift in asset mix as new originations offset the run-off of the purchased credit impaired portfolio.

In addition, we continuously update the allowance as we monitor credit quality within industry sectors. For instance, industry pressures in the energy and maritime sectors resulted in a reserve build in both portfolios. CIT s loans to the oil and gas industry totaled $0.9 billion or 3% of total loans at March 31, 2016 of which 42% are criticized. The portfolio has loss coverage of 12% of the principal balance, reflecting the purchase accounting discount for loans acquired from OneWest Bank and the allowance for loan losses. If market conditions remain the same, the portfolio will likely experience additional downward credit migration. The impact of lower oil and natural gas prices on the energy related sectors of Rail are reflected in lower utilization rates and lease rates for tank cars, sand cars and coal cars, not in non-accrual loans, provision for credit losses, or net charge-offs, since it is primarily an operating lease portfolio, not a loan portfolio.



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**Loan Net Carrying Value** (dollars in millions)

| | Finance Receivables | Allowance for Loan Losses | Net Carrying Value |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **March 31, 2016** | | | |
| Commercial Banking | $21,437.2 | $(347.1) | $21,090.1 |
| Transportation Finance | 2,786.7 | (42.7) | 2,744.0 |
| Consumer and Community Banking | 7,184.7 | (14.8) | 7,169.9 |
| Total | $31,408.6 | $(404.6) | $31,004.0 |
| **December 31, 2015** | | | |
| Commercial Banking | $20,929.2 | $(310.5) | $20,618.7 |
| Transportation Finance | 3,542.1 | (39.4) | 3,502.7 |
| Consumer and Community Banking | 7,200.4 | (10.3) | 7,190.1 |
| Total | $31,671.7 | $(360.2) | $31,311.5 |

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

**Net Charge-offs** (dollars in millions)

| | Quarters Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2016 | | December 31, 2015 | | March 31, 2015 | |
| **Gross Charge-offs** | | | | | | |
| Aerospace | $ 19.3 | 5.00 % | $ 0.9 | 0.21 % | $ | |
| Maritime | 0.3 | 0.07 % | | | | |
| **Transportation Finance**[1] | 19.6 | 2.35 % | 0.9 | 0.10 % | | |
| Commercial Finance | 16.1 | 0.70 % | 25.1 | 1.05 % | 10.9 | 0.66 % |
| Real Estate Finance | 1.5 | 0.11 % | | | | |
| Business Capital | 18.2 | 1.11 % | 11.9 | 0.71 % | 11.7 | 0.71 % |
| **Commercial Banking**[2] | 35.8 | 0.68 % | 37.0 | 0.69 % | 22.6 | 0.60 % |
| Legacy Consumer Mortgages | 0.7 | 0.05 % | (0.3 ) | (0.02 )% | | |
| **Consumer and Community Banking** | 0.7 | 0.04 % | (0.3 ) | (0.02 )% | | |
| **Non-Strategic Portfolios** | | | 0.2 | NM | 4.0 | 1.10 % |
| Total | $ 56.1 | 0.71 % | $ 37.8 | 0.47 % | $ 26.6 | 0.55 % |
| **Recoveries** | | | | | | |
| Aerospace | $ | | $ 0.1 | 0.02 % | $ | |
| **Transportation Finance**[1] | | | 0.1 | | | |
| Commercial Finance | 0.5 | 0.02 % | 1.8 | 0.08 % | | |
| Business Capital | 3.5 | 0.22 % | 3.4 | 0.21 % | 3.3 | 0.20 % |
| **Commercial Banking**[2] | 4.0 | 0.08 % | 5.2 | 0.10 % | 3.3 | 0.08 % |
| Legacy Consumer Mortgages | 0.8 | 0.06 % | 0.6 | 0.04 % | | |
| **Consumer and Community Banking** | 0.8 | 0.05 % | 0.6 | 0.03 % | | |
| **Non-Strategic Portfolios** | | | | | 2.4 | 0.66 % |
| Total | $ 4.8 | 0.06 % | $ 5.9 | 0.07 % | $ 5.7 | 0.12 % |
| **Net Charge-offs** | | | | | | |
| Aerospace | $ 19.3 | 5.00 % | $ 0.8 | 0.19 % | $ | |
| Maritime | 0.3 | 0.07 % | | | | |
| **Transportation Finance**[1] | 19.6 | 2.35 % | 0.8 | 0.09 % | | |
| Commercial Finance | 15.6 | 0.68 % | 23.3 | 0.97 % | 10.9 | 0.66 % |
| Real Estate Finance | 1.5 | 0.11 % | | | | |
| Business Capital | 14.7 | 0.89 % | 8.5 | 0.50 % | 8.4 | 0.51 % |

| | Quarters Ended | | | | | |
|---|---|---|---|---|---|---|
| **Commercial Banking**[2] | 31.8 | 0.60 % | 31.8 | 0.59 % | 19.3 | 0.52 % |
| Legacy Consumer Mortgages | (0.1 ) | (0.01 )% | (0.9 ) | (0.06 )% | | |
| **Consumer and Community Banking** | (0.1 ) | (0.01 )% | (0.9 ) | (0.05 )% | | |
| **Non-Strategic Portfolios** | | | 0.2 | NM | 1.6 | 0.44 % |
| Total | $ 51.3 | 0.65 % | $ 31.9 | 0.40 % | $ 20.9 | 0.43 % |

(1) *Transportation Finance charge-offs related to the transfer of receivables to assets held for sale for the quarter ended March 31, 2016 totaled $7 million, and none in the other quarters presented.*

(2) *Commercial Banking charge-offs related to the transfer of receivables to assets held for sale for the quarters ended March 31, 2016, December 31, 2015 and March 31, 2015 totaled $2 million, $19 million and $11 million, respectively.*





Net charge-offs in the current quarter included $9 million related to the transfer of receivables to AHFS, $7 million of which was due to the international business aircraft portfolio. Net charge-offs in the prior quarter included $19 million related to the transfer of receivables to AHFS, primarily in Commercial Finance. Excluding assets transferred to held-for-sale in all periods, net charge-offs were $42 million in the quarter, primarily due to the energy portfolio in Commercial Banking and two discrete loans in Transportation Finance, compared to $10 million in the year-ago quarter and $13 million in the prior quarter.

Recoveries were down slightly from the prior-year and prior quarters. 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.

The tables below present information on non-accruing loans, which includes loans related to AHFS for each period, and when added to OREO and other repossessed assets, sums to non-performing assets. PCI loans are excluded from these tables as they are written down at acquisition to their fair value using an estimate of cashflows deemed to be collectible. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due because we expect to fully collect the new carrying values of these loans.

**Non-accrual Loans** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| **Non-accrual loans** | | |
| U.S. | $223.2 | $185.3 |
| Foreign | 71.9 | 82.4 |
| Non-accrual loans | $295.1 | $267.7 |
| **Troubled Debt Restructurings** | | |
| U.S. | $ 38.7 | $ 25.2 |
| Foreign | 5.6 | 15.0 |
| Restructured loans | $ 44.3 | $ 40.2 |
| **Accruing loans past due 90 days or more** | | |
| Accruing loans past due 90 days or more | $ 45.1 | $ 15.8 |

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Commercial Finance | $148.9 | 1.60% | $131.5 | 1.44% |

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Real Estate Finance | 7.3 | 0.14% | 3.6 | 0.07% |
| Business Capital | 59.0 | 0.87% | 56.0 | 0.86% |
| **Commercial Banking** | 215.2 | 1.00% | 191.1 | 0.91% |
| Aerospace | 21.7 | 2.10% | 15.4 | 0.87% |
| **Transportation Finance** | 21.7 | 0.78% | 15.4 | 0.43% |
| Other Consumer Lending | 0.4 | 0.02% | 0.4 | 0.02% |
| Legacy Consumer Mortgages | 6.7 | 0.13% | 4.8 | 0.09% |
| **Consumer and Community Banking** | 7.1 | 0.10% | 5.2 | 0.07% |
| **Non-Strategic Portfolios** | 51.1 | NM | 56.0 | NM |
| **Total** | $295.1 | 0.94% | $267.7 | 0.85% |

Non-accrual loans rose over the prior quarter due to additional amounts in the energy portfolio in Commercial Finance, and an increase in the business aircraft portfolio in Aerospace. Real estate owned as a result of foreclosures of secured mortgage loans was $100 million at March 31, 2016, down from $122 million at December 31, 2015, and recorded in Consumer and Community Banking.

Approximately 67% of our non-accrual accounts were paying currently compared to 61% at December 31, 2015. Our impaired loan carrying value (including PAA discount, specific reserves and charge-offs) to estimated outstanding unpaid principal balances approximated 84%, compared to 87% at December 31, 2015. For this purpose, impaired loans are comprised principally of non-accrual loans over $500,000 and TDRs.

Total delinquency (30 days or more) was 1.2% of finance receivables compared to 1.1% at December 31, 2015.



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**Forgone Interest** (dollars in millions)

| | Quarters Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | U.S. | Foreign | Total | U.S. | Foreign | Total |
| Interest revenue that would have been earned at original terms | $ 6.4 | $ 2.4 | $ 8.8 | $ 5.5 | $ 2.6 | $ 8.1 |
| Less: Interest recorded | (0.8) | (0.7) | (1.5) | (0.3) | (0.2) | (0.5) |
| Foregone interest revenue | $ 5.6 | $ 1.7 | $ 7.3 | $ 5.2 | $ 2.4 | $ 7.6 |

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.

The tables that follow reflect loan carrying values of accounts that have been modified, excluding PCI loans.

**TDR and Modifications** (dollars in millions)

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | | % Compliant | | % Compliant |
| **Troubled Debt Restructurings** | | | | |
| Deferral of principal and/or interest | $ 6.6 | 85% | $ 5.4 | 99% |
| Covenant relief and other | 37.7 | 82% | 34.8 | 88% |
| Total TDRs | $ 44.3 | 83% | $ 40.2 | 90% |
| Percent non accrual | 81% | | 63% | |
| **Modifications**[(1)] | | | | |
| Extended maturity | $ 0.2 | 100% | $ 0.2 | 100% |
| Covenant relief | 20.5 | 93% | 23.1 | 83% |
| Interest rate increase | 9.1 | 100% | 9.3 | 100% |
| Other | 417.1 | 100% | 218.4 | 100% |
| Total Modifications | $446.9 | 99% | $251.0 | 98% |
| Percent non-accrual | 20% | | 16% | |

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

***Purchased Credit-Impaired Loans ( PCI Loans )***

Loans acquired in the OneWest Transaction were recorded at estimated fair value at the time of acquisition. Credit losses were included in the determination of estimated fair value and were effectively recorded as purchase accounting discounts on loans as part of the fair value of the finance receivables. For PCI loans, a portion of the discount attributable to embedded credit losses of both principal, which we refer to as principal loss discount, and future interest was recorded as a non-accretable discount and is utilized as such losses occur. Any incremental deterioration on these loans results in incremental provisions or charge-offs. Improvements, or an increase in forecasted cash flows in excess of the non-accretable discount, reduces any allowance on the loan established after the acquisition date. Once such allowance (if any) has been reduced, the non-accretable discount is reclassified to accretable discount and is recorded as finance income over the remaining life of the account. PCI loans are not included in non-accrual loans or in past-due loans.

PCI loans, TDRs and other credit quality information is included in *Note 3 Loans* in *Item 1. Consolidated Financial Statements.*





NON-INTEREST INCOME

As presented in the following table, Non-interest Income includes Rental Income on Operating Leases and Other Income. The following discussion is on a consolidated basis; Non-interest income is also discussed in each of the individual segments in *Results By Business Segment.*

**Non-interest Income** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |

| | Quarters Ended | | |
|---|---|---|---|
| | | | |
| Rental income on operating leases | $575.4 | $550.9 | $530.6 |
| Other Income: | | | |
| Fee revenues | 32.7 | 34.7 | 22.6 |
| Factoring commissions | 26.4 | 29.1 | 29.5 |
| Gains on sales of leasing equipment | 11.2 | 16.9 | 32.0 |
| Net gain (losses) on derivatives and foreign currency exchange | 9.3 | 1.8 | (9.7) |
| Gain (loss) on OREO sales | 1.7 | (2.2) | |
| (Loss) gains on loan and portfolio sales | 0.3 | (41.3) | 6.6 |
| (Losses) gains on investments | (4.1) | (5.6) | 0.7 |
| Impairment on assets held for sale | (22.1) | (14.9) | (10.1) |
| Other revenues | 45.5 | 11.9 | 14.8 |
| Total other income | 100.9 | 30.4 | 86.4 |
| Total non-interest income | $676.3 | $581.3 | $617.0 |

Non-interest Income includes Rental Income on Operating Leases and Other Income.

*Rental income on operating leases* from equipment we lease is generated largely in the Transportation Finance segment and recognized principally 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 prior-year and prior quarter reflecting the following:

*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 that we sell, but for which we retain servicing. Fee revenue also includes banking fee products such as cash management fees and account fees.

*Factoring commissions* in the current quarter were down, reflecting lower factoring volume. Factoring volume was $5.9 billion for the current quarter, reflective of a softer retail market, a decrease from $6.5 billion in the prior-year quarter and $6.7 billion last quarter.

*Gains on sales of leasing equipment* resulted from $95 million of equipment sales in the first quarter of 2016, $438 million in the prior-year quarter, and $173 million in the prior quarter. Gains as a percentage of equipment sold, which will vary based on the type and age of equipment sold, increased from last quarter and the prior-year quarter. Gains in the year ago quarter included $9 million from sales of aircraft to the TC-CIT Aviation joint venture. There were no aircraft sold to the joint venture in the current or prior quarter. Equipment sales for the current quarter included $46 million in Commercial Banking, $38 million in Transportation Finance, mostly aircraft, and $11 million in NSP. Equipment sales for the prior-year quarter consisted of $369 million in Transportation Finance, including $362 million of aircraft, $37 million in Commercial Banking and $31 million in NSP. Equipment sales for the prior quarter included $76 million in Transportation Finance, $54 million in Commercial Banking and $43 million in NSP.

*Net gains (losses) on derivatives and foreign currency exchange* includes valuation of the derivatives within the GSI facility, which resulted in gains of $18 million in the current quarter and $1 million in the prior quarter, and losses of $1 million in the prior-year quarter. The GSI facility derivative gain in the current quarter is primarily related to widening of credit spread inputs to the fair value model.

Transactional foreign currency movements resulted in gains of $24 million in the current quarter driven by the weakening of the U.S. currency against the Canadian dollar and Euro, losses of $29 million in the prior quarter, and losses of $83 million in the prior-year quarter. The impact of these transactional foreign currency movements was offset by losses of $33 million in the current quarter, gains of $36 million in the prior quarter, and gains of $84 million in the prior-year quarter on derivatives that economically hedge foreign currency movements and other exposures.

In addition, there were no losses in the current quarter, $6 million of losses in the prior quarter and $10 million of losses in the prior-year quarter, respectively, on the realization of cumulative translation adjustment ( CTA ) amounts from accumulated other comprehensive loss due to translation adjustments related to the liquidating portfolios. As of March 31, 2016, there was approximately $5 million of CTA losses included in accumulated other comprehensive loss in the Consolidated Balance Sheet related to the Canada and China portfolios in AHFS.

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*Gain (loss) on OREO* sales reflects sales and adjustments to the carrying value of Other Real Estate Owned (OREO) assets. OREO properties were acquired in the OneWest Transaction and pertain to foreclosures in the mortgage portfolios.

*Gains (losses) on loan and portfolio sales* in the current quarter reflected $114 million of sales, with $83 million in Commercial Banking, $20 million in NSP, and $11 million in Consumer and Community Banking. The prior-year quarter sales reflected $94 million of sales, with $56 million in Commercial Banking, $23 million in Transportation Finance, and $15 million in NSP. The prior quarter sales totaled $685 million, with $577 million in Commercial Banking (reflecting an elevated sales volume as we rebalanced assets post the OneWest Bank acquisition), $75 million in NSP, $20 million in Transportation Finance, and $14 million in Consumer and Community Banking. The loss on portfolio sales for the prior quarter was significantly impacted by $48 million of losses in NSP, primarily due to realization of CTA losses related to the sales of the Brazil business.

*(Losses) gains on investments* primarily reflects sales of equity investments that were received as part of a lending transaction or, in some cases, a workout situation.

*Impairment on assets held for sale* in the current quarter includes $18 million related to the China and Canada portfolios held for sale in NSP, $2 million in Transportation Finance mainly related to the international Business Air portfolio held for sale, and $2 million in Commercial Banking. The prior quarter impairment primarily relates to Canada, U.K., China and Brazil portfolios in held for sale in NSP. The year ago quarter impairment primarily relates to the Mexico and Brazil portfolios held for sale in NSP. When an operating lease 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 *Other Expenses* for related discussion on depreciation on operating lease equipment.)

*Other revenues* in the current quarter include a gain on sale of the U.K. business of $24 million in NSP, inclusive of previously recorded CTA losses. 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 income from joint ventures.

## EXPENSES

**Non-Interest Expense** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| Depreciation on operating lease equipment | $ 175.3 | $ 166.8 | $ 156.8 |
| Maintenance and other operating lease expenses | 56.2 | 79.6 | 46.1 |
| Operating expenses: | | | |
| Compensation and benefits | 172.2 | 151.5 | 146.5 |
| Professional fees | 38.8 | 43.4 | 19.5 |
| Technology | 30.4 | 32.7 | 22.3 |
| Net occupancy expense | 18.4 | 17.9 | 9.4 |
| Advertising and marketing | 5.4 | 8.1 | 9.1 |
| Other | 56.6 | 44.0 | 35.2 |
| Operating expenses, excluding restructuring costs and intangible asset amortization | 321.8 | 297.6 | 242.0 |
| Provision for severance and facilities exiting activities | 20.3 | 53.0 | (1.0) |
| Intangible assets amortization | 6.4 | 7.2 | 0.6 |
| Total operating expenses | 348.5 | 357.8 | 241.6 |

| | Quarters Ended | | |
|---|---|---|---|
| Loss on debt extinguishments | 1.6 | 2.2 | |
| Total non-interest expenses | $581.6 | $606.4 | $444.5 |
| Headcount | 4,740 | 4,900 | 3,360 |
| Operating expenses excluding restructuring costs and intangible asset amortization as a % of AEA[(1)] | 2.17% | 2.01% | 2.31% |
| Net efficiency ratio[(2)] | 49.2% | 53.3% | 57.1% |

[(1)] *Operating expenses excluding restructuring costs and intangible asset amortization as a % of AEA is a non-GAAP measure; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.*

[(2)] *Net efficiency ratio is a non-GAAP measurement used by management to measure operating expenses (before restructuring costs and intangible amortization) to the level of total net revenues. See Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.*



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*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 Transportation Finance 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. The trend of increasing depreciation expense reflects the growing portfolio of operating lease equipment. 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* primarily relate to equipment ownership and leasing costs in Transportation Finance. The majority of the maintenance expenses are related to the railcar fleet, while the majority of operating lease expenses are related to aircraft. CIT Rail provides railcars primarily pursuant to full-service lease contracts under which CIT Rail as lessor is responsible for railcar maintenance and repair. Maintenance expenses on railcars decreased from prior quarter on lower costs associated with Railroad Interchange repair expenses.

Under our aircraft leases, the lessee is generally responsible for normal maintenance and repairs, airframe and engine 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. Costs decreased sequentially as the prior quarter included a few aircraft that required higher transition costs for re-lease.

*Operating expenses* decreased from the prior quarter and was impacted by lower severance costs and increased employee costs from the annual restart of certain benefit costs at the beginning of each year. Operating expenses increased from the prior-year quarter mostly due to the August 2015 OneWest Bank acquisition. Exclusive of intangible amortization and restructuring charges, operating expenses were $322 million and include approximately $10 million related to the ongoing integration of OneWest and the separation of Commercial Air. We expect costs related to our strategic initiatives (namely the OneWest Bank integration and the Commercial Air separation) to increase this year and be offset by savings from our cost reduction initiatives.

Operating expenses reflect the following changes:

n Compensation and benefits increased from the prior-year quarter, reflecting the impact of the additional employees associated with the OneWest Bank acquisition. The sequential increase reflects the annual restart of certain employee benefit costs at the beginning of each year, such as FICA, and costs associated with deferred incentive compensation for retirement eligible employees.

n

Professional fees include legal and other professional fees, such as tax, audit, and consulting services. The current quarter includes costs related to strategic initiatives, including the separation of our Commercial Aerospace business, and the current and prior quarter includes costs related to exits of our non-strategic portfolios and OneWest Bank integration costs.

- Technology costs increased from the prior-year quarter reflecting OneWest Bank expense.
- Net Occupancy expenses were up from the prior-year quarter reflecting the added costs associated with OneWest Bank related to the branch network and office space.
- Advertising and marketing expenses include costs associated with raising deposits. Advertising and marketing costs in the Bank totaled $3 million in the current quarter, $6 million last quarter and $7 million in the prior-year quarter.
- Provision for severance and facilities exiting activities primarily reflects costs associated with the OneWest Bank acquisition and streamlining our operations, which resulted in employee reductions.
- Amortization of intangible assets primarily results from intangible assets recorded in the OneWest Bank acquisition.
- Other expenses include items such as travel and entertainment, insurance, FDIC costs, office equipment and supplies costs and taxes other than income taxes. The sequential increase includes higher deposit insurance costs, taxes other than income, and other miscellaneous expenses. The increase from the year-ago quarter reflects OneWest Bank expenses.

Loss on debt extinguishments in the current and prior quarter related to repurchases of senior unsecured debt.



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## INCOME TAXES

**Income Tax Data** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| Provision for income taxes, before discrete items | $ 63.8 | $ 16.3 | $42.2 |
| Discrete items | (11.1) | (26.5) | 1.8 |
| Provision (benefit) for income taxes | $ 52.7 | $(10.2) | $44.0 |
| Effective tax rate | 25.8% | (7.2)% | 29.8% |

The income tax provision before impact of discrete items was higher in the current quarter, as compared to the prior-year and prior quarters, primarily driven by the recognition of deferred federal and state income tax expense on increased domestic earnings, which shifted the geographic mix of earnings compared to the prior quarters. The net discrete tax benefit of $11.1 million for the current quarter primarily included a $13.9 million tax benefit, including interest and penalties from favorable actions taken by the tax authorities related to uncertain tax positions taken on certain prior year non-U.S. tax returns, which were partially offset by other miscellaneous net tax expense items.

Included in the prior quarter s discrete tax benefit was the recognition of an approximately $18.4 million tax benefit including interest and penalties related to changes in uncertain tax positions from resolution of open tax matters and closure of statutes.

The quarterly income tax expense is based on an updated projection of the Company s annual effective tax rate. This updated annual effective tax rate is applied to the year-to-date consolidated pre-tax income to determine the interim provision for income taxes before discrete items. The impact of any change in the projected annual effective tax rate from the prior quarter is reflected in the quarterly income tax expense. 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 2016 effective tax rate may vary from the currently projected tax rate due to changes in these factors.

As noted in our 2015 Annual Report on Form 10-K, management concluded that it was more likely than not that the Company would 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 full utilization of the U.S. federal net operating loss carry-forwards ( NOLs ) and partial utilization of the U.S. state NOLs. The forecast of future taxable income for the Company reflected a long-term view of growth and returns that management believed is more likely than not of being realized. The Company retained a valuation allowance of $250 million against the U.S. state deferred tax assets ( DTAs ) on NOLs at December 31, 2015.

The Company maintained a valuation allowance of $21 million against certain non-U.S. reporting entities net DTAs at March 31, 2016, down from $91 million at December 31, 2015. In January 2016, the Company sold its U.K. equipment finance business. Thus, in the first quarter of 2016, there was a reduction of approximately $70 million to the respective UK reporting entities net DTAs along with their associated valuation allowances. In the evaluation process related to the net DTAs of the Company s other international reporting entities, uncertainties surrounding the future international business operations have made it challenging to reliably project future taxable income. Management will continue to assess the forecast of future taxable income as the business plans for these international reporting entities evolve and evaluate potential tax planning strategies to utilize these net DTAs.

The Company s ability to recognize DTAs will be evaluated on a quarterly basis to determine if there are any significant events that would affect our ability to utilize existing DTAs. If events are identified that affect our ability to utilize our DTAs, valuation allowances may be adjusted accordingly.

Management expects the 2016 global effective tax rate to be in the range of 30%-35%, while cash taxes paid are expected to remain relatively low until the related NOL carry-forward is fully utilized. In addition, while GAAP equity increased as a result of the recognition of net DTAs corresponding to the release of the aforementioned valuation allowances, there was minimal benefit on regulatory capital.

See *Note 13 Income Taxes* in *Item 1. Consolidated Financial Statements* for additional information, including deferred tax assets.





# RESULTS BY BUSINESS SEGMENT

## SEGMENT REPORTING UPDATES

As described earlier, we refined our segment presentation. CIT manages its business and reports its financial results in four operating segments: Commercial Banking, Transportation Finance, Consumer and Community Banking, and Non-Strategic Portfolios ( NSP ), and a fifth non-operating segment, Corporate and Other.

All prior period comparisons are conformed to the current period presentation. *Note 17 Business Segment Information* in *Item 1. Consolidated Financial Statements* contains additional information relating to segment reporting.

## SEGMENTS

### Commercial Banking

Commercial Banking consists of three divisions: Commercial Finance, Real Estate Finance, and Business Capital. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities and banking services, along with capital markets transactions and commissions earned on factoring and related activities.

*Commercial Finance* provides a range of lending and deposit products, as well as ancillary services, including cash management and advisory services, to small and medium size companies. 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. Loans are originated through direct relationships, led by individuals with significant experience in their respective industries, or through relationships with private equity sponsors. We provide financing to customers in a wide range of industries, including Commercial & Industrial, Communications & Technology Finance, Entertainment & Media, Energy, and Healthcare.

*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. In addition, the portfolio included multi-family mortgage loans acquired from OneWest Bank that are being runoff.

*Business Capital* provides leasing and equipment financing, along with factoring, solutions to small businesses and middle market 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. In addition, we provide 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, we conduct business with factoring clients and their customers internationally.





**Commercial Banking: Financial Data and Metrics** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| **Earnings Summary** | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| Interest income | $ 287.1 | $ 285.5 | $ 181.3 |
| Rental income on operating leases | 27.1 | 25.8 | 23.1 |
| Finance revenue | 314.2 | 311.3 | 204.4 |
| Interest expense | (73.6) | (68.1) | (64.8) |
| Depreciation on operating lease equipment | (20.0) | (18.8) | (17.2) |
| Net finance revenue (NFR) | 220.6 | 224.4 | 122.4 |
| Provision for credit losses | (73.5) | (45.4) | (24.4) |
| Other income | 55.5 | 68.9 | 63.6 |
| Operating expenses | (158.4) | (146.0) | (131.3) |
| Income before provision for income taxes | $ 44.2 | $ 101.9 | $ 30.3 |
| **Select Period End Balance** | | | |
| Financing and leasing assets | $21,959.5 | $21,603.1 | $15,371.9 |
| Earning assets | 22,281.0 | 21,953.7 | 15,939.4 |
| **Select Average Balances** | | | |
| Average finance receivables (AFR) | 21,130.8 | 21,463.2 | 14,985.5 |
| Average earning assets (AEA)[(1)] | 20,727.0 | 20,944.0 | 14,356.5 |
| **Statistical Data** | | | |
| Net efficiency ratio | 56.8% | 49.0% | 70.3% |
| Pretax return on AEA | 0.85% | 1.95% | 0.84% |

| | Quarters Ended | | |
|---|---|---|---|
| New business volume | $ 1,581.4 | $ 2,164.7 | $ 1,296.2 |
| Factoring volume | $ 5,873.8 | $ 6,749.0 | $ 6,495.6 |
| **Select Divisional Data** | | | |
| Net finance revenue: | | | |
| Commercial Finance | $ 90.6 | $ 98.5 | $ 44.0 |
| Real Estate Finance | 54.4 | 51.4 | 10.0 |
| Business Capital | 75.6 | 74.5 | 68.4 |
| Segment total | $ 220.6 | $ 224.4 | $ 122.4 |
| Net finance margin NFR as a % of AEA | | | |
| Commercial Finance | 3.80% | 3.95% | 2.62% |
| Real Estate Finance | 4.08% | 3.99% | 2.25% |
| Business Capital | 5.17% | 5.13% | 4.66% |
| Segment total | 4.26% | 4.29% | 3.41% |

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

Pre-tax earnings declined from the prior quarter due to higher credit costs and operating expenses, along with lower other income, while the increase from the year-ago quarter reflects the benefits from OneWest Bank.

Financing and leasing assets ( FLA ), which comprise the majority of earning assets, were $22.0 billion at March 31, 2016, up 2% from December 31, 2015, reflecting new business volume and slower prepayment activity and 43% from a year ago, reflecting the acquisition of OneWest Bank. FLA were up in each of the divisions to varying degrees. Financing and leasing assets at March 31, 2016, were comprised of $9.5 billion in Commercial Finance, $5.4 billion in Real Estate Finance and $7.1 billion in Business Capital.

The vast majority of the U.S. funded loan and lease volume in each of the periods presented was originated in the Bank. At March 31, 2016, 89% of this segment s financing and leasing assets were in the Bank, which was up from last year, reflecting the acquired assets from OneWest Bank, and essentially flat with December 31, 2015.

New business yields on our commercial lending assets were up from the prior-year quarter, reflecting higher yield in Commercial Finance and Business Capital, partially offset by lower yields in Real Estate Finance. Yields on new originations were generally higher in each of the three divisions compared to the prior quarter. New lending and leasing volume is generally lower in the first quarter as compared to the prior quarter, and is reflective of the competitive environment. New business volume increased from the year-ago quarter in all divisions, reflective of the OneWest Bank acquisition.



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Highlights included:

- Net finance revenue decreased slightly from the prior quarter due to the decline in average earning assets, predominately due to asset sales at the end of the 2015 fourth quarter, and higher funding costs. The increase from the year-ago quarter reflects higher earning assets and purchase accounting accretion of $39 million on loans acquired from OneWest Bank. Net finance margin followed similar trends, but also benefited from higher yields on certain new originations noted above.

- Gross yields were up from the prior-year and prior quarters. Compared to the prior-year quarter, gross yields benefited from purchase accounting accretion, which is reflected in Commercial Finance and Real Estate Finance. See Select Segment and Division Margin Metrics table in Net Finance Revenue section for amounts of purchase accounting accretion and gross yields by division.

- Other income was down from the prior-year and prior quarters, reflecting the following:

  - Factoring commissions of $26 million were down from both prior periods, mostly reflecting lower factoring volume. Factored volume was down from both the prior and the year-ago quarters, reflective of mix and market conditions.

  - Gains on asset sales (including receivables, equipment and investments) totaled $2 million in 2016, down from $11 million in the prior-year quarter and $10 million in the prior quarter. Financing and Leasing assets sold totaled $130 million in the current quarter, compared to $93 million in the prior-year quarter and $631 million in the prior quarter, which included portfolio rebalancing activity post the OneWest Bank acquisition. Gains will vary based on the type of assets sold.

  - Fee revenue is mainly driven by 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. As a result of the acquisition, banking related fees expanded and includes items such as cash management fees and account fees. Fee revenue was $24 million in 2016, up from $17 million in the prior-year quarter and $23 million in the prior quarter.

- Non-accrual loans were $215 million (1.00% of finance receivables), compared to $191 million (0.91%) at December 31, 2015, and $105 million (0.69%) a year ago. The increase in balance from the prior quarters was primarily related to loans in the energy sector. Net charge-offs were $32 million (0.60% of average finance receivables), consistent with the prior quarter and up from $19 million (0.52%) in the year-ago quarter. Excluding assets transferred to held for sale in all periods, net charge-offs were $30 million in the current quarter, up from $13 million in the prior quarter and $8 million in the year-ago quarter. The increase in the current period relates to energy loans. The provision for credit losses increased from the prior periods from new business volume, increases in reserves related to the energy portfolio and modest increases across other industries.

- Operating expenses increased from the prior quarter, reflecting higher legal expense in Commercial Finance and discrete items related to Business Capital. The increase from the year-ago quarter reflects the acquisition of OneWest Bank.

**Transportation Finance**

Transportation Finance includes three divisions: aerospace (commercial air and business air), rail, and maritime finance. Revenues generated by Transportation Finance 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, finance and manage a fleet of approximately 383 aircraft and have about 100 clients in approximately 50 countries.

During 2015, management announced it was exploring strategic alternatives for the Commercial Aerospace business, which may be structured as a spinoff or sale. That transaction is proceeding, as mentioned earlier in 2016 Priorities.

*Aerospace Business Air* offers financing and leasing programs for corporate and private owners of business jets. In the 2016 first quarter, the international business aircraft portfolio of approximately $0.6 billion was transferred to AHFS.

*Rail* leases railcars and locomotives to railroads and shippers throughout North America and Europe. Our operating lease fleet consists of approximately 130,000 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.



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**Transportation Finance: Financial Data and Metrics** (dollars in millions)

| Earnings Summary | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| Interest income | $ 52.7 | $ 49.8 | $ 42.7 |
| Rental income on operating leases | 544.5 | 518.2 | 496.7 |
| Finance revenue | 597.2 | 568.0 | 539.4 |
| Interest expense | (148.1) | (143.4) | (150.6) |
| Depreciation on operating lease equipment | (155.3) | (148.0) | (136.0) |
| Maintenance and other operating lease expenses | (56.2) | (79.6) | (46.1) |
| Net finance revenue (NFR) | 237.6 | 197.0 | 206.7 |
| Provision for credit losses | (22.7) | (8.6) | (6.4) |
| Other income | 18.8 | 24.8 | 35.4 |
| Operating expenses | (60.7) | (50.2) | (67.2) |
| Income before provision for income taxes | $ 173.0 | $ 163.0 | $ 168.5 |
| **Select Period End Balance** | | | |
| Financing and leasing assets | $19,914.5 | $19,955.0 | $17,821.5 |
| Earning assets | 20,927.6 | 20,572.7 | 18,845.3 |
| **Select Average Balances** | | | |
| Average finance receivables (AFR) | $ 3,333.4 | $ 3,446.7 | $ 2,928.8 |
| Average operating leases (AOL) | 16,363.8 | 15,698.2 | 14,617.5 |
| Average earning assets (AEA) | 20,619.5 | 19,784.2 | 18,880.8 |
| **Statistical Data** | | | |
| Net operating lease revenue rental income, net of depreciation and maintenance and other operating lease expenses | $ 333.0 | $ 290.6 | $ 314.6 |
| Operating lease margin as a % of AOL | 8.14% | 7.40% | 8.61% |
| Net efficiency ratio | 23.7% | 22.1% | 27.7% |
| Pretax return on AEA | 3.36% | 3.30% | 3.57% |
| New business volume | $ 245.9 | $ 1,619.5 | $ 419.5 |
| **Select Divisional Data** | | | |
| Net finance revenue: | | | |
| Aerospace | $ 119.6 | $ 92.8 | $ 101.7 |
| Rail | 100.2 | 89.0 | 96.2 |
| Maritime Finance | 17.8 | 15.2 | 8.8 |
| Segment total | $ 237.6 | $ 197.0 | $ 206.7 |
| Net finance margin NFR as a % of AEA | | | |
| Aerospace | 3.97% | 3.20% | 3.42% |
| Rail | 5.82% | 5.39% | 6.50% |
| Maritime Finance | 4.22% | 3.82% | 3.35% |
| Segment total | 4.61% | 3.98% | 4.38% |

Transportation Finance pre-tax earnings were up from the prior-year and prior quarters. Net finance revenue increased on higher average earning assets, with the comparison to the prior quarter also reflecting lower equipment maintenance and operating lease expenses. The current quarter also includes a higher credit provision due to two Aerospace loan charge-offs and increased reserves in Maritime.

Financing and leasing assets totaled $19.9 billion, essentially unchanged from December 31, 2015 and up from $17.8 billion at March 31, 2015. Compared to the prior quarter, Rail assets increased, Aerospace assets decreased and Maritime assets were essentially unchanged. The increase from the prior year reflects growth in all three divisions. AHFS increased to $0.8 billion, reflecting the addition of the international business air portfolio. New business volume for the quarter totaled $0.2 billion, down significantly from the prior quarter due to only one aircraft delivery compared to 14 aircraft purchased last quarter and lower loan volume.

Aerospace financing and leasing assets were $11.4 billion, down from $11.6 billion at December 31, 2015, as portfolio depreciation and sales offset the one aircraft delivered, and up from $10.8 billion at March 31, 2015. Our owned operating lease commercial portfolio included 283 aircraft, down one from December 31, 2015. At March 31, 2016, we manage 27 aircraft for a joint venture, TC-CIT Aviation. At March 31, 2016, we had 138 aircraft on order from manufacturers, with deliveries scheduled through 2020. *See Note 14 Commitments* in





*Item 1. Consolidated Financial Statements* and *Concentrations* for further aircraft manufacturer commitment data.

Rail financing and leasing assets grew to $6.9 billion from $6.7 billion at December 31, 2015, and is up from $5.9 billion at March 31, 2015. Our owned operating lease portfolio approximated 130,000 railcars at March 31, 2016, was up from approximately 128,000 and 121,000 railcars at December 31, 2015 and March 31, 2015, respectively. At March 31, 2016, we had approximately 6,200 railcars on order from manufacturers, with deliveries scheduled through 2018. *See Note 14 Commitments* in *Item 1. Consolidated Financial Statements* and *Concentrations* for further railcar manufacturer commitment data.

Maritime Finance financing and leasing assets totaled $1.7 billion, unchanged from December 31, 2015, and up from $1.1 billion at March 31, 2015. Given the market conditions, we will not be growing this portfolio at this time.

Highlights included:

- Net finance revenue was up from the prior and year-ago quarters, reflecting higher rental income driven by higher average operating lease assets and settlements on certain aircraft leases. The sequential comparison also included lower costs associated with the air and rail operating lease portfolios, which were elevated in the prior quarter. Net finance margin was up reflecting the noted net finance revenue trends and a slight reduction in funding costs from the prior year.

- Gross yields in Aerospace were up slightly from the prior quarter to 11.2%, benefiting from collections on remarketed aircraft, while gross yields in Rail of 13.7% were flat with the prior quarter as the impact of lower utilization was temporarily offset by higher interim rents. See *Select Segment and Division Margin Metrics* table in *Net Finance Revenue* section.

- Net operating lease revenue, which is a component of NFR, increased from the prior-year quarter, as increased rental income from growth in the Aerospace and Rail divisions was partially offset by higher depreciation and maintenance and operating lease expenses. In addition to higher rents on increased assets compared to the prior quarter, maintenance and other operating lease expenses was up in the 2015 fourth quarter reflecting elevated transition costs on several aircraft, increased maintenance, freight and storage costs in rail, and growth in the portfolios. Maintenance and other operating lease expenses primarily relate to the rail portfolio and to a lesser extent aircraft re-leasing. Net operating lease revenue also reflects trends in equipment utilization, with aircraft utilization improving but railcar utilization declining, a trend that is expected to continue in 2016 due to weakness in demand for certain energy related car types. The decline in the operating lease margin (as a percentage of average operating lease equipment) compared to the prior-year quarter reflects these trends. The sequential increase reflects the noted decrease in equipment maintenance and other operating lease expenses to a more normalized run-rate.

- Aircraft utilization remained unchanged from year-end with all aircraft on lease or under a commitment at quarter-end, and all but two of our aircraft scheduled for delivery in the next 12 months have commitments. Rail utilization declined from 96% to 94%, reflecting pressures mostly from the crude, coal and steel industries and approximately 40% of the total railcar order-book of approximately 6,200 railcars have lease commitments.

- The current quarter new business volume included $175 million of operating lease equipment, including the delivery of one aircraft and approximately 1,100 railcars, and about $70 million of finance receivables.

- Other income was down from the prior-year and prior quarters and primarily reflecting lower gains on asset sales.

  - Gains on asset sales totaled $9 million in 2016 on $38 million of asset sales, $27 million on $393 billion of equipment and receivable sales in the prior-year quarter, and $13 million of gains on $96 million of asset sales in the prior quarter.

  - Other income also includes a settlement from a bankrupt airline, a small amount of fee income, along with other revenue derived from loan commitments, joint ventures and other periodic items.

- Non-accrual loans of $22 million (0.78% of finance receivables) increased from $15 million (0.43%) at December 31, 2015 and $0.1 million a year-ago, and principally consisted of business aircraft loans in each of the periods. Net charge-offs, excluding assets transferred to held for sale, were $12 million (1.49% of average finance receivables) related to the Aerospace loan portfolio compared to net charge-offs of less than $1 million (0.09%) in the prior quarter. The provision for credit losses increased from the prior quarters largely reflecting general reserve increases in Maritime and the Aerospace loan charge-offs.

- Operating expenses increased from the prior quarter, reflecting seasonally higher employee costs and approximately $4 million of costs related to the commercial air separation initiative. Operating expenses were down from the year-ago quarter.

**Consumer and Community Banking**

Consumer and Community Banking is a new segment that includes Legacy Consumer Mortgages (the former LCM segment) and other banking divisions that were included in the former NAB segment (Consumer Banking, Mortgage Lending, Wealth Management, and SBA Lending), which are grouped together for purposes of discussion as Other Consumer Lending. These were all businesses and portfolios acquired from OneWest Bank, therefore there are no prior-year quarter comparisons.

Other Consumer Lending offers mortgage lending, deposits and private banking services to its customers. The segment





offers jumbo residential mortgage loans and conforming residential mortgage loans, primarily in Southern California. Mortgage loans are primarily originated through branch and retail referrals, employee referrals, internet/web leads and direct marketing. Additionally, loans are purchased through bulk acquisitions. Mortgage Lending includes product specialists, internal sales support and origination processing, structuring and closing. Retail banking is the primary deposit gathering business of the Bank and operates through retail branches and an online direct channel. We offer a broad range of deposit and lending products to meet the needs of our clients (both individuals and small businesses), including checking, savings, certificates of deposit, residential mortgage loans, and investment advisory services. We operate a network of 70 retail branches in Southern California. We also offer banking services to high net worth individuals. Additionally, the division offers a full suite of deposit and payment solutions to middle market companies and small businesses.

The division also originates qualified Small Business Administration ( SBA ) 504 loans (generally, the financing provides growing small businesses with long-term, fixed-rate financing for major fixed assets, such as land and building) and 7(a) (generally, for purchase/refinance of owner occupied commercial real estate, working capital, acquisition of inventory, machinery, equipment, furniture, and fixtures, the refinance of outstanding debt subject to any program guidelines, and acquisition of businesses, including partnership buyouts).

LCM includes portfolios of single family residential mortgages and reverse mortgages, certain of which are covered by loss sharing agreements with the FDIC. Certain Covered Loans in this segment were previously acquired by OneWest Bank in connection with the IndyMac, First Federal and La Jolla transactions. The FDIC indemnified OneWest Bank against certain future losses sustained on these loans. CIT may now be reimbursed for losses under the terms of the loss sharing agreements with the FDIC. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., due to foreclosure, short-sale, charge-offs or a restructuring of a single family residential mortgage loan pursuant to an agreed upon loan modification framework). Reimbursements approved by the FDIC are usually received within 60 days of

submission.

See *Note 1 Business and Summary of Significant Accounting Policies* and *Note 5 Indemnification Assets* in *Item 1. Consolidated Financial Statements* for accounting and detailed discussions.

**Consumer and Community Banking: Financial Data and Metrics** (dollars in millions)

| | Quarters Ended | |
|---|---|---|
| **Earnings Summary** | **March 31, 2016** | **December 31, 2015** |
| Interest income | $ 103.2 | $ 109.5 |
| Interest expense | (8.9) | (13.2) |
| Net finance revenue (NFR) | 94.3 | 96.3 |
| Provision for credit losses | (3.1) | (3.6) |
| Other income | 8.1 | 5.3 |
| Operating expenses | (82.2) | (84.7) |
| Income before provision for income taxes | $ 17.1 | $ 13.3 |
| **Select Period End Balance** | | |
| Financing and leasing assets | $7,235.3 | $7,245.5 |
| Earning assets | 7,771.5 | 7,809.2 |
| **Select Average Balances** | | |
| Average finance receivables (AFR) | $7,160.4 | $7,204.8 |
| Average earning assets (AEA) | 7,757.8 | 7,845.9 |
| **Statistical Data** | | |
| Net efficiency ratio | 75.8% | 78.8% |
| Pretax return on AEA | 0.88% | 0.68% |
| New business volume | $ 214.5 | $ 220.3 |
| **Select Divisional Data** | | |
| Net finance revenue: | | |
| Other consumer banking | $ 34.0 | $ 28.4 |
| LCM | 60.3 | 67.9 |
| Segment total | $ 94.3 | $ 96.3 |
| Net finance margin NFR as a % of AEA | | |
| Other consumer banking | 7.00% | 6.17% |
| LCM | 4.15% | 4.52% |
| Segment total | 4.86% | 4.91% |



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Consumer and Community Banking pre-tax earnings increased from the prior quarter primarily due to an increase in other income resulting from gain on REO properties and lower legal expenses.

Financing and leasing assets were essentially flat with December 31, 2015, as new originations and extensions on existing loans offset the run-off in LCM. LCM includes SFR mortgage loans, totaling $4.5 billion at March 31, 2016, and reverse mortgage loans totaling $0.9 billion. In aggregate, these portfolios total $5.4 billion, approximately $4.8 billion of which are mostly covered by loss share agreements with the FDIC,

the benefit of which is recorded as indemnification assets whose current carrying value is $390 million at March 31, 2016.

Highlights included:

- NFR was relatively unchanged and benefited from $30 million and $34 million of PAA accretion in the current and prior quarter.
- Other income included gains of $2 million in the current quarter, compared to losses of $2 million in the prior quarter, all related to OREO properties. Fee revenue was about $2 million and miscellaneous revenues were $4 million in the current quarter.
- Non-accrual loans were $7 million (0.10% of finance receivables) at March 31, 2016, slightly up from $5 million (0.07%) at December 31, 2015, which related to SFR loans and there was an insignificant amount of net recoveries, compared to net recoveries of about $1 million in the prior quarter. The provision reflects reserves established on new business, in addition to slight credit deterioration in the LCM portfolio.
- Operating expenses are reflective of the inclusion of branch operation costs, which also causes the net efficiency ratio to be higher than other segments.

**Non-Strategic Portfolios (NSP)**

NSP consists of businesses and portfolios that we no longer consider strategic. The 2016 results reflect activity from portfolios in Canada and China, as well as from the sale of a U.K portfolio, which was sold in January 2016. These portfolios include equipment financing, secured lending and leasing and advisory services to small and middle-market businesses. The prior periods also include activity from other international businesses and portfolios, such as portfolios in Mexico and Brazil, that were sold in August and December 2015, respectively, and the U.K.

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

| | Quarters Ended | | |
|---|---|---|---|
| **Earnings Summary** | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| Interest income | $ 25.0 | $ 39.6 | $ 52.8 |
| Rental income on operating leases | 3.8 | 6.9 | 10.8 |
| Finance revenue | 28.8 | 46.5 | 63.6 |
| Interest expense | (14.5) | (22.0) | (38.0) |
| Depreciation on operating lease equipment | | | (3.6) |
| Net finance revenue (NFR) | 14.3 | 24.5 | 22.0 |
| Provision for credit losses | | | (3.8) |
| Other income | 14.5 | (54.4) | (6.2) |
| Operating expenses | (12.2) | (26.2) | (37.0) |
| Income (loss) before provision for income taxes | $ 16.6 | $ (56.1) | $ (25.0) |
| **Select Period End Balance** | | | |
| Financing and leasing assets | $1,176.2 | $1,577.5 | $2,175.6 |
| Earning assets | 1,411.6 | 1,850.7 | 2,563.8 |
| **Select Average Balances** | | | |
| Average finance receivables (AFR) | $ | $ | $1,457.6 |
| Average earning assets (AEA) | 1,516.8 | 1,953.8 | 2,718.4 |
| **Statistical Data** | | | |
| Net finance margin NFR as a % of AEA | 3.77% | 5.02% | 3.24% |
| Pretax return on AEA | 4.38% | (11.49)% | (3.68)% |
| New business volume | $ 44.3 | $ 167.0 | $ 201.4 |

NSP pre-tax income was driven by the sale of the U.K. business in the current quarter, partially offset by an impairment on AHFS. The prior-year pre-tax loss was driven by the higher level of operating expenses reflective of the remaining businesses at that time. The pre-tax loss in the prior quarter reflected the completion of the sale of our Brazil business and a resulting loss, mainly due to the recognition of a $51 million CTA loss.

Financing and leasing assets at March 31, 2016, included portfolios in Canada and China, for which we are actively pursuing sales, and are therefore included in AHFS. The reduction from December 31, 2015 reflected the sale of the U.K. business on January 1, 2016.





Highlights included:

- Net finance revenue ( NFR ) was down, driven by lower earning assets.
- Other income increased from the prior quarters, reflecting:
  - A gain of $24 million from the sale of the U.K. business for the quarter ended March 31, 2016. The prior quarter included a loss on sale of the Brazil portfolio, mainly due to the recognition of $51 million of CTA losses.
  - Impairment charges recorded on international equipment finance portfolios and operating lease equipment held for sale. Impairment charges were $18 million, $9 million and $12 million for the current, prior-year and prior quarters, respectively. See *Non-interest Income* and *Expenses* for discussions on impairment charges and suspended depreciation on operating lease equipment held for sale.
  - The remaining balance mostly includes fee revenue, recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale and other revenues.
- Operating expenses were down, primarily reflecting lower cost due to sales of businesses.

**Corporate and Other**

Certain items are not allocated to operating segments and are included in Corporate & Other. Some of the more significant items include interest income on investment securities, a portion of 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 as well as certain unallocated costs (operating expenses), certain intangible assets amortization expenses (other expenses) and loss on debt extinguishments.

**Corporate and Other: Financial Data and Metrics** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| **Earnings Summary** | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| Interest income | $ 27.4 | $ 26.0 | $ 4.2 |
| Interest expense | (41.3) | (40.0) | (17.9) |
| Net finance revenue (NFR) | (13.9) | (14.0) | (13.7) |
| Provision for credit losses | | | |
| Other income | 4.0 | (14.2) | (6.4) |
| Operating expenses | (36.6) | (52.9) | (6.1) |
| Loss before provision for income taxes | $ (46.5) | $ (81.1) | $ (26.2) |

| | Quarters Ended | | |
|---|---|---|---|
| **Select Average Balances** | | | |
| Average earning assets (AEA) | $8,585.3 | $8,613.5 | $5,885.4 |

- Interest income consists of interest and dividend income, primarily from investment securities and deposits held at other depository institutions. The increase from the prior-year quarter reflects additional income from the OneWest Bank acquisition and the associated investment portfolio.

- Interest expense is allocated to the segments. Interest expense held in Corporate represents amounts in excess of these allocations and amounts related to excess liquidity.

- Other income primarily reflects gains and (losses) on derivatives, including the GSI facilities and foreign currency exchange. The GSI derivative had a positive mark-to-market of $18 million in the quarter, compared to a negative mark-to-market adjustment of $1 million in the prior-year quarter and a benefit of $1 million in the prior quarter. The prior-year and prior quarter other income also reflected higher losses on foreign currency exchange.

- Operating expenses reflects salary and general and administrative expenses in excess of amounts allocated to the business segments. Operating expenses were higher in the current and prior quarter compared to the prior-year quarter reflecting added costs related to the OneWest Bank acquisition. Operating expenses also included $20 million, a benefit of $1 million and $53 million related to provision for severance and facilities exiting activities during the current quarter, prior-year quarter and prior quarter, respectively.



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## 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, 2016 | December 31, 2015 |
|---|---|---|
| **Commercial Banking** | | |
| Loans | $ 21,437.2 | $ 20,929.2 |
| Operating lease equipment, net | 292.6 | 259.0 |
| Assets held for sale | 229.7 | 414.9 |
| Financing and leasing assets | 21,959.5 | 21,603.1 |
| ***Commercial Finance*** | | |
| Loans | 9,329.4 | 9,118.6 |
| Assets held for sale | 203.4 | 313.6 |
| Financing and leasing assets | 9,532.8 | 9,432.2 |
| ***Real Estate Finance*** | | |
| Loans | 5,348.5 | 5,300.6 |
| Assets held for sale | 14.4 | 57.0 |
| Financing and leasing assets | 5,362.9 | 5,357.6 |
| ***Business Capital*** | | |
| Loans | 6,759.3 | 6,510.0 |
| Operating lease equipment, net | 292.6 | 259.0 |

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Assets held for sale | 11.9 | 44.3 |
| Financing and leasing assets | 7,063.8 | 6,813.3 |
| **Transportation Finance** | | |
| Loans | 2,786.7 | 3,542.1 |
| Operating lease equipment, net | 16,373.1 | 16,358.0 |
| Assets held for sale | 754.7 | 54.9 |
| Financing and leasing assets | 19,914.5 | 19,955.0 |
| ***Aerospace*** | | |
| Loans | 1,031.9 | 1,762.3 |
| Operating lease equipment, net | 9,594.3 | 9,765.2 |
| Assets held for sale | 723.8 | 34.7 |
| Financing and leasing assets | 11,350.0 | 11,562.2 |
| ***Rail*** | | |
| Loans | 118.1 | 120.9 |
| Operating lease equipment, net | 6,778.8 | 6,592.8 |
| Assets held for sale | 0.4 | 0.7 |
| Financing and leasing assets | 6,897.3 | 6,714.4 |
| ***Maritime Finance*** | | |
| Loans | 1,636.7 | 1,658.9 |
| Assets held for sale | 30.5 | 19.5 |
| Financing and leasing assets | 1,667.2 | 1,678.4 |
| **Consumer and Community Banking** | | |
| Loans | 7,184.7 | 7,200.4 |
| Assets held for sale | 50.6 | 45.1 |
| Financing and leasing assets | 7,235.3 | 7,245.5 |
| ***Other Consumer Banking*** | | |
| Loans | 1,879.5 | 1,770.0 |
| Assets held for sale | 2.6 | 3.9 |
| Financing and leasing assets | 1,882.1 | 1,773.9 |
| ***Legacy Consumer Mortgages*** | | |
| Loans | 5,305.2 | 5,430.4 |
| Assets held for sale | 48.0 | 41.2 |
| Financing and leasing assets | 5,353.2 | 5,471.6 |
| **Non-Strategic Portfolios** | | |
| Assets held for sale | 1,176.2 | 1,577.5 |
| Financing and leasing assets | 1,176.2 | 1,577.5 |
| **Total financing and leasing assets** | $ 50,285.5 | $ 50,381.1 |



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Financing and leasing assets were down slightly from December 31, 2015, as the run-off of LCM and NSP loan portfolios, including the sale of the U.K. equipment finance business, offset overall growth in the remaining portfolios.

Each of the divisions within Commercial Banking reflected growth in the quarter, led by higher factoring receivables in Business Capital. Transportation Finance was down slightly on lower order book deliveries in Aerospace. During the quarter we added rail assets, and mostly

funded only outstanding commitments in Maritime Finance. In addition, we transferred a portfolio of international business aircraft of approximately $0.6 billion to assets held for sale.

Consumer and Community Banking loans were essentially flat as run-off in LCM, which includes SFR and reverse mortgage portfolios, offset purchases and originations in other consumer lending.

The decline in NSP primarily reflected the sale of the U.K. equipment finance business.

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 Rollforward** (dollars in millions)

| | Commercial Banking | Transportation Finance | Consumer and Community Banking | Non-Strategic Portfolios | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2015** | $21,603.1 | $19,955.0 | $7,245.5 | $1,577.5 | $50,381.1 |
| New business volume | 1,581.4 | 245.9 | 214.5 | 44.3 | 2,086.1 |
| Portfolio purchases | – | 64.1 | – | – | 64.1 |
| Loan and portfolio sales | (83.4) | | (10.6) | (20.1) | (114.1) |
| Equipment sales | (46.3) | (38.4) | | (10.5) | (95.2) |
| Depreciation | (20.0) | (155.3) | | | (175.3) |
| Gross charge-offs | (35.8) | (19.6) | (0.7) | | (56.1) |
| Collections and other | (1,039.5) | (137.2) | (213.4) | (415.0) | (1,805.1) |
| **Balance at March 31, 2016** | $21,959.5 | $19,914.5 | $7,235.3 | $1,176.2 | $50,285.5 |

*New business volume* in 2016 was up compared to the prior-year quarter as the additional activity from the OneWest Bank acquisition offset the decline in Transportation Finance, and run-off business in NSP. Each of the segments recorded lower volume compared with the prior quarter, with the largest decline in Transportation Finance, reflective of fewer scheduled aerospace order book deliveries.

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| Commercial Banking | $1,581.4 | $2,164.7 | $1,296.2 |
| Transportation Finance | 245.9 | 1,619.5 | 419.5 |
| Consumer and Community Banking | 214.5 | 220.3 | |
| Non-Strategic Portfolios | 44.3 | 167.0 | 201.4 |
| Total | $2,086.1 | $4,171.5 | $1,917.1 |

*Loan and portfolio sales* activity has been limited, with the exception of the prior quarter sales in Commercial Banking as we rebalanced assets post the OneWest Bank acquisition.

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |

| | Quarters Ended | | |
|---|---|---|---|
| Commercial Banking | $ 83.4 | $576.6 | $56.5 |
| Transportation Finance | | 19.7 | 23.4 |
| Consumer and Community Banking | 10.6 | 13.7 | |
| Non-Strategic Portfolios | 20.1 | 74.6 | 14.6 |
| Total | $114.1 | $684.6 | $94.5 |



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*Equipment sales* in Transportation Finance consisted of aerospace and rail assets in conjunction with its portfolio management activities. The prior-year quarter also reflect aircraft sales to the TC-CIT Aviation joint venture.

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| Commercial Banking | $46.3 | $ 54.4 | $ 36.9 |
| Transportation Finance | 38.4 | 76.0 | 369.2 |
| Non-Strategic Portfolios | 10.5 | 42.5 | 31.4 |
| Total | $95.2 | $172.9 | $437.5 |

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

## CONCENTRATIONS

### Geographic Concentrations

The following table represents CIT s combined commercial and consumer financing and leasing assets by geographical regions:

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

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| West | $12,293.2 | 24.5% | $12,208.3 | 24.2% |
| Northeast | 9,432.4 | 18.8% | 9,383.2 | 18.6% |
| Southwest | 4,872.2 | 9.7% | 4,785.5 | 9.5% |
| Southeast | 4,775.5 | 9.5% | 4,672.3 | 9.3% |
| Midwest | 4,546.8 | 9.0% | 4,446.3 | 8.8% |
| Total U.S. | 35,920.1 | 71.5% | 35,495.6 | 70.4% |
| Asia / Pacific | 5,085.5 | 10.1% | 5,312.0 | 10.6% |
| Europe | 2,828.3 | 5.6% | 3,283.3 | 6.5% |
| Canada | 2,589.0 | 5.1% | 2,612.6 | 5.2% |
| Latin America | 1,493.1 | 3.0% | 1,508.3 | 3.0% |
| All other countries | 2,369.5 | 4.7% | 2,169.3 | 4.3% |

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Total | $50,285.5 | 100.0% | $50,381.1 | 100.0% |

**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 7.8% of our total financing and leasing assets at March 31, 2016 (the largest account was less than 2.0%). The ten largest financing and leasing asset accounts were 8.1% of total financing and leasing assets at December 31, 2015.



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**COMMERCIAL CONCENTRATIONS**

**Geographic Concentrations**

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

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

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Northeast | $ 8,250.5 | 19.0% | $ 8,169.4 | 18.8% |
| West | 7,462.6 | 17.2% | 7,454.2 | 17.1% |
| Southwest | 4,770.9 | 11.0% | 4,669.1 | 10.7% |
| Midwest | 4,307.4 | 9.9% | 4,193.5 | 9.7% |
| Southeast | 4,220.2 | 9.7% | 4,117.4 | 9.5% |
| Total U.S. | 29,011.6 | 66.8% | 28,603.6 | 65.8% |
| Asia / Pacific | 5,085.5 | 11.7% | 5,311.2 | 12.2% |
| Europe | 2,828.3 | 6.5% | 3,278.5 | 7.5% |
| Canada | 2,589.0 | 6.0% | 2,604.3 | 6.0% |
| Latin America | 1,493.1 | 3.5% | 1,507.9 | 3.5% |
| All other countries | 2,369.5 | 5.5% | 2,167.1 | 5.0% |
| Total | $43,377.0 | 100.0% | $43,472.6 | 100.0% |

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:

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

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| **State** | | | | |
| California | $ 5,362.5 | 12.4% | $ 5,309.2 | 12.2% |
| Texas | 4,079.7 | 9.4% | 3,989.9 | 9.2% |

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| New York | 2,936.3 | 6.8% | 2,870.7 | 6.6% |
| All other states | 16,633.1 | 38.2% | 16,433.8 | 37.8% |
| Total U.S. | $ 29,011.6 | 66.8% | $ 28,603.6 | 65.8% |
| **Country** | | | | |
| Canada | $ 2,589.0 | 6.0% | $ 2,604.3 | 6.0% |
| China | 915.9 | 2.1% | 982.6 | 2.3% |
| Australia | 780.8 | 1.8% | 842.9 | 1.9% |
| Marshall Islands | 738.3 | 1.7% | 882.0 | 2.0% |
| Mexico | 698.4 | 1.6% | 676.0 | 1.6% |
| U.K. | 562.5 | 1.3% | 949.8 | 2.2% |
| Spain | 556.6 | 1.3% | 560.1 | 1.3% |
| Philippines | 480.6 | 1.1% | 485.7 | 1.1% |
| All other countries | 7,043.3 | 16.3% | 6,885.6 | 15.8% |
| Total International | $14,365.4 | 33.2% | $14,869.0 | 34.2% |



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**Industry Concentrations**

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

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

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Commercial airlines (including regional airlines)[1] | $10,613.3 | 24.5% | $10,728.3 | 24.7% |
| Manufacturing[2] | 4,958.7 | 11.4% | 4,951.3 | 11.4% |
| Real Estate | 4,888.8 | 11.3% | 4,895.4 | 11.3% |
| Transportation[3] | 4,661.3 | 10.7% | 4,586.5 | 10.5% |
| Service industries | 3,361.3 | 7.8% | 3,441.2 | 7.9% |
| Retail[4] | 2,451.0 | 5.7% | 2,513.4 | 5.8% |
| Energy and utilities | 2,305.1 | 5.3% | 2,091.5 | 4.8% |
| Wholesale | 2,244.3 | 5.2% | 2,310.5 | 5.3% |
| Oil and gas extraction / services | 1,841.3 | 4.2% | 1,871.0 | 4.3% |
| Healthcare | 1,438.1 | 3.3% | 1,223.4 | 2.8% |
| Finance and insurance | 1,183.8 | 2.7% | 1,128.2 | 2.6% |
| Other (no industry greater than 2%) | 3,430.0 | 7.9% | 3,731.9 | 8.6% |
| Total | $43,377.0 | 100.0% | $43,472.6 | 100.0% |

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

(2) *At March 31, 2016, manufacturers of chemicals, including pharmaceuticals (2.6%), petroleum and coal, including refining (1.7%) and food (1.1%).*

(3) *At March 31, 2016, includes maritime (4.2%), rail (4.2%) and trucking and shipping (1.2%).*

(4) *At March 31, 2016 includes retailers of general merchandise (2.0%).*

**Energy Oil and Gas**

CIT s direct lending to oil and gas extraction and services was down slightly from December 31, 2015 to approximately $0.9 billion and comprises about 3% of total loans. In addition, we have approximately $2.3 billion of railcars leased directly to railroads and other diversified shippers in support of the transportation and production of crude oil. We discuss our loan portfolio exposure to certain energy sectors in *Credit Metrics* and our rail operating lease portfolio below.

**Operating Lease Equipment Rail**

Transportation Finance global Rail business has a fleet of approximately 130,000 railcars and locomotives, including approximately 35,000 tank cars. The North American fleet has approximately 23,000 tank cars used in the transport of crude oil, ethanol and other flammable liquids (collectively, Flammable Liquids ). Of the 23,000 tank cars, approximately 15,000 tank cars are leased directly to railroads and other diversified shippers for the transportation of crude by rail. The North America fleet also contains approximately 10,000 sand cars (covered hoppers) leased to customers to support crude oil and natural gas production.

On May 1, 2015, the U.S. Pipeline and Hazardous Materials Safety Administration ( PHMSA ) and Transport Canada ( TC ) each released their final rules (the Final Rules ), which were generally aligned in recognition that many railcars are used in both countries. The Final U.S. Rules applied to all High Hazard Flammable Trains ( HHFT ), which is defined as 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 U.S. Rules (i) established enhanced DOT Specification 117 design and performance criteria applicable to tank cars constructed after October 1, 2015 for use in an HHFT and (ii) required retrofitting existing tank cars in accordance with DOT-prescribed retrofit design or performance standard for use in a HHFT. The retrofit timeline was 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 U.S. 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. In addition, the Final U.S. Rules established speed restrictions for HHFTs, established standards for rail routing analysis, required improved information sharing with state and local officials, and required more accurate classification of unrefined petroleum-based products, including developing and carrying out sampling and testing programs.

On December 4, 2015, President Obama signed into law the Fixing America s Surface Transportation Act ( FAST Act ), which, among other things, modified certain aspects of the Final U.S. Rules for transportation of flammable liquids. The FAST Act requires certain new tank cars to be equipped with thermal blankets , mandates all legacy DOT-111 tank cars in flammable liquids service, not only those used in an HHFT, to be upgraded to the new retrofit standard, and sets minimum requirements for the protection of certain valves. Further, it requires reporting on the industry-wide progress and capacity to modify DOT-111 tank cars. Finally, the FAST Act requires an independent evaluation to investigate braking technology requirements for the movement of trains carrying certain hazardous materials, and it requires the Secretary of Transportation to determine whether electronically-controlled pneumatic ( ECP ) braking system requirements, as imposed by the Final U.S. Rules, are justified. The FAST Act provides clarity on retrofit requirements but will not have a material impact on our original plans to retrofit our fleet.



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As noted above, CIT has approximately 23,000 tank cars in its North American fleet used in the transport of Flammable Liquids, of which less than half were manufactured prior to the adoption of the CPC-1232 standard. Based on our analysis of the Final U.S. Rules, as modified by the FAST Act, less than 500 cars in our current tank car fleet require retrofitting by March 2018. Approximately 80% of the cars in our flammable tank car fleet have a deadline of 2023 or later for modification, although we may decide to retrofit them sooner. Current tank cars on order are being configured to meet the Final U.S. Rules, as modified by the FAST Act, except for the installation of ECP braking systems. CIT is currently evaluating how the Final U.S. Rules, as modified by the FAST Act will impact its business and customers. We continue to believe that we will retrofit most, if not all of our impacted cars, depending on future industry and market conditions, and we will amortize the cost over the remaining asset life of the cars.

**Operating Lease Equipment Aerospace**

**Commercial Aerospace**

The following tables present detail on our commercial and regional aerospace portfolio ( Commercial Aerospace ). The net investment in regional aerospace financing and leasing assets was $35.5 million and $43.0 at March 31, 2016 and December 31, 2015, respectively, 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 2016.

**Commercial Aerospace Portfolio** (dollars in millions)

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Net Investment | Number | Net Investment | Number |
| **By Product:** | | | | |
| Operating lease[1] | $ 9,675.4 | 283 | $ 9,772.2 | 284 |
| Loan | 621.2 | 52 | 664.5 | 57 |
| Capital lease | 317.3 | 21 | 320.4 | 21 |
| Total | $10,613.9 | 356 | $10,757.1 | 362 |

**Commercial Aerospace Operating Lease Portfolio** (dollars in millions)[1]

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Net Investment | Number | Net Investment | Number |
| **By Region:** | | | | |
| Asia / Pacific | $3,721.9 | 90 | $3,704.2 | 88 |
| U.S. and Canada | 2,086.6 | 65 | 2,091.0 | 65 |
| Europe | 2,079.7 | 76 | 2,195.4 | 80 |
| Latin America | 1,151.2 | 38 | 1,152.6 | 38 |
| Africa / Middle East | 636.0 | 14 | 629.0 | 13 |
| Total | $9,675.4 | 283 | $9,772.2 | 284 |
| **By Manufacturer:** | | | | |
| Airbus | $6,137.9 | 159 | $6,232.3 | 161 |
| Boeing | 2,941.8 | 102 | 2,929.6 | 101 |
| Embraer | 545.8 | 21 | 552.7 | 21 |
| Other | 49.9 | 1 | 57.6 | 1 |
| Total | $9,675.4 | 283 | $9,772.2 | 284 |
| **By Body Type** [2]**:** | | | | |
| Narrow body | $6,158.3 | 230 | $6,211.4 | 230 |
| Intermediate | 3,466.2 | 51 | 3,502.2 | 52 |
| Regional and other | 50.9 | 2 | 58.6 | 2 |
| Total | $9,675.4 | 283 | $9,772.2 | 284 |
| Number of customers | | 98 | | 95 |
| Weighted average age of fleet (years) | | 6 | | 5 |

[1] *Includes operating lease equipment held for sale.*

(2) *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.*



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Our top five commercial aerospace outstanding exposures totaled $2,663.4 million and $2,745.4 million at March 31, 2016 and December 31, 2015, respectively. The largest individual outstanding exposure totaled $896.9 million and $907.6 million at March 31, 2016 and December 31, 2015, respectively, which was to a U.S. carrier. See *Note 14 Commitments* in *Item 1. Consolidated Financial Statements* for additional information regarding commitments to purchase additional aircraft.

**CONSUMER CONCENTRATIONS**

The following table presents our total outstanding consumer financing and leasing assets, including PCI loans. The consumer PCI loans are included in the total outstanding and displayed separately, net of purchase accounting adjustments. PCI loans are discussed in more detail in *Note 3 Loans* in *Item 1. Consolidated Financial Statements.*

**Consumer Financing and Leasing Assets** (dollars in millions)

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | **Net Investment** | **% of Total** | **Net Investment** | **% of Total** |
| Single family residential | $5,680.5 | 82.2% | $5,657.6 | 81.9% |
| Reverse mortgage | 924.4 | 13.4% | 917.4 | 13.3% |
| Home Equity Lines of Credit | 281.5 | 4.1% | 325.7 | 4.7% |
| Other consumer | 22.1 | 0.3% | 7.8 | 0.1% |
| Total loans | $6,908.5 | 100.0% | $6,908.5 | 100.0% |

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and LTV. We monitor trending of delinquency/delinquency rates as well as non-performing trends for home equity loans and residential real estate loans.

LTV refers to the ratio comparing the loan s unpaid principal balance to the property s collateral value. We update the property values of real estate collateral if events require current information and calculate current LTV ratios. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

See *Note 3 Loans* in *Item 1. Consolidated Financial Statements* for information on LTV ratios.

Loan concentrations may exist when borrowers could be similarly impacted by economic or other conditions. The following table summarizes the carrying value of consumer financing and leasing assets, with concentrations in the top five states based upon property address by geographical regions.

**Consumer Financing and Leasing Assets Geographic Concentrations** (dollars in millions)

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | **Net Investment** | **% of Total** | **Net Investment** | **% of Total** |

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| California | $4,301.3 | 62.3% | $ 4,236.5 | 61.3% |
| New York | 554.3 | 8.0% | 560.5 | 8.1% |
| Florida | 312.7 | 4.5% | 306.7 | 4.5% |
| New Jersey | 168.2 | 2.4% | 177.8 | 2.6% |
| Maryland | 146.7 | 2.1% | 154.4 | 2.2% |
| Other States and Territories [(1)] | 1,425.3 | 20.7% | 1,472.6 | 21.3% |
| | $6,908.5 | 100.0% | $ 6,908.5 | 100.0% |

*(1) No state or territory has total net investment in excess of 2%.*



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## OTHER ASSETS AND LIABILITIES

The following table presents the components of other assets.

**Other Assets** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Current and deferred federal and state tax assets | $ 1,197.4 | $ 1,252.5 |
| Deposits on commercial aerospace equipment | 774.3 | 696.0 |
| Tax credit investments and investments in unconsolidated subsidiaries | 237.9 | 223.9 |
| Property, furniture and fixtures | 192.1 | 197.2 |
| Other counterparty receivables | 179.6 | 59.0 |
| Tax receivables, other than income taxes | 105.7 | 98.2 |
| OREO and repossessed assets | 105.4 | 127.3 |
| Fair value of derivative financial instruments | 97.4 | 140.7 |
| Other [(1) (2)] | 487.7 | 502.8 |
| Total other assets | $ 3,377.5 | $ 3,297.6 |

(1) *Other includes executive retirement plan and deferred compensation, prepaid expenses, accrued interest and dividends and other miscellaneous assets.*

(2) *Other also includes servicing advances. In connection with the OneWest Transaction, the Company acquired the servicing obligations for residential mortgage loans. As of March 31, 2016, the loans serviced for others total $17.1 billion for reverse mortgage loans and $78.3 million for single family residential mortgage loans.*

The following table presents components of other liabilities:

**Other Liabilities** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Equipment maintenance reserves | $ 1,042.2 | $ 1,012.4 |
| Accrued expenses | 394.7 | 499.8 |
| Current taxes payable and deferred taxes | 354.5 | 363.1 |
| Fair value of derivative financial instruments | 196.5 | 103.0 |
| Security and other deposits | 179.9 | 263.0 |
| Accounts payable | 168.9 | 128.3 |
| Accrued interest payable | 161.0 | 209.6 |
| Valuation adjustment relating to aerospace commitments | 73.1 | 73.1 |
| Other (1) | 449.4 | 506.4 |
| Total other liabilities | $ 3,020.2 | $ 3,158.7 |

(1) *Other consists of liabilities for taxes other than income, contingent liabilities and other miscellaneous liabilities.*

## 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 risk of 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 risk that fluctuations in interest rates will have an impact 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 risk that fluctuations in exchange rates between currencies can have an economic impact on the Company s non-dollar denominated assets and liabilities.





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 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.

- 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 and 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 Annual Report on Form 10-K for the year ended December 31, 2015.

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

- Net Interest Income Sensitivity ( NII Sensitivity ), which measures the net impact of hypothetical changes in interest rates on net finance revenue over a 12 month period; and

- Economic Value of Equity ( EVE ), which measures the net impact of these hypothetical changes on the value of equity by assessing the economic 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, consumer loans, operating lease equipment, cash and investments. Our leasing products are level/fixed payment transactions, whereas the interest rate on the majority of our commercial loan portfolio is based on a floating rate index such as short-term Libor or Prime. Our consumer loan portfolio is based on both floating rate and level/fixed payment transactions. 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. We use a variety of funding sources, including CDs, money market, savings and checking accounts, and secured and unsecured debt. 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 shorter end of the yield curve, mostly related 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, N.A. sources deposits primarily through a retail branch network in Southern California, direct-to-consumer (via the internet) and brokered channels. The Bank also offers a full range of commercial products. At March 31, 2016, the Bank had over $32 billion in deposits. Certificates of deposit represented approximately $18.4 billion, 56% of the total, most of which were sourced through direct channels. 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. 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 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 from the market-based forward curve. NII sensitivity is based on a static balance sheet projection.

**Change to NII Sensitivity and EVE**

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | +100 bps | 100 bps | +100 bps | 100 bps |
| **NII Sensitivity** | 3.8% | (2.0)% | 3.5% | (2.1)% |
| **EVE** | 0.6% | (0.1)% | 0.5% | (0.5)% |

As of March 31, 2016, we ran a range of scenarios, including a 200 bps parallel increase scenario, which resulted in an NII Sensitivity of 7.6% and an EVE of 1.2%, while a 200bps decline scenario was not run as the current low rate environment makes the scenario less relevant. Regarding the negative scenarios, we have an assumed rate floor.

As detailed in the above table, NII sensitivity is positive with respect to an increase in interest rates. This is primarily driven by our floating rate loan portfolio (including approximately $9.6 billion that are subject to floors), which reprice frequently, and cash and investment securities. 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 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 a 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, and comparing those amounts with the EVE sensitivity base case calculated using a market-based forward interest rate curve. The duration of our liabilities is greater than that of our assets, because 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, while NII Sensitivity generally assumes cashflow from portfolio run-off is reinvested in similar products.

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 limits.

We use results of our various interest rate risk analyses to formulate asset and liability management ( ALM ) strategies, in coordination with the Asset Liability Committee, 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.



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## 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 including unanticipated funding obligations, such as customer line draws, or disruptions to our access to capital markets or other funding sources. Primary liquidity sources include cash, investment securities and credit facilities as discussed below.

### Cash

Cash totaled $8.1 billion at March 31, 2016, down modestly from $8.3 billion at December 31, 2015. Cash at March 31, 2016 consisted of $1.0 billion related to the bank holding company and $5.9 billion at CIT Bank, N.A. (excluding $0.1 billion of restricted cash), with the remainder comprised of cash at operating subsidiaries and other restricted balances of approximately $1.2 billion.

### Investment Securities

**Investment Securities** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| **Available-for-sale securities** | | |
| Debt securities | $ 1,983.3 | $ 2,007.8 |
| Equity securities | 14.5 | 14.3 |
| **Held-to-maturity securities** | | |
| Debt securities | 291.1 | 300.1 |
| **Investment securities carried at fair value with changes recorded in net income** | | |
| Debt securities | 323.0 | 339.7 |
| **Non-marketable equity investments and other** | 284.9 | 291.9 |
| Total investment securities | $ 2,896.8 | $ 2,953.8 |

The debt securities AFS are mostly mortgage-backed securities. The non-marketable equity investments mostly represent FHLB and FRB stock. As part of our 2016 business strategy, we plan to redeploy cash at the Bank into investments in higher-yielding, high quality liquid assets.

Interest and dividend income totaled $31 million, $9 million and $30 million for the quarters ended March 31, 2016 and 2015, and December 31, 2015, respectively, with the current and prior quarters reflecting the acquired mortgage-backed security portfolio from OneWest Bank. Interest and dividend income are a component of NFR. See *Net Finance Revenue.* See also *Non-interest Income* for discussion on investments sales activity.

### Credit Facilities

- A multi-year committed revolving credit facility with a total commitment of $1.5 billion, of which $1.4 billion was unused at March 31, 2016; and

- Committed securitization facilities and secured bank lines totaled $4.0 billion, of which $2.4 billion was unused at March 31, 2016, 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 FHLB and FRB.

**Funding Sources**

Funding sources include deposits and borrowings. As we execute on our strategic initiatives, we plan to continue to increase the proportion of deposits in our funding mix. The following table reflects our funding mix:

**Funding Mix**

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Deposits | 65% | 64% |
| Unsecured | 21% | 21% |
| Secured Borrowings: | | |
| Structured financings | 8% | 9% |
| FHLB Advances | 6% | 6% |

The percentage of funding for each period excludes the debt related to discontinued operations.

The following sections on deposits and borrowings provide further detail on the acquired amounts and the effect on existing balances.



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**Deposits**

The following table details our ending deposit balances by type:

**Deposits** (dollars in millions)

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Total | Percent of Total | Total | Percent of Total |
| Checking and Savings: | | | | |
| Non-interest bearing checking | $ 948.0 | 2.9% | $ 866.2 | 2.6% |
| Interest bearing checking | 3,034.0 | 9.2% | 3,123.7 | 9.5% |
| Money market | 5,572.0 | 16.9% | 5,560.5 | 17.0% |
| Savings | 4,751.9 | 14.4% | 4,840.5 | 14.8% |
| Certificates of Deposits | 18,423.6 | 56.0% | 18,201.9 | 55.5% |
| Other | 163.2 | 0.6% | 189.4 | 0.6% |

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Total | $32,892.7 | 100.0% | $32,782.2 | 100.0% |

CIT Bank, N.A. offers a full suite of deposit offerings to its customers, and since the acquisition, now has a network of 70 branches in Southern California to serve its customers. Deposit growth is a key area of focus for CIT as it offers lower funding costs compared to other sources. The weighted average coupon rate of total deposits was 1.26% at March 31, 2016, unchanged from December 31, 2015. At March 31, 2016, our CDs had a weighted average remaining life of approximately 2.3 years, down slightly from 2.4 years at December 31, 2015. See *Net Finance Revenue* section for further discussion on average balances and rates.

**Borrowings**

Borrowings consist of senior unsecured notes and secured borrowings (structured financings and FHLB advances), all of which totaled $18.0 billion at March 31, 2016, down from $18.4 billion at December 31, 2015, mostly reflecting declines in structured financings due to repayments. The weighted average coupon rate of borrowings at March 31, 2016 was 3.95%, up slightly from 3.91% at December 31, 2015, as the secured borrowings that were repaid were at low rates.

In conjunction with pursuing strategic alternatives for our Commercial Air business, we are evaluating both a spin-off to shareholders as a separate public entity and a sale as alternatives. It is very likely that either alternative will result in repayment and/or restructuring of some of our funding facilities, both secured and unsecured debt, including the Total Return Swap ( TRS ), which could result in significant debt-related costs. The TRS Facilities allow for termination by CIT for all or a portion thereof upon 10 days notification to GSI. Such termination requires payment of a present value of the remaining facility fee related to the portion terminated that would be due under the terms of the agreement.

**Unsecured**

***Revolving Credit Facility***

There were no borrowings outstanding under the Revolving Credit Facility at March 31, 2016 and the amount available to draw upon was approximately $1.4 billion, with the remaining amount of approximately $0.1 billion utilized for issuance of letters of credit.

On February 17, 2016 the Revolving Credit Facility was amended to extend the maturity date of the commitments to January 26, 2018, reduce the required minimum guarantor coverage from 1.50:1.0 to 1.375:1.0, and to include Fitch Ratings as a designated Rating Agency within the facilities terms and conditions.

The Revolving Credit Facility has a $1.5 billion total commitment that 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 based on our debt ratings. Currently, the applicable margin is 2.25% for LIBOR Rate loans and 1.25% for Base Rate loans. Improvement in CIT's long-term senior unsecured debt ratings to Ba2 by Moody's would result in a reduction in the applicable margin to 2.00% for LIBOR Rate loans and to 1.00% for Base Rate loans. A downgrade in CIT's long-term senior unsecured debt ratings to B+ by S&P or Fitch would result in an increase in the applicable margin for LIBOR Rate and 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 nine of the Company s domestic operating subsidiaries. The facility contains a covenant requiring a minimum guarantor asset coverage ratio and the criteria for calculating the ratio. The covenant minimum guarantor asset coverage ratio ranges from 1.0:1.0 to 1.50:1.0 depending on the Company s long-term senior unsecured debt rating. The requirement at March 31, 2016 was 1.375:1.0. As of March 31, 2016, the last reported asset coverage ratio was 2.77x.

See *Note 8 Borrowings* in *Item 1. Consolidated Financial Statements* for further detail.





***Senior Unsecured Borrowings***

At March 31, 2016, unsecured borrowings outstanding totaled $10.6 billion, essentially unchanged from December 31, 2015. The weighted average coupon rate of unsecured borrowings at March 31, 2016 was 5.03%, also unchanged from December 31, 2015. As detailed in Contractual Commitments and Payments below, there are no scheduled maturities in 2016. See *Note 8 Borrowings* in *Item 1. Consolidated Financial Statements* for further detail on maturities.

**Secured**

***Secured 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 and/or equipment. Certain related cash balances are restricted.

***FHLB Advances***

FHLB advances have become a larger source of funding as a result of the OneWest Transaction. CIT Bank, N.A. is a member of the FHLB of San Francisco and may borrow under a line of credit that is secured by collateral pledged to the San Francisco FHLB. The Bank makes decisions regarding utilization of advances based upon a number of factors including liquidity needs, capital constraints, cost of funds and alternative sources of funding. CIT Bank, N.A. had $3.1 billion outstanding under the line and $6.6 billion of assets were pledged as collateral at March 31, 2016, essentially unchanged from December 31, 2015.

FHLB Advances and pledged assets are also discussed in *Note 8 Borrowings* in *Item 1. Consolidated Financial Statements*.

***Structured Financings***

Structured Financings totaled $4.3 billion at March 31, 2016, down from $4.7 billion at December 31, 2015. The decrease in secured borrowings during 2016 reflects net repayments and redemptions. The weighted average coupon rate of structured financings at March 31, 2016 was 3.48%, up from 3.40% at December 31, 2015. The increase in the weighted average rate reflects the repayments on lower coupon financings.

CIT Bank, N.A. structured financings totaled $0.6 billion and $0.8 billion at March 31, 2016 and December 31, 2015, respectively, which were secured by $0.9 billion and $1.1 billion of pledged assets at March 31, 2016 and December 31, 2015, respectively. Non-bank structured financings were $3.7 billion and $3.9 billion at March 31, 2016 and December 31, 2015, respectively, and were secured by assets of $7.3 billion and $7.2 billion, at March 31, 2016 and December 31, 2015, respectively.

See *Note 8 Borrowings* in *Item 1. Consolidated Financial Statements* for a table displaying our consolidated secured financings and pledged assets.

***FRB***

The Company has a borrowing facility with the FRB Discount Window that can be used for short-term, typically overnight, borrowings. The borrowing capacity is determined by the FRB based on the collateral pledged.

There were no outstanding borrowings with the FRB Discount Window as of March 31, 2016 or December 31, 2015. See *Note 8 Borrowings* in *Item 1. Consolidated Financial Statements* for total balances pledged, including amounts to the FRB.

***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, 2016, a total of $1,746 million of pledged assets, and secured debt totaling $1,122 million issued to investors, was outstanding under the GSI Facilities. About half of the pledged assets and debt outstanding under the GSI Facilities related to commercial aerospace assets, a business that management is pursuing strategic alternatives for. After adjustment to the amount of actual qualifying borrowing base under the terms of the GSI Facilities, this secured debt provided for usage of $957 million of the maximum notional amount of the GSI Facilities. The remaining $1,168 million of the maximum notional amount represents the unused portion of the GSI Facilities and constitutes the notional amount of derivative financial instruments. An unsecured counterparty receivable of $556 million is owed to CIT from GSI for debt discount,

return of collateral posted to GSI and settlements resulting from market value changes to the asset-backed securities underlying the structures at March 31, 2016.

The GSI Facilities were structured as a TRS to satisfy the specific requirements set by GSI to obtain its funding commitment. 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



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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:

- Funding costs for similar financings based on the current market environment;
- Forecasted usage of the long-dated GSI Facilities through the final maturity date in 2028; and
- 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 recorded a liability of $37 million and $55 million at March 31, 2016 and December 31, 2015, respectively. During the quarters ended March 31, 2016 and 2015, we recognized $18 million as an increase to other income and $1 million as a reduction to other income, respectively, associated with the change in liability.

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

- A fixed facility fee of 2.85% per annum times the maximum facility commitment amount,
- A variable amount based on one-month or three-month U.S.D. LIBOR times the utilized amount (effectively the adjusted qualifying borrowing base ) of the total return swap, and
- 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 9 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.

CIT and CIT Bank debt ratings at March 31, 2016, 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, 2016**

| | S&P | Fitch | Moody s | DBRS |
|---|---|---|---|---|
| **CIT Group Inc.** | | | | |
| Issuer / Counterparty Credit Rating | BB+ | BB+ | NR | BB (High) |
| Revolving Credit Facility Rating | BB+ | BB+ | B1 | BBB (Low) |
| Series C Notes / Senior Unsecured Debt Rating | BB+ | BB+ | B1 | BB (High) |
| Outlook | Stable | Stable | Positive | Stable |
| **CIT Bank, N.A.** | | | | |
| Deposit Rating (LT/ST) | NR | BBB-/F3 | NR | BB (High)/R-4 |
| Long-term Senior Unsecured Debt Rating | BBB- | BB+ | NR | BB (High) |

*NR Not Rated*

In January 2016, S&P assigned a long-term issuer credit rating of BBB- to CIT Bank, N.A.

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 the Dodd-Frank Act. 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.



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**Tax Implications of Cash in Foreign Subsidiaries**

Cash held by foreign subsidiaries totaled $1.0 billion, including cash available to the BHC and restricted cash, at March 31, 2016, and December 31, 2015.

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

**Contractual Payments and Commitments**

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

| | Total | 2017 | 2018 | 2019 | 2020 | 2021+ |
|---|---|---|---|---|---|---|
| Structured financings[2] | $ 4,351.9 | $ 1,271.0 | 740.7 | 571.2 | 344.7 | 1,424.3 |
| FHLB advances | 3,113.5 | 1,397.5 | 15.0 | 1,701.0 | | |
| Senior unsecured | 10,645.9 | | 4,399.5 | 3,445.0 | | 2,801.4 |

| | Total | 2017 | 2018 | 2019 | 2020 | 2021+ |
|---|---|---|---|---|---|---|
| **Total Long-term borrowings** | 18,111.3 | 2,668.5 | 5,155.2 | 5,717.2 | 344.7 | 4,225.7 |
| Deposits | 32,877.0 | 22,578.4 | 3,248.2 | 1,402.1 | 2,285.7 | 3,362.6 |
| Credit balances of factoring clients | 1,361.0 | 1,361.0 | | | | |
| Lease rental expense | 292.1 | 55.0 | 45.8 | 45.2 | 40.0 | 106.1 |
| **Total contractual payments** | $52,641.4 | $26,662.9 | $8,449.2 | $7,164.5 | $2,670.4 | $7,694.4 |

(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 Months Ended March 31** (dollars in millions)

| | Total | 2017 | 2018 | 2019 | 2020 | 2021+ |
|---|---|---|---|---|---|---|
| Financing commitments | $ 6,824.3 | $1,450.4 | $1,002.1 | $1,265.4 | $1,233.1 | $1,873.3 |
| Aerospace purchase commitments(1) | 9,508.8 | 571.2 | 1,210.0 | 2,120.6 | 3,887.3 | 1,719.7 |
| Rail and other purchase commitments | 810.9 | 720.8 | 62.3 | 27.8 | | |
| Letters of credit | 348.9 | 73.7 | 70.8 | 110.8 | 56.3 | 37.3 |
| Deferred purchase agreements | 1,583.5 | 1,583.5 | | | | |
| Guarantees, acceptances and other recourse obligations | 1.3 | 1.3 | | | | |
| Liabilities for unrecognized tax obligations(2) | 41.1 | 5.0 | 36.1 | | | |
| Total contractual commitments | $19,118.8 | $4,405.9 | $2,381.3 | $3,524.6 | $5,176.7 | $3,630.3 |

(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 decreased from $7.4 billion at December 31, 2015 to $6.8 billion at March 31, 2016. Financing commitments include commitments that have been extended to and accepted by customers or agents, but on which the criteria for funding have not been completed of $764 million at March 31, 2015. Also included are Commercial Services credit line agreements, with an amount available of $411 million, net of the amount of receivables assigned to us. These are cancellable by CIT only after a notice period.

At March 31, 2016, 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 Commercial Finance division of Commercial Banking. The top ten undrawn commitments totaled $400 million at March 31, 2016. The table above includes approximately $1.7 billion of undrawn financing commitments at March 31, 2016 that were not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend.

See *Note 14 Commitments* in *Item 1. Consolidated Financial Statements* for further detail.



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## 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, subject to a non-objection to our capital plan from the FRB.

CIT uses a complement of capital metrics and related thresholds to measure capital adequacy taking into account the existing regulatory capital framework. CIT further evaluates capital adequacy through the enterprise stress testing and economic capital ( ECAP ) approaches, which constitutes our capital adequacy process.

CIT s capital management is discussed further in the Regulation section of *Item 1. Business Overview* with respect to regulatory matters, including *Capital Requirements* and *Stress Test and Capital Plan Requirements* in our Annual Report on Form 10-K for the year ended December 31, 2015.

### Regulatory Reporting Impact of Exceeding $50 Billion of Assets

As a BHC in excess of $50 billion of assets, CIT is subject to enhanced prudential regulation under the Dodd-Frank Act. Among other requirements, CIT is subject to capital planning and stress testing requirements under the FRB s Comprehensive Capital Analysis and Review ( CCAR ) process, which requires CIT to submit an annual capital plan and demonstrate that it can meet required adequate capital levels over a nine quarter planning horizon after taking into account the impact of stresses based on both supervisory and company-specific scenarios. During April 2016, CIT submitted its capital plan to the Federal Reserve and, while the FRB will not publish our results, we expect to receive private feedback on our submission in June. CIT s ability to pay dividends and repurchase stock will be determined in accordance with a capital plan to which the FRB has not objected.

CIT also collects and reports to the FRB certain capital-related data on a quarterly basis, which the FRB will use to track our progress against the capital plan. Upon full implementation of the CCAR process in 2017, the results of our capital plan and stress tests will be made public. CIT is also required to conduct annual and mid-cycle Company-run stress tests for submission to the FRB, and publicly disclose the test details for certain supervisory scenarios.

The final Basel III framework requires banks and BHCs to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio ( LCR ), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, with a phased implementation process starting January 1, 2015 and complete implementation by January 1, 2019. The final rule applies a modified version of the LCR requirements to bank holding companies with total consolidated assets of greater than $50 billion but less than $250 billion. The modified version of the LCR requirement only requires the LCR calculation to be performed on the last business day of each month and sets the denominator (that is, the calculation of net cash outflows) for the modified version at 70% of the denominator as calculated under the most comprehensive version of the rule applicable to larger institutions.

### Return of Capital

Our year-to-date common stock dividends in 2016 were as follows:

**2016 Dividends**

| Declaration Date | Payment Date | Per Share Dividend |
|---|---|---|
| January | February 26, 2016 | $ 0.15 |
| April | May 27, 2016 | $ 0.15 |

### Capital Composition and Ratios

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. The regulatory capital guidelines applicable to the Company were based on the Basel III Final Rule.



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

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Transition Basis | Fully Phased-in Basis | Transition Basis | Fully Phased-in Basis |
| **Tier 1 Capital** | | | | |
| Total stockholders equity | $11,125.8 | $11,125.8 | $10,978.1 | $10,978.1 |
| Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interests | 73.4 | 73.4 | 76.9 | 76.9 |
| Adjusted total equity | 11,199.2 | 11,199.2 | 11,055.0 | 11,055.0 |
| Less: Goodwill[(1)] | (1,126.3) | (1,126.3) | (1,130.8) | (1,130.8) |
| Disallowed deferred tax assets | (873.9) | (873.9) | (904.5) | (904.5) |
| Disallowed intangible assets[(1)] | (76.7) | (127.8) | (53.6) | (134.0) |
| Other Tier 1 components | | | (0.1) | (0.1) |
| CET 1 Capital | 9,122.3 | 9,071.2 | 8,966.0 | 8,885.6 |
| Tier 1 Capital | 9,122.3 | 9,071.2 | 8,966.0 | 8,885.6 |
| **Tier 2 Capital** | | | | |
| Qualifying reserve for credit losses and other reserves[(2)] | 452.9 | 452.9 | 403.3 | 403.3 |
| Total qualifying capital | $ 9,575.2 | $ 9,524.1 | $ 9,369.3 | $ 9,288.9 |
| Risk-weighted assets | $68,495.8 | $69,192.0 | $69,563.6 | $70,239.3 |
| **BHC Ratios** | | | | |
| CET 1 Capital Ratio | 13.3% | 13.1% | 12.9% | 12.7% |
| Tier 1 Capital Ratio | 13.3% | 13.1% | 12.9% | 12.7% |
| Total Capital Ratio | 14.0% | 13.8% | 13.5% | 13.2% |
| Tier 1 Leverage Ratio | 13.9% | 13.8% | 13.5% | 13.4% |
| **CIT Bank Ratios** | | | | |
| CET 1 Capital Ratio | 12.9% | 12.7% | 12.8% | 12.6% |
| Tier 1 Capital Ratio | 12.9% | 12.7% | 12.8% | 12.6% |
| Total Capital Ratio | 14.0% | 13.9% | 13.9% | 13.6% |
| Tier 1 Leverage Ratio | 10.8% | 10.7% | 10.9% | 10.7% |

[(1)] *Goodwill and disallowed intangible assets adjustments include the respective portion of deferred tax liability in accordance with guidelines under Basel III.*

[(2)] *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.*

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

**Risk-Weighted Assets** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Balance sheet assets | $ 67,097.6 | $ 67,401.5 |
| Risk weighting adjustments to balance sheet assets | (13,846.2) | (13,728.1) |
| Off balance sheet items | 15,244.4 | 15,890.2 |
| Risk-weighted assets | $ 68,495.8 | $ 69,563.6 |

The 2016 off balance sheet items primarily reflect commitments to purchase aircraft and railcars ($9.4 billion related to aircraft and $0.7 billion related to railcars), unused lines of credit ($2.9 billion credit equivalent, largely related to the Commercial Finance division), and deferred purchase agreements ($1.6 billion related to the Business Capital division). See *Note 14 Commitments* in *Item 1. Consolidated Financial Statements* for further detail on commitments.





**Tangible Book Value and Tangible Book Value per Share**

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**[(1)] (dollars in millions, except per share amounts)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Total common stockholders equity | $11,125.8 | $10,978.1 |
| Less: Goodwill | (1,195.1) | (1,198.3) |
| Intangible assets | (170.3) | (176.3) |
| Tangible book value | $ 9,760.4 | $ 9,603.5 |
| Book value per share | $ 55.16 | $ 54.61 |
| Tangible book value per share | $ 48.39 | $ 47.77 |

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

Book value and Tangible book value ( TBV ), along with the respective per share balances increased from December 31, 2015, primarily reflecting net income recorded during the quarter.

## CIT BANK

CIT Bank, N.A. (the Bank), a wholly-owned subsidiary, is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury ( OCC ) and is also subject to regulation and examination by the FDIC. The Bank originates and funds lending and leasing activity in the U.S., primarily by raising deposits through its 70 branch network and from retail and institutional customers through commercial channels, as well as its online banking platform and through broker channels. Its existing suite of deposit products includes checking and savings accounts,

Individual Retirement Accounts and Certificates of Deposit. The Bank s primary office is in Pasadena, CA.

While total assets remained somewhat flat compared to December 31, 2015, asset growth during the quarter reflected higher commercial leasing volumes. Operating lease equipment was up from December 31, 2015, reflecting increased leasing volumes in the Rail portfolio. The portfolio of operating lease equipment, which totaled $2.9 billion, was comprised of railcars and some aircraft. Deposits grew in support of the increased business activities.

Total cash and investment securities, including non-earning cash, were $8.5 billion at March 31, 2016, and comprised of $6.0 billion of cash and $2.5 billion of debt and equity securities.

CIT Bank deposits were $32.9 billion at March 31, 2016, up slightly from December 31, 2015. The weighted average interest rate was 1.26%, relatively unchanged from December 31, 2015.

FHLB advances are a consistent source of funding for the Bank, which is a member of the FHLB of San Francisco. The Bank may borrow under a line of credit that is secured by collateral pledged to the FHLB San Francisco. Other borrowings, consisting of other secured debt instruments, decreased from December 31, 2015 through expected pay-down and run-off activity.

The Bank s capital and leverage ratios are included in the tables that follow and remained well above required levels. CIT Bank reports regulatory capital ratios in accordance with the Basel III Final Rule and determines risk weighted assets under the Standardized Approach.



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The following presents condensed financial information for CIT Bank, N.A.

**Condensed Balance Sheets** (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| **ASSETS:** | | |
| Cash and deposits with banks | $ 6,041.9 | $ 6,073.5 |
| Investment securities | 2,522.6 | 2,577.4 |
| Assets held for sale | 909.7 | 444.2 |
| Loans | 28,876.2 | 29,349.8 |
| Allowance for loan losses | (382.0) | (337.5) |
| Operating lease equipment, net | 2,935.3 | 2,777.8 |
| Indemnification Assets | 389.4 | 414.8 |
| Goodwill | 824.6 | 830.8 |
| Intangible assets | 156.9 | 163.2 |
| Other assets | 1,067.0 | 1,006.1 |
| Assets of discontinued operations | 489.5 | 500.5 |
| **Total Assets** | $ 43,831.1 | $ 43,800.6 |
| **LIABILITIES AND EQUITY:** | | |
| Deposits | $ 32,892.7 | $ 32,782.2 |
| FHLB advances | 3,116.3 | 3,117.6 |
| Borrowings | 621.8 | 798.3 |
| Other liabilities | 917.3 | 799.9 |
| Liabilities of discontinued operations | 684.8 | 696.2 |
| **Total Liabilities** | 38,232.9 | 38,194.2 |

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| **Total Equity** | 5,598.2 | 5,606.4 |
| **Total Liabilities and Equity** | $ 43,831.1 | $ 43,800.6 |
| **Capital Ratios*** | | |
| Common Equity Tier 1 Capital | 12.7% | 12.6% |
| Tier 1 Capital Ratio | 12.7% | 12.6% |
| Total Capital Ratio | 13.9% | 13.6% |
| Tier 1 Leverage ratio | 10.7% | 10.7% |

* *The capital ratios presented above are reflective of the fully-phased in BASEL III approach.*

**Financing and Leasing Assets by Segment** (dollars in millions)

| | | |
|---|---|---|
| **Commercial Banking** | **$ 19,584.9** | **$ 19,430.8** |
| Commercial Finance | 9,496.0 | 9,381.1 |
| Commercial Real Estate | 5,362.9 | 5,357.6 |
| Business Capital | 4,726.0 | 4,692.1 |
| **Transportation Finance** | **$ 5,901.0** | **$ 5,895.5** |
| Aerospace | 1,896.4 | 2,007.7 |
| Rail | 2,337.7 | 2,209.7 |
| Maritime | 1,666.9 | 1,678.1 |
| **Consumer and Community** | **$ 7,235.3** | **$ 7,245.5** |
| Legacy Consumer Mortgages | 5,353.2 | 5,471.6 |
| Other Consumer Banking | 1,882.1 | 1,773.9 |
| Total | $ 32,721.2 | $ 32,571.8 |



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**Condensed Statements of Income** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| Interest income | $ 446.3 | $ 447.1 | $ 197.5 |
| Interest expense | (110.8) | (108.9) | (75.4) |
| Net interest revenue | 335.5 | 338.2 | 122.1 |
| Provision for credit losses | (92.5) | (59.7) | (34.0) |
| Net interest revenue, after credit provision | 243.0 | 278.5 | 88.1 |
| Rental income on operating leases | 92.2 | 84.3 | 70.1 |
| Other income | 44.2 | 28.1 | 28.6 |

| | Quarters Ended | | |
|---|---|---|---|
| Total net revenue, net of interest expense and credit provision | 379.4 | 390.9 | 186.8 |
| Operating expenses | (245.9) | (280.5) | (96.9) |
| Depreciation on operating lease equipment | (36.7) | (34.1) | (28.5) |
| Maintenance and other operating lease expenses | (2.6) | (3.2) | (1.2) |
| Income before provision for income taxes | 94.2 | 73.1 | 60.2 |
| Provision for income taxes | (30.4) | (15.0) | (25.1) |
| Income from continuing operations | 63.8 | 58.1 | 35.1 |
| Loss on discontinued operations | (4.8) | (6.7) | |
| **Net income** | $ 59.0 | $ 51.4 | $ 35.1 |
| **New business volume funded** | $1,983.6 | $3,035.1 | $1,450.2 |

Compared to the prior-year quarter, results are significantly changed due to the OneWest Bank acquisition. Compared to the prior quarter, the Bank s results benefited from higher non-interest income and lower operating expenses. The increase in other income was the result of increased affiliate charges for the use of bank services and employees.

The provision for credit losses for the quarter ended March 31, 2016 was elevated due to increases in reserves related to the Energy and Maritime portfolios. For the first quarter of 2016 and fourth quarter of 2015 net charge-offs as a percentage of average finance receivables were 0.62% and 0.39%, respectively.

**Net Finance Revenue** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| Interest income | $ 446.3 | $ 447.1 | $ 197.5 |
| Rental income on operating leases | 92.2 | 84.3 | 70.1 |
| Finance revenue | 538.5 | 531.4 | 267.6 |
| Interest expense | (110.8) | (108.9) | (75.4) |
| Depreciation on operating lease equipment | (36.7) | (34.1) | (28.5) |
| Maintenance and other operating lease expenses | (2.6) | (3.2) | (1.2) |
| Net finance revenue ( NFR ) | $ 388.4 | $ 385.2 | $ 162.5 |
| Average Earning Assets ( AEA ) | $41,555.9 | $41,536.2 | $21,183.3 |
| **As a % of AEA:** | | | |
| Interest income | 4.29% | 4.31% | 3.73% |
| Rental income on operating leases | 0.89% | 0.81% | 1.32% |
| Finance revenue | 5.18% | 5.12% | 5.05% |
| Interest expense | (1.06)% | (1.05)% | (1.42)% |
| Depreciation on operating lease equipment | (0.35)% | (0.33)% | (0.54)% |
| Maintenance and other operating lease expenses | (0.03)% | (0.03)% | (0.02)% |
| Net finance margin ( NFM ) | 3.74% | 3.71% | 3.07% |

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 composition includes a significant amount of operating

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lease equipment (7% of AEA for the quarter ended March 31, 2016), 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 depreciation and maintenance and other operating lease expenses) from operating leases.

Operating leases contributed $52.9 million to NFR in the current quarter compared to $47.0 million in the previous quarter and $40.4 million in the first quarter of 2015.

The Bank s effective tax rate decreased to 32% in the first quarter of 2016, from 42% in the prior-year quarter, due primarily to the benefit from tax credits generated from investments acquired as part of the OneWest Bank transaction, and reduction in state tax rates including the impact of the OneWest Bank acquisition on updated apportionment data.

## 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 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.

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

There have been no significant changes to the methodologies and processes used in developing estimates relating to these items from those described in our 2015 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.



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## SELECT DATA AND AVERAGE BALANCES

**Select Data** (dollars in millions)

| | At or for the Quarters Ended | | |
|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| **Select Statement of Operations Data** | | | |
| Net interest revenue | $ 209.0 | $ 223.7 | $ 9.7 |
| Provision for credit losses | (99.3) | (57.6) | (34.6) |
| Total non-interest income | 676.3 | 581.3 | 617.0 |
| Total non-interest expenses | (581.6) | (606.4) | (444.5) |
| Income from continuing operations | 151.7 | 151.2 | 103.7 |
| Net income | 146.9 | 144.5 | 103.7 |
| **Per Common Share Data** | | | |
| Diluted income per common share continuing operations | $ 0.75 | $ 0.75 | $ 0.59 |
| Diluted income per common share | $ 0.73 | $ 0.72 | $ 0.59 |
| Book value per common share | $ 55.16 | $ 54.61 | $ 50.26 |
| Tangible book value per common share | $ 48.39 | $ 47.77 | $ 46.89 |
| Dividends declared per common share | $ 0.15 | $ 0.15 | $ 0.15 |
| Dividend payout ratio | 20.5% | 20.8% | 25.4% |
| **Performance Ratios** | | | |
| Return on average common stockholders equity | 1.33% | 1.33% | 1.17% |
| Return on tangible common equity | 6.25% | 6.33% | 5.01% |
| Adjusted return on tangible common equity | 7.08% | 7.08% | 5.26% |
| Net finance revenue as a percentage of average earning assets | 3.74% | 3.57% | 3.23% |
| Pre-tax return on average earning assets | 1.02% | 1.02% | 0.99% |
| Pre-tax return on average continuing operations total assets | 0.91% | 0.90% | 0.88% |
| **Balance Sheet Data** | | | |
| Loans including receivables pledged | $31,408.6 | $31,671.7 | $19,429.3 |
| Allowance for loan losses | (404.6) | (360.2) | (356.5) |
| Operating lease equipment, net | 16,665.7 | 16,617.0 | 14,887.8 |
| Goodwill | 1,195.1 | 1,198.3 | 563.6 |
| Total cash and deposits | 8,141.8 | 8,301.5 | 6,306.9 |
| Investment securities | 2,896.8 | 2,953.8 | 1,797.4 |
| Assets of discontinued operation | 489.5 | 500.5 | |
| Total assets | 67,097.6 | 67,401.5 | 46,294.8 |
| Deposits | 32,892.7 | 32,782.2 | 16,758.1 |
| Borrowings | 18,012.6 | 18,441.8 | 16,537.1 |
| Liabilities of discontinued operation | 684.8 | 696.2 | |

| | At or for the Quarters Ended | | |
|---|---|---|---|
| Total common stockholders equity | 11,125.8 | 10,978.1 | 8,758.6 |
| **Credit Quality** | | | |
| Non-accrual loans as a percentage of finance receivables | 0.94% | 0.85% | 0.94% |
| Net charge-offs as a percentage of average finance receivables | 0.65% | 0.40% | 0.43% |
| Allowance for loan losses as a percentage of finance receivables | 1.29% | 1.14% | 1.83% |
| **Capital Ratios** | | | |
| Total ending equity to total ending assets | 16.6% | 16.3% | 18.9% |
| Common Equity Tier 1 Capital Ratio | 13.3% | 12.9% | 14.2% |
| Total Capital Ratio | 14.0% | 13.5% | 14.9% |



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## Quarterly Average Balances[1] and Rates (dollars in millions)

| | Quarters Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | March 31, 2016 | | | December 31, 2015 | | | March 31, 2015 | | |
| | Average Balance | Revenue / Expense | Average Rate (%) | Average Balance | Revenue / Expense | Average Rate (%) | Average Balance | Revenue / Expense | Average Rate (%) |
| Interest bearing deposits | $ 7,114.0 | $ 8.4 | 0.47% | $ 6,671.6 | $ 5.3 | 0.32% | $ 5,951.6 | $ 4.0 | 0.27% |
| Securities purchased under agreements to resell | | | | 25.0 | | | 575.0 | 0.7 | 0.49% |
| Investment securities | 2,923.5 | 22.5 | 3.08% | 3,334.9 | 25.0 | 3.00% | 1,497.2 | 3.9 | 1.04% |
| Loans (including held for sale)[2][3] | | | | | | | | | |
| U.S.[2] | 32,091.5 | 441.2 | 5.74% | 32,467.3 | 440.5 | 5.71% | 17,908.2 | 220.0 | 5.36% |
| Non-U.S. | 1,291.0 | 26.4 | 8.18% | 1,707.8 | 40.4 | 9.46% | 2,235.3 | 52.4 | 9.38% |
| Total loans[2] | 33,382.5 | 467.6 | 5.84% | 34,175.1 | 480.9 | 5.90% | 20,143.5 | 272.4 | 5.84% |
| Total interest earning assets / interest income[2][3] | 43,420.0 | 498.5 | 4.74% | 44,206.6 | 511.2 | 4.80% | 28,167.3 | 281.0 | 4.22% |
| Operating lease equipment, net (including held for sale)[4] | | | | | | | | | |
| U.S.[4] | 8,831.3 | 185.7 | 8.41% | 8,534.7 | 161.7 | 7.58% | 7,769.5 | 177.8 | 9.15% |
| Non-U.S.[4] | 7,890.0 | 158.2 | 8.02% | 7,538.7 | 142.8 | 7.58% | 7,420.0 | 149.9 | 8.08% |
| Total operating lease equipment, net[4] | 16,721.3 | 343.9 | 8.23% | 16,073.4 | 304.5 | 7.58% | 15,189.5 | 327.7 | 8.63% |
| Indemnification assets | 401.7 | (3.1) | (3.09)% | 445.8 | (0.8) | (0.72)% | | | |
| Total earning assets[2] | 60,543.0 | $ 839.3 | 5.67% | 60,725.8 | $ 814.9 | 5.51% | 43,356.8 | $ 608.7 | 5.82% |
| Non interest earning assets | | | | | | | | | |
| Cash due from banks | 1,331.4 | | | 1,636.4 | | | 903.6 | | |
| Allowance for loan losses | (371.5) | | | (338.3) | | | (347.7) | | |
| All other non-interest earning assets | 5,298.4 | | | 5,334.2 | | | 3,190.6 | | |
| Assets of discontinued operation | 495.1 | | | 506.9 | | | | | |

| | Quarters Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Total Average Assets** | $ 67,296.4 | | | $ 67,865.0 | | | $ 47,103.3 | | |
| **Average Liabilities** | | | | | | | | | |
| Borrowings | | | | | | | | | |
| Deposits | $ 31,829.1 | $ 99.5 | 1.25% | $ 31,538.3 | $ 99.2 | 1.26% | $ 16,275.6 | $ 69.0 | 1.70% |
| Borrowings | 18,210.4 | 186.9 | 4.11% | 18,805.9 | 187.5 | 3.99% | 17,477.4 | 202.3 | 4.63% |
| Total interest-bearing liabilities | 50,039.5 | 286.4 | 2.29% | 50,344.2 | 286.7 | 2.28% | 33,753.0 | 271.3 | 3.22% |
| Non-interest bearing deposits | 1,080.2 | | | 1,125.9 | | | 106.6 | | |
| Credit balances of factoring clients | 1,337.5 | | | 1,584.5 | | | 1,501.4 | | |
| Other non-interest bearing liabilities | 3,063.7 | | | 3,231.1 | | | 2,870.6 | | |
| Liabilities of discontinued operation | 690.2 | | | 674.6 | | | | | |
| Noncontrolling interests | 0.5 | | | 0.5 | | | (3.9) | | |
| Stockholders equity | 11,084.8 | | | 10,904.2 | | | 8,875.6 | | |
| **Total Average Liabilities and Stockholders Equity** | $ 67,296.4 | | | $ 67,865.0 | | | $ 47,103.3 | | |
| Net revenue spread | | | 3.38% | | | 3.23% | | | 2.60% |
| Impact of non-interest bearing sources | | | 0.36% | | | 0.34% | | | 0.63% |
| **Net revenue/yield on earning assets[2]** | | $ 552.9 | 3.74% | | $ 528.2 | 3.57% | | $ 337.4 | 3.23% |

(1) *Average rates are impacted by PAA accretion and amortization.*

(2) *The balance and 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.*



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## 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. 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 Revenue[1] and Net Operating Lease Revenue[2]** (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |

| | Quarters Ended | | |
|---|---|---|---|
| **Total Net Revenue** | | | |
| Interest income | $ 495.4 | $ 510.4 | $ 281.0 |
| Rental income on operating leases | 575.4 | 550.9 | 530.6 |
| Finance revenue | 1,070.8 | 1,061.3 | 811.6 |
| Interest expense | (286.4) | (286.7) | (271.3) |
| Depreciation on operating lease equipment | (175.3) | (166.8) | (156.8) |
| Maintenance and other operating lease expenses | (56.2) | (79.6) | (46.1) |
| Net finance revenue | 552.9 | 528.2 | 337.4 |
| Other income | 100.9 | 30.4 | 86.4 |
| **Total net revenue** | $ 653.8 | $ 558.6 | $ 423.8 |
| **NFR as a % of AEA** | 3.74% | 3.57% | 3.23% |
| **Net Operating Lease Revenue** | | | |
| Rental income on operating leases | $ 575.4 | $ 550.9 | $ 530.6 |
| Depreciation on operating lease equipment | (175.3) | (166.8) | (156.8) |
| Maintenance and other operating lease expenses | (56.2) | (79.6) | (46.1) |
| **Net operating lease revenue** | $ 343.9 | $ 304.5 | $ 327.7 |

**Operating Expenses Excluding Certain Costs**[3] (dollars in millions)

| | Quarters Ended | | |
|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2015** |
| Operating expenses | $(348.5) | $(357.8) | $(241.6) |
| Provision for severance and facilities exiting activities | 20.3 | 53.0 | (1.0) |
| Intangible asset amortization | 6.4 | 7.2 | 0.6 |
| Operating expenses excluding restructuring costs and intangible asset amortization | $(321.8) | $(297.6) | $(242.0) |
| Operating expenses as a % of AEA | (2.35)% | (2.42)% | (2.31)% |
| Operating expenses excluding restructuring costs and intangible amortization[3] | (2.17)% | (2.01)% | (2.31)% |
| **Total Net Revenue** | $ 653.8 | $ 558.6 | $ 423.8 |
| Net Efficiency Ratio[4] | 49.2% | 53.3% | 57.1% |



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**Earning Assets**[5] (dollars in millions)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Loans | $31,408.6 | $31,671.7 |
| Operating lease equipment, net | 16,665.7 | 16,617.0 |

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Interest bearing cash | 7,135.0 | 6,820.3 |
| Investment securities | 2,896.8 | 2,953.8 |
| Assets held for sale | 2,211.2 | 2,092.4 |
| Indemnification assets | 389.4 | 414.8 |
| Credit balances of factoring clients | (1,361.0) | (1,344.0) |
| Total earning assets | $59,345.7 | $59,226.0 |
| **Average Earning Assets** (for the respective quarters) | $59,206.4 | $59,141.4 |

**Tangible Book Value**[6] (dollars in millions)

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|---|---|---|---|
| Total common stockholders equity | $11,125.8 | $10,978.1 | $8,758.6 |
| Less: Goodwill | (1,195.1) | (1,198.3) | (563.6) |
| Intangible assets | (170.3) | (176.3) | (23.2) |
| Tangible book value | 9,760.4 | 9,603.5 | 8,171.8 |
| Less: disallowed deferred tax asset | (873.9) | (904.5) | (358.3) |
| Adjusted tangible common equity[8] | $ 8,886.5 | $ 8,699.0 | $7,813.5 |
| Income from continuing operations | $ 151.7 | $ 151.2 | $ 103.7 |
| Adjustments: intangible assets amortization, net of tax | 4.4 | 6.4 | 0.5 |
| Valuation reversal | | (4.0) | |
| Adjusted net income | $ 156.1 | $ 153.6 | $ 104.2 |
| Average tangible common equity | $ 9,714.3 | $ 9,561.4 | $8,284.4 |
| Less: average disallowed deferred tax asset | (889.2) | (885.9) | (366.7) |
| Average adjusted tangible common equity | $ 8,825.1 | $ 8,675.5 | $7,917.7 |
| Adjusted return on tangible common equity | 7.08% | 7.08% | 5.26% |

**Continuing Operations Total Assets**[7] (dollars in millions)

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|---|---|---|---|
| Total assets | $67,097.6 | $67,401.5 | $46,294.8 |
| Assets of discontinued operation | (489.5) | (500.5) | |
| Continuing operations total assets | $66,608.1 | $66,901.0 | $46,294.8 |

(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, net finance revenue as a percent of AEA 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 and intangible asset amortization is a non-GAAP measure used by management to compare period over period expenses.*

(4) *Net efficiency ratio is a non-GAAP measurement used by management to measure operating expenses (before restructuring costs and intangible amortization) to total net revenues.*

(5) *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.*

(6) *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.*

(7) *Continuing operations total assets is a non-GAAP measure, which management uses for analytical purposes to compare balance sheet assets on a consistent basis.*

(8) *Return on average tangible common equity is adjusted to remove the impact of intangible amortization, goodwill impairment and the impact from valuation allowance reversals from income from continuing operations, while the average tangible common equity is reduced for disallowed deferred tax assets. Return on average tangible common equity is another metric used to evaluate our use of equity.*





## 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 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:

- 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,
- our plans to change our funding mix and to access new sources of funding to broaden our use of deposit taking capabilities,
- our pending or potential acquisition plans, and the integration risks inherent in such acquisitions, including our August 2015 acquisition of OneWest Bank,
- our credit risk management and credit quality,
- our asset/liability risk management,
- our funding, borrowing costs and net finance revenue,
- our operational risks, including success of systems enhancements and expansion of risk management and control functions,
- 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,

- legal risks, including related to the enforceability of our agreements and to changes in laws and regulations,
- our growth rates,
- our commitments to extend credit or purchase equipment, and
- 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:

- capital markets liquidity,
- risks of and/or actual economic slowdown, downturn or recession,
- industry cycles and trends,
- uncertainties associated with risk management, including credit, prepayment, asset/liability, interest rate and currency risks,
- adequacy of reserves for credit losses,
- risks inherent in changes in market interest rates and quality spreads,
- funding opportunities, deposit taking capabilities and borrowing costs,
- conditions and/or changes in funding markets and our access to such markets, including the secured and unsecured debt and asset-backed securitization markets,
- risks of implementing new processes, procedures, and systems, including any new processes, procedures, and systems required to comply with the additional laws and regulations applicable to systematically important financial institutions,
- risks associated with the value and recoverability of leased equipment and related lease residual values,
- risks of failing to achieve the projected revenue growth from new business initiatives or the projected expense reductions from efficiency improvements,
- application of fair value accounting in volatile markets,
- application of goodwill accounting in a recessionary economy,
- changes in laws or regulations governing our business and operations, or affecting our assets, including our operating lease equipment,
- changes in competitive factors,
- demographic trends,
- customer retention rates,

- risks associated with dispositions of businesses or asset portfolios, including how to replace the income





associated with such businesses or asset portfolios and the risk of residual liabilities from such businesses or portfolios,

- risks associated with acquisitions of businesses or asset portfolios and the risks of integrating such acquisitions, including the acquisition and integration of OneWest Bank, and
- 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

## 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, 2016. On August 3, 2015, the Company acquired IMB HoldCo LLC in a purchase business combination. Management has excluded the acquired business from its assessment of the effectiveness of disclosure controls and procedures as of March 31, 2016. 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.

## MATERIAL WEAKNESS IN THE ACQUIRED BUSINESS’S INTERNAL CONTROL OVER FINANCIAL REPORTING

As discussed above, on August 3, 2015 the Company acquired IMB HoldCo LLC in a purchase business combination and had excluded the acquired entity from the December 31, 2015 evaluation of the effectiveness of internal control over financial reporting. However, in its 2015 Form 10-K filing, management identified a material weakness in the Financial Freedom reverse mortgage servicing business of IMB HoldCo LLC which is reported in discontinued operations as of March 31, 2016. Such material weakness still exists as of March 31, 2016.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with the preparation of the Company’s financial statements included in the Company’s annual report on Form 10-K, we identified errors in the estimation process of the HECM interest curtailment reserve that resulted in a measurement period adjustment, which did not impact the financial statements as of and for the quarter ended March

31, 2016.

Following the identification of the errors, management determined that a material weakness existed in the acquired business's internal control over financial reporting related to the HECM Interest Curtailment Reserve. Specifically, controls are not adequately designed and maintained to ensure the key judgments and assumptions developed from loan file reviews or other historical experience are accurately determined, valid and authorized; the data used in the estimation process is complete and accurate; and the assumptions, judgments, and methodology continue to be appropriate. This control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected.

This control deficiency resulted in adjustments to the calculation of the HECM Interest Curtailment Reserve. After performing analysis of the underlying data and assumptions, the reserve was adjusted to reflect the results of this analysis. Management concluded that the amounts and disclosures within the Company's quarterly and annual financial statements since the acquisition of IMB Holdco LLC are not materially misstated.

In response to the material weakness described above, the Company is in the process of designing procedures and controls to remediate the material weakness, with oversight from the Board of Directors. This remediation plan includes the following elements:

1) Implement a data quality control program.
2) Enhance controls over documentation of detailed data sources.
3) Simplify the reserve estimation process and improve governance, controls and documentation.

Management believes that the new or enhanced controls, when implemented and when tested for a sufficient period of time, will remediate the material weakness described above. However, the Company cannot provide any assurance that these remediation efforts will be successful.

**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, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.





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 15 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 15 Contingencies* of *Item 1. Consolidated Financial Statements*.

# ITEM 1A. Risk Factors

For a discussion of risk factors not changed, see *Part I, Item 1A: Risk Factors*, of CIT s 2015 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

There were no repurchases of the Company s common stock during the quarter ended March 31, 2016.

# ITEM 4. Mine Safety Disclosure

Not applicable



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# 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). |
| 2.2 | Amendment No. 1, dated as of July 21, 2015, to the Agreement and Plan of Merger, by and among CIT Group Inc., IMB HoldCo I L.P., 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 27, 2015). |
| 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 March 15, 2016 (incorporated by reference to Exhibit 3.1 to Form 8-K filed March 21, 2016). |
| 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 | First Supplemental Indenture dated as of February 13, 2007 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 4.1 to Form 8-K filed on February 13, 2007). |
| 4.3 | Third Supplemental Indenture dated as of October 1, 2009, between CIT Group Inc. and The Bank of New York Mellon (as successor to JPMorgan Chase Bank N.A.) relating to senior debt securities (incorporated by reference to Exhibit 4.4 to Form 8-K filed on October 7, 2009). |

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| 4.4 | Fourth Supplemental Indenture dated as of October 16, 2009 between CIT Group Inc. and The Bank of New York Mellon (as successor to JPMorgan Chase Bank N.A.) relating to senior debt securities (incorporated by reference to Exhibit 4.1 to Form 8-K filed October 19, 2009). |
| 4.5 | 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). |
| 4.6 | 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). |



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| 4.7 | 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). |
| 4.8 | 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). |
| 4.9 | 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 Exhibit 4.15 to Form 10-K filed March 10, 2011). |
| 4.10 | 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). |
| 4.11 | 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). |
| 4.12 | 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). |
| 4.13 | 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 |

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|---|---|
| | 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). |
| 4.14 | 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). |
| 4.15 | 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). |
| 4.16 | 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). |



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| 4.17 | 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). |
| 4.18 | 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). |
| 4.19 | 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). |
| 4.20 | 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). |
| 4.21 | 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). |
| 4.22 | 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). |
| 4.23 | 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). |
| 4.24 | Second Amended and Restated Revolving Credit and Guaranty Agreement, dated as of February 17, 2016, 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 February 18, 2016). |
| 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). |
| 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). |
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| 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** | 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). |
| 10.12** | 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 (incorporated by reference to Exhibit 10.32 to Form 10-Q filed August 9, 2012). |
| 10.13** | 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 (incorporated by reference to Exhibit 10.33 to Form 10-Q filed August 9, 2012). |
| 10.14** | ISDA Master Agreement and Credit Support Annex, each dated June 6, 2008, between CIT Financial Ltd. and Goldman Sachs International (incorporated by reference to Exhibit 10.34 to Form 10-Q filed August 11, 2008). |
| 10.15* | 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). |
| 10.16* | 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). |
| 10.17* | 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). |
| 10.18* | 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). |
| 10.19 | 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). |
| 10.20* | 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). |
| 10.21* | Amendment to Employment Agreement, dated January 16, 2015, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.29 to Form 10-K filed February 20, 2015). |
| 10.22* | 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). |
| 10.23* | 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). |
| 10.24* | 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). |
| 10.25* | Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance Based Vesting) (Executives with Employment Agreements) (2014) (incorporated by reference to Exhibit 10.33 to Form 10-K filed February 20, 2015). |
| 10.26* | Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2013) (incorporated by reference to Exhibit 10.30 to Form 10-Q filed August 5, 2015). |



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| 10.27* | Form of CIT Group Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (2013) (Executives with Employment Agreements) (incorporated by reference to Exhibit 10.31 to Form 10-Q filed August 5, 2015). |

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| 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, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income, (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.*



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**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 9, 2016

CIT GROUP INC.

/s/ E. Carol Hayles
**E. Carol Hayles**
**Executive Vice President and Chief Financial Officer**

/s/ Edward K. Sperling
**Edward K. Sperling**
**Executive Vice President and Controller**