



CIT Group Inc.
PILLAR 3 REGULATORY CAPITAL DISCLOSURES

For the period ended December 31, 2018

TABLE OF CONTENTS

DISCLOSURE MAP	2
OVERVIEW	3
ORGANIZATION	3
CAPITAL REQUIREMENTS	3
PILLAR3 REPORTING	4
SCOPE OF APPLICATION	5
BASIS OF CONSOLIDATION	5
TRANSFER OF FUNDS OR CAPITAL RESTRICTIONS	5
REGULATED SUBSIDIARIES' CAPITAL	5
CAPITAL STRUCTURE	6
CAPITAL INSTRUMENTS	6
REGULATORY CAPITAL TIERS	6
CAPITAL ADEQUACY	7
CAPITAL MANAGEMENT	7
RISK-BASED CAPITAL RATIOS	8
CAPITAL CONSERVATION BUFFER	9
REQUIRED RATIOS	9
CREDIT RISK	10
RISK MANAGEMENT	10
CREDIT RISK	10
CREDIT RISK EXPOSURES	11
COUNTERPARTY CREDIT RISK	15
COUNTERPARTY RISK MANAGEMENT	15
CREDIT DERIVATIVES	15
CASH COLLATERAL	15
REVERSE REPO	16
CREDIT RISK MITIGATION	17
CREDIT PHILOSOPHY	17
SECURITIZATION	18
SECURITIZATION EXPOSURES	18
EQUITY EXPOSURES	19
EVALUATION OF INVESTMENTS	19
TYPE OF INVESTMENTS	19
GAINS (LOSSES)	19
INTEREST RATE RISK	21
RISK MANAGEMENT	21

DISCLOSURE MAP

PILLAR 3 REQUIREMENT	DESCRIPTION	2018 FORM 10-K
OVERVIEW	Organization	2, 97
	Capital Requirement	6-8
SCOPE OF APPLICATION	Basis of Consolidation	97
	Transfer of Funds or Capital Restrictions	9-12, 68
CAPITAL STRUCTURE	Capital Instruments	33-34, 66-68
	Regulatory Capital Tiers	68, 148
CAPITAL ADEQUACY	Capital Management	66-68
	Risk-Based Capital Ratios	68, 148
CAPITAL CONSERVATION BUFFER	Required Ratios	7-8, 148
CREDIT RISK	Risk Management	69-70
	Credit Risk	69-71, 97-102
	Credit Risk Exposures	58, 119-129
COUNTERPARTY CREDIT RISK	Counterparty Risk Management	71
	Credit Derivatives	138-140
	Cash Collateral	139
	Reverse Repo	62
CREDIT RISK MITIGATION	Credit Philosophy	70-71
SECURITIZATION	Securitization Exposures	161
EQUITY EXPOSURES	Evaluation of Investments	102-103
	Type of Investments	130-133
	Gains (Losses)	130, 133
INTEREST RATE RISK	Risk Management	72-74

OVERVIEW

ORGANIZATION

CIT Group Inc., together with its subsidiaries (collectively “we”, “our”, “CIT” or the “Company”), is a bank holding company (“BHC”) and a financial holding company (“FHC”). CIT was formed in 1908 and provides financing, leasing and advisory services principally to middle-market companies in a wide variety of industries, primarily in North America. We also provides banking and related services to commercial and individual customers through our banking subsidiary, CIT Bank, N.A. (“CIT Bank” or the “Bank”), which includes over 60 branches located in Southern California and its online bank, cit.com/cit-bank/.

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, as amended. CIT Bank is regulated by the Office of the Comptroller of the Currency of the U.S. Department of the Treasury (“OCC”).

CAPITAL REQUIREMENTS

The Company is subject to risk-based requirements and rules issued by the FRB, OCC and FDIC (the “Basel III Rule”) that are based upon the final framework for strengthening capital and liquidity regulation of the Basel Committee on Banking Supervision. Under the Basel III Rule, the Company applies the Standardized Approach in measuring its risk-weighted assets (“RWA”) and regulatory capital.

In July 2013, federal banking regulators published the final Basel III capital framework for U.S. banking organizations. While the final Basel III rules became effective January 1, 2014, the mandatory compliance date for CIT as a “Standardized Approach” banking organization began on January 1, 2015, subject to transitional provisions extending to January 1, 2019.

In September 2017, the federal bank regulators proposed to revise and simplify the capital treatment for certain DTAs, mortgage servicing rights, investments in non-consolidated financial institutions and minority interests for non-advanced approaches banking organizations, such as CIT. In November 2017, the federal bank regulators revised the Basel III Rule to extend the current transitional treatment of these items for non-advanced approaches banking organizations until the September 2017 proposal is finalized.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as “Basel IV”). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain “unconditionally cancellable commitments,” such as unused credit card and home equity lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company. The impact of Basel IV on the Company will depend on whether, and the manner in which, it is implemented by the federal bank regulators.

In December 2018, the federal bank regulators issued a final rule that would provide an optional three-year phase-in period for the day-one regulatory capital effects of the adoption of ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” on January 1, 2020. See *Note 1. Business and Summary of Significant Accounting Policies – Recent Accounting Pronouncements in Item 8. Financial Statements and Supplementary Data* in our 2018 Form 10-K for additional information on this accounting pronouncement.

For further information on capital requirements, refer to *Item 1. Business Overview – Regulation: Banking Supervision and Regulation* section in our 2018 Form 10-K.

PILLAR 3 REPORTING

This document presents the Pillar 3 Disclosures in compliance with Basel III as described in Subpart D – Risk-weighted Assets – Standardized Approach of the Basel III Rule. These Pillar 3 Disclosures should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

SCOPE OF APPLICATION

BASIS OF CONSOLIDATION

The Company's consolidated financial statements include financial information related to CIT 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 accounting and financial reporting policies of CIT conform to generally accepted accounting principles in the United States. Additionally where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The basis of consolidation for accounting and regulatory purposes is the same.

For further information, refer to *Note 1 – Business and Summary of Significant Accounting Policy* in our 2018 Form 10-K.

TRANSFER OF FUNDS OR CAPITAL RESTRICTIONS

Transfer of Funds

Transactions between CIT Bank and its subsidiaries, and CIT and its other subsidiaries and affiliates, are regulated pursuant to Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W. These laws and regulations limit the types and amounts of transactions (including loans due and credit extensions from CIT Bank or its subsidiaries to CIT and its other subsidiaries and affiliates) as well as restrict certain other transactions (such as the purchase of existing loans or other assets by CIT Bank or its subsidiaries from CIT and its other subsidiaries and affiliates) that may otherwise take place and generally require those transactions to be on an arms-length basis and, in the case of extensions of credit, be secured by specified amounts and types of collateral. These regulations generally do not apply to transactions between CIT Bank and its subsidiaries. In addition, we are in compliance with various rules and regulations for transfer of funds between countries; and are not subject to additional restrictions.

The Company utilizes VIEs in the ordinary course of business to support its own and its customer's financing needs. 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 representation and warranties. In addition, the assets are generally restricted to pay only such liabilities.

Dividends

CIT Group Inc. is a legal entity separate and distinct from CIT Bank and CIT's other subsidiaries. CIT provides a significant amount of funding to its subsidiaries, which is generally recorded as intercompany loans or equity investments. Most of CIT's cash inflow is comprised of interest on intercompany loans to its subsidiaries and dividends from its subsidiaries.

The ability of CIT Bank to pay dividends to its parent may be affected by, among other things, various regulatory requirements.

For further information on Transfer of Funds or Capital Restrictions, refer to the *Item 1. Business Overview – Regulation* section in our 2018 Form 10-K.

REGULATED SUBSIDIARIES' CAPITAL

As of December 31, 2018, total capital, as defined by the applicable regulations, for CIT's regulated banking subsidiary was \$5.2 billion and for CIT's regulated insurance and broker dealer subsidiaries were \$15.1 million and \$11.7 million, respectively. All of these entities were in compliance with their respective minimum total capital requirements as of December 31, 2018.

CAPITAL STRUCTURE

CAPITAL INSTRUMENTS

CIT's qualifying common equity tier 1 capital instruments consist only of common stock. Each share of common stock entitles the holder to one vote for the election of the directors and for other significant matters to be voted on by the shareholders. The holders of the common stock vote as one class. Should CIT ever liquidate, dissolve or wind-up, the holders of common stock would share ratably in the assets remaining and available for distribution after payments to creditors including depositors. There are no preemptive or other subscription rights, conversion rights or redemption or schedule installment payment provisions relating to the common stock.

For additional information regarding CIT common stock, refer to *Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities* section in Part Two of our 2018 Form 10-K.

CIT's qualifying additional tier 1 capital instrument is non-cumulative perpetual preferred stock issued on May 31, 2017, for \$325 million.

In March 2018, CIT issued \$400 million subordinated notes (net of \$5 million of issuance cost), which are qualified Tier 2 Capital Instruments and included in the regulatory capital.

REGULATORY CAPITAL TIERS

The components of capital and the calculation of Common Equity Tier 1, Tier 1 and Total Capital are as follows:

Regulatory Capital Tiers (dollars in millions)	
	December 31, 2018
Common Equity Tier 1 (CET1) Capital	
Common stock, \$0.1 par value	\$ 1.6
Paid in capital	6,810.8
Retained earnings	1,924.4
Accumulated other comprehensive loss (AOCI)	(178.3)
Treasury stock	(2,936.9)
Total common stockholders' equity	\$ 5,621.6
Effect of certain items in AOCI excluded from CET1 Capital	157.5
Adjusted total equity	5,779.1
Less: Goodwill, net of associated deferred tax liabilities (DTLs)	(365.1)
Less: Deferred tax assets (DTAs) arising from net operating loss and tax credit carryforwards	(64.6)
Less: Intangible assets, net of associated DTLs	(71.2)
Total CET1 Capital	5,278.2
Preferred stock	325.0
Less: Other Additional Tier 1 Capital deductions	(10.5)
Total Additional Tier 1 Capital	314.5
Total Tier 1 Capital	5,592.7
Qualifying Tier 2 Capital Instruments	395.4
Qualifying allowance for credit losses and other reserves	531.2
Total Tier 2 Capital	926.6
Total Capital	\$ 6,519.3

CAPITAL ADEQUACY

CAPITAL MANAGEMENT

CIT manages its capital position to ensure that it is sufficient to: (i) support the risks of its businesses, (ii) maintain “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 the approval from the CIT’s Board of Directors (the “Board”).

CIT uses a combination of capital metrics and related thresholds to measure capital adequacy and takes into account the existing regulatory capital framework. CIT further evaluates capital adequacy through enterprise stress testing and its economic capital (“ECAP”) approaches.

With the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, CIT is no longer subject to the Enhanced Prudential Standards of the Dodd-Frank Act, including supervisory stress testing and company-run stress testing under the Dodd Frank Act Stress Test (“DFAST”) or the capital planning requirements of the Comprehensive Capital Analysis and Review (“CCAR”).

While CIT was subject to CCAR, CIT submitted and received a non-objection to its 2017 Capital Plan (“Original Plan”), which included common stock repurchases of up to \$225 million for the four quarters ending June 30, 2018, including up to \$25 million of common share repurchases to offset dilution from issuances pursuant to CIT’s employee stock plans. On February 1, 2018, the Company received a “non-objection” from the FRBNY to an amendment to the Original Plan (the “Amended Capital Plan”). The Amended Capital Plan included (i) the issuance of up to \$400 million in Tier 2 qualifying subordinated debt (which was completed in March 2018); and (ii) an increase in common equity distribution of up to \$800 million for the remainder of the four-quarter period that began July 1, 2017 and ended on June 30, 2018. On June 28, 2018, CIT announced that the Board of Directors (the “Board”) approved a common equity capital return of up to \$750 million (exclusive of the quarterly cash dividend). The noted capital returns were completed in their respective timeframes in 2018.

On January 29, 2019, CIT announced that we received a non-objection from the FRBNY to repurchase up to \$450 million of common stock through September 30, 2019.

On January 23, 2019, the Board of Directors of the Company declared a quarterly cash dividend in the amount of \$0.25 per common share. On January 29, 2019, CIT announced that it intends to increase the quarterly common stock dividend by 40% to \$0.35 per common share, starting with the 2019 second quarter dividend, subject to approval by our Board of Directors.

For additional information regarding capital management, refer to the *Item 1. Business Overview - Regulation* section and the *Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital* section in our 2018 Form 10-K.

RISK-BASED CAPITAL RATIOS

The following tables present information on the Company's Standardized Approach RWA components included within the regulatory capital ratios at December 31, 2018. The balances and ratios were the same for transition basis and fully-phased-in basis as there were no items exceeded the deduction threshold under the Transition Final Rule.

	December 31, 2018	
	Exposure Amount	Risk-Weighted Asset Amount
Standardized Approach Risk-Weighted Assets ⁽¹⁾ (dollars in millions)		
Loans and Leases:		
Residential mortgages exposures	\$ 6,422.9	\$ 2,528.6
HVCRE loans	2,115.6	3,173.4
Past due and non-accrual loans	286.2	421.8
All other loans and leases	22,276.9	22,121.0
Total loans and leases	31,101.6	28,244.8
Operating lease equipment	6,970.6	6,970.6
Sovereign/Supranational exposures	3,399.4	-
Securitization exposures	19.2	63.7
Other assets	7,046.6	2,882.6
Total on-balance sheet assets	48,537.4	38,161.7
Rail purchase commitments	292.4	292.4
Loan commitments with original maturity within 1 year ⁽²⁾	1,676.2	335.2
Loan commitments with original maturity over 1 year ⁽²⁾	4,950.8	2,622.1
Letters of credit	2,215.0	2,203.7
Other off-balance sheet items ⁽³⁾	756.6	436.6
Total off-balance sheet items	9,891.0	5,890.0
Total	\$ 58,428.3	\$ 44,051.7

⁽¹⁾ Assets in discontinued operations are included and reported on the respective asset line.

⁽²⁾ For regulatory reporting purpose, asset-based lending unused commitments should be measured as the contractual borrowing base less outstanding loans and letters of credit under the commitment.

⁽³⁾ The exposure amount includes notional amount for reverse repos and other off-balance sheet items, as well as the credit equivalent amount for derivative transactions.

Regulatory Capital Ratios (dollars in millions)

	December 31, 2018	
	CIT	CIT Bank
Common equity tier 1	12.0%	13.4%
Tier 1 capital	12.7%	13.4%
Total capital	14.8%	14.7%
Risk-Weighted Assets	\$ 44,051.7	\$ 35,697.6

CAPITAL CONSERVATION BUFFER

REQUIRED RATIOS

Per the Basel III Rule, the minimum capital ratios for CET1, Tier 1 capital, and Total capital are 4.5%, 6.0% and 8.0%. The Basel III Rule introduces a new “capital conservation buffer”, composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to RWA 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 was initially implemented beginning January 1, 2016, at the 0.625% level, and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019.

CIT will be required to maintain risk-based capital ratios at January 1, 2019 and December 31, 2018 as follows:

	<u>CET 1 Capital</u>	<u>Tier 1 Capital</u>	<u>Total Capital</u>
At January 1, 2019:			
Stated minimum ratios	4.500%	6.000%	8.000%
Capital conservation buffer	2.500%	2.500%	2.500%
Effective minimum ratios	7.000%	8.500%	10.500%
At December 31, 2018:			
Stated minimum ratios	4.500%	6.000%	8.000%
Capital conservation buffer	1.875%	1.875%	1.875%
Effective minimum ratios	6.375%	7.875%	9.875%

As of December 31, 2018, CIT has met the effective minimum ratios, with CET1 Capital, Tier 1 Capital and Total Capital ratios of 12.0%, 12.7% and 14.8%, respectively.

The capital conservation buffer is calculated as the lowest of the: (i) CET1 ratio less the CET1 stated minimum requirement, (ii) Tier 1 ratio less the Tier 1 stated minimum requirement and (iii) Total capital ratio less the Total capital stated minimum requirement. At December 31, 2018, CIT’s capital conservation buffer was 6.7%, which was in excess of the 2018 phase-in requirement applicable to CIT of 1.875% (75% phase in of the mandatory 2.5% Capital Conservation Buffer).

CREDIT RISK

RISK MANAGEMENT

CIT's Risk Management Group ("RMG") has established a Risk Governance Framework that is designed to promote appropriate risk identification, as well as measurement, monitoring, management and control limits. The Risk Governance Framework is focused on:

- the major risks inherent to CIT's business activities;
- the Enterprise Risk Framework, which includes the policies, procedures, practices and resources used to manage and assess these risks, and the decision-making governance structure that supports it;
- the Risk Appetite and Risk Tolerance Framework, which defines the level and type of risk CIT is willing to assume in its exposures and business activities, given its business objectives, and sets limits, credit authorities, underwriting standards and acceptable deal structures used to define and guide the decision-making processes; and
- management information systems, including data, models, analytics and risk reporting, to enable adequate identification, monitoring and reporting of risks for proactive management.

The Risk Management Committee ("RMC") of the Board oversees the risk management functions that address the major risks inherent in CIT's business activities and the control processes with respect to such risks. The Chief Risk Officer ("CRO") and the Chief Credit Officer ("CCO") supervises CIT's risk management function through the RMG, co-chair the Enterprise Risk Committee ("ERC"), and report regularly to the RMC on the status of CIT's risk management program. The ERC provides a forum for structured, cross-functional review, assessment and management of CIT's enterprise-wide risks. Within the RMG, officers with reporting lines to the CRO and CCO supervise and manage groups and departments with specific risk management responsibilities.

CREDIT RISK

Credit risk is the risk of loss when a borrower or series of borrowers do not meet their financial obligations to the Company, or their performance weakens and increased reserving is required. Credit risk may arise from lending, leasing, the purchase of accounts receivable in factoring and/or counterparty activities. For CIT, credit risk consists of Lending and Leasing Risk and Counterparty Risk. Lending and Leasing Risk is further broken out in Commercial Lending and Leasing, Small-Ticket Lending and Leasing, and Consumer Lending.

The Credit Risk Management group manages and approves all credit risk throughout CIT. This group is led by the CCO, and includes the heads of credit for each business, the head of Problem Loan Management, the head of Quantitative Strategies, the head of Allowance for Loan and Lease Losses ("ALLL"), and the head of Credit Administration. The CCO chairs several key governance committees, including the Corporate Credit Committee ("CCC").

For further information on Lending and Lease Risk, refer to the *Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management: Credit Risk* section in our 2018 Form 10-K.

For further information on Counterparty Credit Risk, refer to the next section in this document.

The general policies for Lending and Leasing Risk conform to the U.S. GAAP, as well as bank regulatory authorities where applicable. These policies consist of the following items, refer to *Note 1 – Business and Summary of Significant Accounting Policy* in our 2018 Form 10-K:

- Past due and non-accrual loans
- Impairment of loans
- Allowance for loan and lease losses
- Charge-off of loans

CREDIT RISK EXPOSURES

In the following tables, loans include loans and leases held for investment and held for sale, but exclude operating leases and discontinued operations.

Loans Composition (dollars in millions)

	December 31, 2018		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Commercial Banking	\$ 24,263.4	\$ 64.3	\$ 24,327.7
Consumer Banking	6,532.0	3.9	6,535.9
Non-Strategic Portfolios	-	20.2	20.2
Total	\$ 30,795.4	\$ 88.4	\$ 30,883.8

Loans by Obligor - Geographic Region (dollars in millions)

	December 31, 2018		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
United States	\$ 29,299.3	\$ 68.2	\$ 29,367.5
Asia / Pacific	470.1	20.2	490.3
Europe	595.2	-	595.2
Canada	153.5	-	153.5
Latin America	144.4	-	144.4
All other countries	132.9	-	132.9
Total	\$ 30,795.4	\$ 88.4	\$ 30,883.8

Loans by Obligor - Industry (dollars in millions)

	December 31, 2018		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Corporate	\$ 22,544.7	\$ 66.2	\$ 22,610.9
Non-bank financial institution	2,040.0	-	2,040.0
Bank	22.1	-	22.1
Public ⁽¹⁾	168.3	18.2	186.5
Household ⁽²⁾	6,020.3	4.0	6,024.3
Total	\$ 30,795.4	\$ 88.4	\$ 30,883.8

⁽¹⁾ Includes governments, their departments and their agencies.

⁽²⁾ Includes individuals and families.

Contractual Maturities of Loans ⁽¹⁾ (dollars in millions)

	December 31, 2018			
	Commercial		Consumer	Total
	US	Foreign	US	
Fixed-rate				
1 year or less	\$ 4,257.4	\$ 141.4	\$ 88.7	\$ 4,487.5
Year 2	1,407.2	44.4	78.7	1,530.3
Year 3	1,085.7	132.9	81.8	1,300.4
Year 4	687.7	11.0	84.7	783.4
Year 5	390.9	92.0	88.0	570.9
2-5 years	3,571.5	280.3	333.2	4,185.0
After 5 years	486.0	174.5	3,323.8	3,984.3
Total fixed-rate	8,314.9	596.2	3,745.7	12,656.8
Adjustable-rate				
1 year or less	2,492.3	109.7	74.5	2,676.5
Year 2	2,344.4	154.8	67.6	2,566.8
Year 3	2,254.4	180.9	69.9	2,505.2
Year 4	2,405.9	184.5	73.8	2,664.2
Year 5	2,359.5	190.1	79.3	2,628.9
2-5 years	9,364.2	710.3	290.6	10,365.1
After 5 years	3,066.3	115.2	2,774.9	5,956.4
Total adjustable-rate	14,922.8	935.2	3,140.0	18,998.0
Total	\$ 23,237.7	\$ 1,531.4	\$ 6,885.7	\$ 31,654.8

⁽¹⁾ Reflects the contractual maturities of loans, which excludes certain items such as purchase accounting adjustments, unearned income and other yield-related fees.

Impaired Loans (dollars in millions)

	December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
United States	\$ 1,929.4	\$ 2,773.0	\$ 62.5
Europe	11.5	12.0	3.3
Total	\$ 1,940.9	\$ 2,785.0	\$ 65.8

	December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Corporate	\$ 226.5	\$ 275.9	\$ 49.8
Public ⁽¹⁾	0.6	0.6	-
Household ⁽¹⁾	1,713.8	2,508.5	16.0
Total	\$ 1,940.9	\$ 2,785.0	\$ 65.8

⁽¹⁾ Includes individuals and families.

Loans on Non-Accrual Status (dollars in millions)

	December 31, 2018	
United States	\$	264.8
Europe		11.5
Asia / Pacific		6.0
Total	\$	282.3

	December 31, 2018	
Corporate	\$	237.9
Non-bank financial institution		0.5
Public ⁽¹⁾		6.1
Household ⁽²⁾		37.8
Total	\$	282.3

⁽¹⁾ Includes governments, their departments and their agencies.

⁽²⁾ Includes individuals and families.

Loans Delinquency Status⁽¹⁾ (dollars in millions)

	December 31, 2018		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
United States	\$ 420.5	\$ 244.9	\$ 665.4
Asia / Pacific	1.0	-	1.0
Canada	1.7	0.1	1.8
Latin America	0.7	0.1	0.8
Europe	1.7	-	1.7
Total	\$ 425.6	\$ 245.1	\$ 670.7

	December 31, 2018		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
Corporate	\$ 186.2	\$ 25.6	\$ 211.8
Non-bank financial institution	4.9	0.5	5.4
Bank	0.2	-	0.2
Public ⁽²⁾	5.7	0.8	6.5
Household ⁽³⁾	228.6	218.2	446.8
Total	\$ 425.6	\$ 245.1	\$ 670.7

⁽¹⁾ Includes SOP 03-3 loans.

⁽²⁾ Includes governments, their departments and their agencies.

⁽³⁾ Includes individuals and families.

Charge-Offs (dollars in millions)

	Year Ended December 31, 2018		
	<u>Gross Charge-offs</u>	<u>Recoveries</u>	<u>Net Charge-offs</u>
Corporate	\$ 136.6	\$ 26.6	\$ 110.0
Non-bank financial institution	2.1	-	2.1
Household ⁽¹⁾	4.1	0.8	3.3
Total	<u>\$ 142.8</u>	<u>\$ 27.4</u>	<u>\$ 115.4</u>

⁽¹⁾ Includes individuals and families.

Changes in Allowance for Loan and Lease Losses (dollars in millions)

	Year Ended December 31, 2018		
	<u>Commercial Banking</u>	<u>Consumer Banking</u>	<u>Total</u>
Balance - December 31, 2017	\$ 402.2	\$ 28.9	\$ 431.1
Provision for credit losses	167.1	3.9	171.0
Gross charge-offs	(138.7)	(4.1)	(142.8)
Recoveries	26.6	0.8	27.4
Other	3.0	-	3.0
Balance - December 31, 2018	<u>\$ 460.2</u>	<u>\$ 29.5</u>	<u>\$ 489.7</u>

COUNTERPARTY CREDIT RISK

COUNTERPARTY RISK MANAGEMENT

We enter into interest rate and currency swaps and foreign exchange forward contracts as part of our overall risk management practices. We establish limits and evaluate and manage the counterparty risk associated with these derivative instruments through the RMG.

The primary risk of derivative instruments is counterparty credit exposure, which is defined as the ability of a counterparty to perform financial obligations under the derivative contract. We seek to control credit risk of derivative agreements through counterparty credit approvals, pre-established exposure limits and monitoring procedures.

The Corporate Credit Committee (“CCC”) approves each counterparty and establishes exposure limits based on credit analysis of each counterparty. Derivative agreements entered into for our own risk management purposes are generally entered into with major financial institutions or clearing exchanges rated investment grade by nationally recognized rating agencies. We also monitor and manage counterparty credit risk, for example, through the use of exposure limits, related to our cash and investment portfolio.

CREDIT DERIVATIVES

CIT is exposed to credit risk to the extent that the counterparty fails to perform under the terms of a derivative. Losses related to credit risk are reflected in other non-interest income. The Company manages this credit risk by requiring that all derivative transactions entered into as hedges be conducted with counterparties rated investment grade at the initial transaction by nationally recognized rating agencies, and by setting limits on the exposure with any individual counterparty. In addition, pursuant to the terms of the Credit Support Annexes between the Company and its counterparties, CIT may be required to post collateral or may be entitled to receive collateral in the form of cash or highly liquid securities depending on the valuation of the derivative instruments as measured on a daily basis.

For further information on credit derivatives, refer to *Note 10 – Derivative Financial Instruments* in our 2018 Form 10-K.

CASH COLLATERAL

The following table presents a summary of our derivative portfolio, which is entered into under an International Swaps and Derivatives Association (“ISDA”) agreement. The ISDA agreement does not qualify to offset the gross derivative amounts in the consolidated balance sheet, and as such does not qualify for netting under capital treatment of derivative transactions. Additionally, the cash collateral does not reduce the derivative exposures as it is not netted against the gross derivative amounts in the consolidated balance sheet.

Derivative Financial Instruments (dollars in millions)

	December 31, 2018		
	Notional Amount	Asset Fair Value	Liability Fair Value
Derivatives designated as hedging instruments			
Foreign exchange contracts	\$ 646.1	\$ 26.9	\$ (0.3)
Interest rate swap - fair value hedge	250.0	1.9	-
Total derivatives designated as hedging instruments	896.1	28.8	(0.3)
Derivatives not designated as hedging instruments			
Interest rate contracts	15,889.5	87.8	(59.7)
Foreign exchange contracts	832.5	3.1	(19.7)
Other contracts	436.6	0.2	-
Total derivatives not designated as hedging instruments	17,158.6	91.1	(79.4)
Gross derivative fair values presented in the Consolidated Balance Sheets	\$ 18,054.7	\$ 119.9	\$ (79.7)
Less: Gross amounts offset in the Consolidated Balance Sheets		-	-
Net Amount Presented in the Consolidated Balance Sheet		119.9	(79.7)
Derivative Financial Instruments		(49.2)	49.2
Cash Collateral Pledged/(Received)		(15.4)	0.3
Total Net Derivative Fair Value		\$ 55.3	\$ (30.2)

REVERSE REPO

The Company entered into transactions related to securities purchased under agreement to resell (“reverse repo”), which are fully collateralized with securities and cash by the seller-borrower. The tri-party custodian will be responsible for calculating, monitoring, holding and reporting the securities collateral at all times. The amount of collateral will be determined on a daily basis by the custodian based on market valuations, and will exceed the amount of cash placed by CIT by an agreed upon percentage. The custodian will call for additional securities from CIT’s counterparty if the valuation falls below the stipulated level and will return any excess when applicable.

Since the reverse repo transaction is fully collateralized with eligible financial collaterals, the risk-weight under Simple Approach would be lower after considering the credit mitigation from such collateral. The collateral consists of agency mortgage-backed securities and agency collateralized mortgage obligations, subject to 20% risk-weighting floor.

As of December 31, 2018, the Company had \$400 million of reverse repos.

CREDIT RISK MITIGATION

CREDIT PHILOSOPHY

Credit risk is defined as the inherent risk of loss associated with an obligor's or counterparty's failure to meet the terms of any loan, lease or other financing agreement. Credit risk exists with respect to our lending, leasing and/or counterparty activities, with loans and leases representing the largest source of credit risk to CIT. CIT's credit philosophy is to: (1) engage in lending and leasing by utilizing well-structured credit facilities to Obligor's that have an acceptable financial profile and have been underwritten appropriately for the related line of business, (2) structure and approve transactions that conform with sound lending practices, (3) actively manage the credit portfolio, ensuring adequate diversification of risk across Obligor's, risk categories, industries, countries and products, and (4) proactively identify and report weaknesses and promote early detection of potential problem loans, leases and/or industries.

Various risk mitigation practices are used by the company, including the establishment of credit risk appetite measures and limits that define acceptable levels of total borrower exposure, collateral, guarantees and, to a limited extent, credit derivatives.

A key reporting objective is to ensure that the credit portfolios are in compliance with CIT's established risk appetite framework and to identify trends period-over-period. Monitoring and reporting provide an "early warning" of trends and changes (or potential changes) in the portfolios' credit characteristics, and allow management to take appropriate action to mitigate risk.

Examples of collateral that impact the Company's loss given default ("LGD") estimate include, but are not limited to, cash, accounts receivable, inventory, fixed assets, real estate and enterprise valuations. For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies, loss severity, and loan-to-value. We monitor trending of delinquency/delinquency rates, loss severity, prepayment as well as non-performing trends for home equity loans and residential real estate loans.

Collateral requirements, including acceptable types of collateral, loan-to-value limits, and collateral margins can be found in the Credit Standards and Industry White Papers.

Collateral valuations must be individually derived and prepared by internal specialists or approved independent third parties and consider potential value volatility. Additionally, collateral liquidation and asset sale estimates must be conservative. Relevant assumptions are reviewed as part of the credit analysis. Real estate appraisals are required for real estate collateral and must be independently ordered and reviewed by CIT's Appraisal Department. Where CIT is not the lead agent, appraisals from the lead agent are to be reviewed by CIT's Appraisal Department.

Potential collateral shortfalls shall be identified. A review of the strategy for managing this risk should be performed during the initial credit analysis stage when assigning the risk rating.

Guarantors can serve as a secondary source of repayment. The primary types of guarantors mitigating credit risk are individuals and business entities.

Existing credit risk mitigants may qualify under Basel III rules; however, CIT is not currently reducing the risk-weighting of any of our exposures as the benefit is immaterial.

SECURITIZATION

SECURITIZATION EXPOSURES

Securitization exposure is an on- or off-balance sheet credit exposure (including credit-enhancing representations and warranties) that arises from a traditional or synthetic securitization (including a resecuritization), or an exposure that directly or indirectly references as securitization exposure.

The Company has equity investments in joint ventures which are qualified as traditional securitization exposures. For the regulatory capital treatment on these securitization exposures, CIT applies the Simplified Supervisory Formula Approach (SSFA).

For further information on equity investments, refer to *Note 23 – Certain Relationships and Related Transactions* in our 2018 Form 10-K.

Securitization Risk-Weighted Assets (dollars in millions)

	December 31, 2018		
	Exposure Amount	Effective Risk-Weight %	Risk-Weighted Asset Amount
Exposure Type:			
Equity investments	\$ 19.2	332%	\$ 63.7

EQUITY EXPOSURES

EVALUATION OF INVESTMENTS

CIT adopted *ASU 2016-01 - Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* as of January 1, 2018 with a cumulative-effect adjustment to the balance sheet as of the adoption date. Pursuant to the requirements of the new standard, CIT reclassified eligible equity securities from available-for-sale (“AFS”) to Securities Carried at Fair Value with Changes Recorded in Net Income. All equity investments (other than those accounted for using the equity method of accounting) will be measured at fair value through earnings. There is no longer an AFS classification for equity securities with readily determinable fair values.

Equity securities without readily determinable fair values are carried at cost, less impairment, adjusted for subsequent observable price changes. Changes in the carrying value of equity investments measured under this alternative are reported in current earnings. The Company conducts and documents periodic reviews to identify impairment. When a qualitative assessment indicates that impairment exists, the Company will estimate the fair value of the investment and recognize in current earnings an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment. The Company also monitors equity securities without readily determinable fair values (or similar securities of the same issuer) for any upward adjustments. In the event of any such increases in fair value, the Company would, in effect, “reverse” the previously recognized impairment to the extent of the subsequent observable price increase.

Equity method investments are recorded at cost, adjusted to reflect the Company’s portion of income, loss or dividend of the investee.

Realized gains and losses on sales are included in other non-interest income on a specific identification basis, and interest and dividend income on these equity securities is included in other interest and dividends.

TYPE OF INVESTMENTS

At December 31, 2018, CIT had \$44.6 million in equity securities carried at fair value with changes recorded in net income and \$257.9 million in non-marketable investments. Non-marketable investments include securities of the FRB and Federal Home Loan Bank (“FHLB”) carried at cost of \$242.5 million at December 31, 2018. The remaining non-marketable investments without readily determinable fair values measured under the measurement exception totaled \$15.4 million as of December 31, 2018.

The Company applies the Simple Risk-Weight Approach for its individual equity securities, under which the RWA is calculated by multiplying the carrying value of the equity exposure by the applicable risk weight. For equity exposure to investment funds, the Company applies the Simple Modified Look-Through Approach, under which the RWA is calculated based on the highest applicable risk weight to any exposure the fund is permitted to hold under the prospectus, partnership agreement, or similar contract that defines the fund’s permissible investments.

GAINS (LOSSES)

Total realized investment gains totaled \$4.2 million for the quarter ended December 31, 2018, and exclude losses from other than temporary impairment.

Upon the adoption of *ASU 2016-01 – Financial Instruments* as of January 1, 2018, the net unrealized losses on such equity securities was reclassified from accumulated other comprehensive loss to opening retained earnings. As of December 31, 2018, the unrealized losses of \$2.3 million were recorded in net income, which were included in both CET1 and Tier 1 Capital.

For further information on investment securities, refer to *Note 6 – Investment Securities* in our 2018 Form 10-K.

Risk Weighting Approaches of Equity Exposures (dollars in millions)

	December 31, 2018		
	Risk Weight Category	Exposure Amount	Risk- Weighted Asset Amount
Federal Reserve Bank Stock	0%	\$ 143.3	\$ -
Federal Home Loan Bank Stock	20%	99.2	19.8
Investments in Unconsolidated Subsidiaries ⁽¹⁾	100%	285.5	285.5
Marketable Equity Securities ⁽²⁾	300%	0.1	0.1
Non-Marketable Equity Securities ⁽²⁾⁽³⁾	400%	14.1	14.1
Investment Funds	Look-through	44.5	8.9
Total		\$ 586.8	\$ 328.5

⁽¹⁾ Excludes investment that is risk-weighted as a securitization.

⁽²⁾ Risk-Weighted at 100% as the aggregate carrying value of all non-significant equity investments does not exceed 10% of Total Capital.

⁽³⁾ Excludes Volcker covered funds as they are fully deducted from capital.

INTEREST RATE RISK

RISK MANAGEMENT

CIT is exposed to interest rate and currency risk as a result of its business activities. CIT does not proactively seek out these risks as a way to make a return, as it does with credit and asset risk; however CIT does look to strategically manage this inherent risk based on various interest rate outlook scenarios while within the CIT Board approved limits. RMG measures, monitors and sets limits on these exposures, by analyzing the impact of potential interest rate and foreign exchange rate changes on financial performance. We consider factors such as customer prepayment trends, maturity, and repricing characteristics of assets and liabilities. Our asset-liability management system provides analytical capabilities to assess and measure the effects of various market rate scenarios upon the Company's financial performance.

Interest rate risk can arise from many of CIT's business activities such as: lending, leasing, investments, deposit taking and funding choices. This risk is a result of assets and liabilities repricing at different times 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 forecasted net finance revenue, for our interest rate sensitive assets, liabilities, and off-balance sheet instruments, assuming a static balance sheet over a twelve month period; and
- *Economic Value of Equity Sensitivity* ("EVE Sensitivity"), which measures the net impact of these hypothetical changes on the value of equity by assessing the economic value of assets, liabilities and off-balance sheet instruments.

The composition of our interest rate sensitive assets and liabilities generally results in a net asset-sensitive position, concentrated at the shorter end of the yield curve, mostly driven by moves in LIBOR, whereby our assets will reprice faster than our liabilities. Our interest rate sensitive assets generally consist of interest-bearing cash, investment securities and commercial and consumer loans. Approximately 50% of our loans are indexed to either 1-month-LIBOR, 3-month-LIBOR, or PRIME rate.

The table below summarizes the results of simulation modeling produced by our asset/liability management system. The simulations run require assumptions about rates, time horizons, balance sheet volumes, prepayment speeds, pricing and deposit behaviors, along with other inputs. The results presented below reflect the simulation of dollar changes in the NII Sensitivity over the next twelve months and in the EVE Sensitivity over the life of the interest rate sensitive assets, liabilities and off-balance sheet items. These simulations assume an immediate 100 basis point parallel increase or decrease and an immediate 200 basis point increase in interest rates from the market-based forward curve. The NII Sensitivity is presented based on an assumption that the balance sheet composition and size remains static over the projection period.

Change to NII Sensitivity and EVE Sensitivity

	December 31, 2018			December 31, 2017		
	+200 bps	+100 bps	-100 bps	+200 bps	+100 bps	-100 bps
NII Sensitivity	\$ 109	\$ 55	\$ (66)	\$ 114	\$ 57	\$ (56)
EVE Sensitivity	\$ (363)	\$ (170)	\$ 86	\$ (374)	\$ (192)	\$ 196

The result of an immediate 200 basis point parallel decrease in interest rates as of December 31, 2018 would result in a \$179 million decrease from the base case for NII Sensitivity and a \$3 million decrease from the base case for EVE Sensitivity. The results of an immediate 200 basis point parallel decrease was not meaningful for NII and EVE Sensitivity in the prior periods given the low rate environment prevalent at the time.

The NII Sensitivity and EVE sensitivity results presented above assume that we take no action in response to the changes in interest rates and includes only impacts from interest rate related influences. NII Sensitivity generally assumes cash flows from portfolio run-off are reinvested in similar products or cash to keep the

balance sheet static. For that reason and others, the estimated impacts do not reflect the likely actual results but serve as estimates of interest rate risk. NII sensitivity is not comparable to actual results disclosed elsewhere or directly predictive of future values of other measures provided.

We have modified our presentation in the above table from a percentage of sensitivity in previous periods in order to provide a more transparent view of the simulation's impact from rate changes on interest sensitive assets, liabilities and off-balance sheet instruments. We have also refined the simulation to remove NII sensitivity related to rail operating leases as the re-pricing of these assets do not exhibit a correlation to the movement in interest rates and instead are primarily driven by other factors that impact supply and demand of railcars. While rail assets comprise almost 20% of our average earning assets, this change had a minimal impact on the dollar sensitivity. See the net operating lease revenue discussion in the Net Finance Revenue section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2018 Form 10-K for additional information on rail operating lease re-pricing. The prior period numbers have been conformed to the current period presentation.

As of December 31, 2018, the NII Sensitivity changes from December 31, 2017 (see table above) reflect several factors including strategic changes in balance sheet composition resulting from the liability actions associated with the sales of NACCO and our reverse mortgage portfolio. Other changes include migration of cash to securities over the year and shift in our customer deposits to savings and online money market accounts as we continue to execute on our strategy to reduce reliance on time deposits.

Changes in EVE Sensitivity reflect a shift in the composition of our balance sheet primarily from the aforementioned asset sales and liability actions, as well as the strategic shift in deposit composition towards our newer non-maturity savings products. Additional changes resulted from modeling refinements during the year which now allow for the identification and measurement of mortgage convexity.

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 ("ALCO"), in order to achieve the desired risk profile, while managing our objectives for capital adequacy and liquidity risk exposures. Specifically, we may 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, mix, and prepayment characteristics of our balance sheet, changes in PAA, or changes in the competition for business in the industries we serve. They also do not account for other business developments that could affect net finance revenue, or for management actions that could affect net finance revenue 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.

For further information on interest rate risk, including sensitivity analysis, refer to the *Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management* sections in our 2018 Form 10-K.