CIT GROUP INC
Form 10-Q
May 07, 2015

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

FORM 10-Q

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

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

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware	**65-1051192**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
11 West 42nd Street New York, New York	**10036**
(Address of Registrant s principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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Part One Financial Information

ITEM 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	March 31, 2015	December 31, 2014

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

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

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

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

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

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CIT GROUP INC. AND SUBSIDIARIES

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

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

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

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

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CIT GROUP INC. AND SUBSIDIARIES

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

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

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

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

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

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CIT GROUP INC. AND SUBSIDIARIES

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

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

	Quarters Ended March 31,	
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$ 239.4	$ 464.4
Transfer of assets from held for sale to held for investment	$ 0.7	$ 31.0

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

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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 became a bank holding company (BHC) in December 2008 and a financial holding company (FHC) in July 2013. CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank (the Bank), a wholly-owned subsidiary, is a Utah state chartered bank located in Salt Lake City, and is regulated by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). The Company operates primarily in North America, with locations in Europe and Asia.

BASIS OF PRESENTATION

Principles of Consolidation

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

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

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

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

Discontinued Operation

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

2013. See *Note 2 Discontinued Operation*.

Revision

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

NEW ACCOUNTING PRONOUNCEMENTS

Customer s Accounting for Fees Paid in a Cloud Computing Arrangement

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

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

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

Debt Issuance Costs

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

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

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

Amendments to the Consolidation Analysis

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

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.

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 anticipated impacts of the new 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.

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

Extraordinary and Unusual Items

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

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

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

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Entities must perform a going concern assessment by evaluating their ability to meet their obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued).

2. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management s plans.

3. Pursuant to the ASU, substantial doubt about an entity s ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the annual or interim financial statements are issued or available to be issued (assessment date).

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

NOTE 2 DISCONTINUED OPERATION

Student Lending Business Disposition

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

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

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

Summarized financial information for the discontinued business is shown below.

Operating Results of Discontinued Operation (dollars in millions)

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

NOTE 3 LOANS

Finance receivables consist of the following:

Finance Receivables by Product (dollars in millions)

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

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

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

Finance Receivables (dollars in millions)

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

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

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

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

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

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

Credit Quality Information

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

The definitions of these ratings are as follows:

- 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.

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

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

Past Due and Non-accrual Loans

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

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

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

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

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

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

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

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

Impaired Loans

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

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

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Impaired Loans (dollars in millions)

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

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

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

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

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

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

n Instances where the primary source of payment is no longer sufficient to repay the loan in accordance with terms of the loan document;

n Lack of current financial data related to the borrower or guarantor;

n Delinquency status of the loan;

n Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow, excessive financial leverage or business interruptions;

n Loans secured by collateral that is not readily marketable or that has experienced or is susceptible to deterioration in realizable value; and

n Loans to borrowers in industries or countries experiencing severe economic instability.

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

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

n Orderly liquidation value is the basis for collateral valuation;

n Appraisals are updated annually or more often as market conditions warrant; and

n Appraisal values are discounted in the determination of impairment if the:

- appraisal does not reflect current market conditions; or

- collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, collect or subject to pilferage in a liquidation.

Loans and Debt Securities Acquired with Deteriorated Credit Quality

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

Troubled Debt Restructurings

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

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

- 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.

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

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

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

- The nature of modifications qualifying as TDR s based upon recorded investment at March 31, 2015 was comprised of payment deferrals for 34% and covenant relief and/or other for 66%. December 31, 2014 TDR recorded investment was comprised of payment deferrals for 35% and covenant relief and/or other for 65%.
- 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, 2015 and 2014 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, 2015 and 2014 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.

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

NOTE 4 ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

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

NOTE 5 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

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

NOTE 6 INVESTMENT SECURITIES

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

Investment Securities (dollars in millions)

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

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

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

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

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

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

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

Interest and Dividend Income (dollars in millions)

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

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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, 2015				
Debt securities AFS				
U.S. government agency obligations	$ 950.0	$	$ (0.7)	$ 949.3
Foreign government securities	0.5			0.5
Total debt securities AFS	950.5		(0.7)	949.8
Equity securities AFS	14.2	0.4	(0.3)	14.3
Total securities AFS	$ 964.7	$ 0.4	$ (1.0)	$ 964.1
December 31, 2014				
Debt securities AFS				
U.S. Treasury Securities	$ 200.0	$	$	$ 200.0
U.S. government agency obligations	904.2			904.2
Foreign government securities	12.3			12.3
Total debt securities AFS	1,116.5			1,116.5
Equity securities AFS	14.0	0.6	(0.6)	14.0
Total securities AFS	$ 1,130.5	$ 0.6	$ (0.6)	$ 1,130.5

Debt Securities Held-to-Maturity

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

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

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

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

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

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

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

NOTE 7 LONG-TERM BORROWINGS

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

Long-term Borrowings (dollars in millions)

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

(1)

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

Unsecured Borrowings

Revolving Credit Facility

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

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

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

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

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

Senior Unsecured Notes

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

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

Senior Unsecured Notes (dollars in millions)

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

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

* *Series C Unsecured Notes*

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

Secured Borrowings

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

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

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

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

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

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

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

Variable Interest Entities (VIEs)

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

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

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

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

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

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

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NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Act, the reporting and clearing obligations apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

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

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

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

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

(1) *Presented on a gross basis.*

Total Return Swaps (TRS)

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

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

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

- 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 $25.5 million and $24.5 million was recorded at March 31, 2015 and December 31, 2014, respectively. The change in value is recorded in Other Income in the Consolidated Statements of Operations.

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

Impact of Collateral and Netting Arrangements on the Total Derivative Portfolio

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

Offsetting of Derivative Assets and Liabilities (dollars in millions)

				Gross 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, 2015						
Derivative assets	$199.4	$	$199.4	$(13.2)	$ (163.9)	$ 22.3
Derivative liabilities	(67.5)		(67.5)	13.2	14.7	(39.6)
December 31, 2014						
Derivative assets	$168.0	$	$168.0	$(13.6)	$ (137.3)	$ 17.1
Derivative liabilities	(62.3)		(62.3)	13.6	8.7	(40.0)

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

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

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

Derivative Instrument Gains and Losses (dollars in millions)

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

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

Changes in AOCI Relating to Derivatives (dollars in millions)

Contract Type	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Quarter Ended March 31, 2015					