CIT Group Inc.

PILLAR 3 REGULATORY CAPITAL DISCLOSURES

UPDATED

For the quarterly period ended December 31, 2015

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OVERVIEW

ORGANIZATION

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. Through its bank subsidiary, CIT Bank, N.A., CIT provides a full range of commercial and consumer banking and related services to customers through 70 branches located in southern California and its online bank, bankoncit.com.

Effective as of August 3, 2015, CIT Group Inc. ("CIT") acquired IMB HoldCo LLC ("IMB"), the parent company of OneWest Bank, National Association, a national bank ("OneWest Bank"). CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank (the "OneWest Transaction"), with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association ("CIT Bank, N.A." or "CIT Bank"). See Note 2 — Acquisitions and Disposition Activities for details.

CIT is regulated by the Board of Governors of the Federal Reserve System ("FRB") and the Federal Reserve Bank of New York ("FRBNY") under the U.S. Bank Holding Company Act of 1956. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury ("OCC"). Prior to the OneWest Transaction, CIT Bank was regulated by the Federal Deposit Insurance Corporation ("FDIC") and the Utah Department of Financial Institutions ("UDFI").

BUSINESS SEGMENTS

Effective upon completion of the OneWest Transaction, CIT manages its business and reports financial results in four operating segments: (1) Transportation & International Finance (TIF); (2) North America Banking (NAB); (3) Legacy Consumer Mortgages (LCM); and (4) Non-Strategic Portfolios (NSP). Portions of the operations of the acquired OneWest Bank are included in the NAB segment (previously North American Commercial Finance) and in LCM a new segment. The activities in NAB related to OneWest Bank are included in Commercial Real Estate, Commercial Banking and Consumer Banking. The Company also created a new segment, LCM, which includes consumer loans that were acquired by OneWest Bank from the FDIC and that CIT may be reimbursed for a portion of future losses under the terms of a loss sharing agreement with the FDIC. The addition of OneWest Bank in segment reporting did not affect CIT's historical consolidated results of operations.

With the announced changes to CIT management, along with the Company's exploration of alternatives for the commercial aerospace business, the Company expects to further refine our segment reporting effective January 1, 2016.

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

NAB provides a range of lending, leasing and deposit products, as well as ancillary products and services, including factoring, cash management and advisory services, to small and medium-sized companies and consumers in the U.S. and in Canada. The segment's Canada business was transferred to AHFS. Lending products include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. These are primarily composed of senior secured loans collateralized by accounts receivable, inventory, machinery & equipment, real estate, and intangibles, to finance the various needs of our customers, such as working capital, plant expansion, acquisitions and recapitalizations. Loans are originated through direct relationships with borrowers or through relationships with private equity sponsors. The commercial banking group also originates qualified Small Business Administration ("SBA") 504 and 7(a) loans. Revenues generated by

NAB include interest earned on loans, rents collected on leased assets, fees and other revenue from banking and leasing activities and capital markets transactions, and commissions earned on factoring and related activities.

NAB, through its 70 branches and on-line channel, also offers deposits and lending to borrowers who are buying or refinancing homes and custom loan products tailored to the clients' financial needs. Products include checking, savings, certificates of deposit, residential mortgage loans, and investment advisory services. Consumer Banking also includes a private banking group that offers banking services to high net worth individuals.

LCM holds the reverse mortgage and SFR mortgage portfolios acquired in the OneWest Transaction. Certain of these assets and related receivables include loss sharing arrangements with the FDIC, which will continue to reimburse CIT Bank, N.A. for certain losses realized due to foreclosure, short-sale, charge-offs or a restructuring of a single family residential mortgage loan pursuant to an agreed upon loan modification framework.

NSP holds portfolios that we no longer considered strategic, which had all been sold as of December 31, 2015. The Company sold the Mexico and Brazil businesses, which included approximately $0.3 billion, combined of assets held for sale, in 2015. In conjunction with the closing of these transactions, we recognized a loss on sale, essentially all of which, $70 million pre-tax, was related to the recognition of CTA loss related to the Mexico and Brazil portfolios and the tax effect included in the provision for income taxes.

INDEMNIFICATION ASSETS

Prior to the acquisition of OneWest Bank by CIT, OneWest Bank, was party to certain shared loss agreements with the FDIC related to its acquisitions of IndyMac Federal Bank, FSB ("IndyMac"), First Federal Bank of California, FSB ("First Federal") and La Jolla Bank, FSB ("La Jolla"). As part of CITs acquisition of OneWest Bank, CIT is now party to these loss sharing agreements with the FDIC. The loss sharing agreements generally require CIT Bank, N.A. to obtain FDIC approval prior to transferring or selling loans and related indemnification assets. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modifications, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are usually received within 60 days of submission.

The IndyMac transaction encompassed multiple loss sharing agreements that provided protection from certain losses related to purchased SFR loans and reverse mortgage proprietary loans. In addition, CIT is party to the FDIC agreement to indemnify OneWest Bank, subject to certain requirements and limitations, for third party claims from the Government Sponsored Enterprises ("GSEs" or "Agencies") related to IndyMac selling representations and warranties, as well as liabilities arising from the acts or omissions (including, without limitation, breaches of servicer obligations) of IndyMac as servicer.

The loss sharing arrangements related to the First Federal and La Jolla transactions also provide protection from certain losses related to certain purchased assets, specifically the SFR loans.

All of the loss sharing agreements are accounted for as indemnification assets and were initially recognized at estimated fair value as of the acquisition date based on the discounted present value of expected future cash flows under the respective loss sharing agreements pursuant to ASC 805. As of the acquisition date, the First Federal loss share agreement had a zero fair value given the expiration of the commercial loan portion in December 2014 and management's expectation not to reach the first stated threshold for the SFR mortgage loan portion, which expires in December 2019. As of the acquisition date, the La Jolla loss share agreement had a negligible indemnification asset value. Under the La Jolla loss share agreement, the FDIC indemnifies the eligible credit losses for SFR and commercial loans. Unlike SFR mortgage loan claim submissions, which do not take place until the loss is incurred through the conclusion of the foreclosure process, commercial loan claims are submitted to and paid by the FDIC at the time of charge-off. Similar to the First Federal agreement, the commercial loan portion expired prior to the acquisition date (expired March 2015).

On a subsequent basis, the indemnification asset is measured on the same basis of accounting as the indemnified loans (e.g., as PCI loans under the effective yield method). A yield is determined based on the expected cash flows to be collected from the FDIC over the recorded investment. The expected cash flows on the indemnification asset are reviewed and updated on a quarterly basis.

Changes in expected cash flows caused by changes in market interest rates or by prepayments of principal are recognized as adjustments to the effective yield on a prospective basis in interest income. In some cases, the cash flows expected to be collected from the indemnified loans may improve so that the related indemnification asset is no longer expected to be fully recovered. For PCI loans with an associated indemnification asset, if the increase in expected cash flows is recognized through a higher yield, a lower and potentially negative yield (i.e. due to a decline in expected cash flows in excess of the current carrying value) is applied to the related indemnification asset to mirror an accounting offset for the indemnified loans. Any negative yield is determined based on the remaining term of the indemnification agreement. Both accretion (positive yield) and amortization (negative yield) from the indemnification asset are recognized in interest income on loans over the lesser of the contractual term of the indemnification agreement or the remaining life of the indemnified loans. A decrease in expected cash flows is recorded in the indemnification asset for the portion that previously was expected to be reimbursed from the FDIC resulting in an increase in the Provision for credit losses that was previously recorded in the Allowance for loan losses.

In connection with the IndyMac transaction, the Company has an indemnification receivable for estimated reimbursements due from the FDIC for loss exposure arising from breach in origination and servicing obligations associated with covered reverse mortgage loans prior to March 2009 pursuant to the loss share agreement with the FDIC. The indemnification receivable uses the same assumptions used to measure the indemnified item (contingent liability) subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

In connection with the La Jolla transaction, the Company recorded a separate FDIC true-up liability for an estimated payment due to the FDIC at the expiry of the loss share agreement, given the estimated cumulative losses of the acquired covered assets are projected to be lower than the cumulative losses originally estimated by the FDIC at inception of the loss share agreement. There is no FDIC true-up liability recorded in connection with the First Federal transaction based on the projected loss estimates at this time. There is also no FDIC true-up liability recorded in connection with the IndyMac transaction as it was not required. This liability represents contingent consideration to the FDIC and is re-measured at estimated fair value on a quarterly basis, with the changes in fair value recognized in noninterest expense.

CAPITAL REQUIREMENTS

The Company is subject to various regulatory capital requirements. We compute capital ratios in accordance with Federal Reserve capital guidelines for assessing adequacy of capital.

In July 2013, federal banking regulators published the final Basel III capital framework for U.S. banking organizations (the "Regulatory Capital Rules"). While the Regulatory Capital Rules became effective January 1, 2014, the mandatory compliance date for CIT as a "standardized approach" banking organization began on January 1, 2015, subject to transitional provisions extending to January 1, 2019.

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 Final Rule. These Pillar 3 Disclosures should be read in conjunction with the Company's Annual Report on the Form 10-K for the year ended December 31, 2015.

SCOPE OF APPLICATION

BASIS OF CONSOLIDATION

The 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 ("PB").

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

The results for the year ended December 31, 2015 contain activity of OneWest Bank for approximately five months; therefore, they are not necessarily indicative of the results expected for a full year.

TRANSFER OF FUNDS OR CAPITAL RESTRICTIONS

Creditors VIEs received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT until and unless the related secured borrowings have been fully discharged. 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.

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. These 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.

The ability of CIT to pay dividends on common stock may be affected by, among other things, various capital requirements, particularly the capital and non-capital standards established for depository institutions under FDICIA, which may limit the ability of CIT Bank to pay dividends to CIT. The right of CIT, its stockholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to prior claims of creditors of CIT Bank and CIT's other subsidiaries.

OCC regulations impose limitations on the payment of dividends by CIT Bank. These regulations limit dividends if the total amount of all dividends (common and preferred) declared in any current year, including the proposed dividend, exceeds the total net income for the current year to date plus any retained net income for the prior two years, less the sum of any transfers required by the OCC and any transfers required to fund the retirement of any preferred stock. If the dividend in either of the prior two years exceeded that year's net income, the excess shall not reduce the net income for the three year period described above, provided the amount of excess dividends for either of the prior two years can be offset by retained net income in the current year minus three years or the current year minus four years.

REGULATED SUBSIDIARIES' CAPITAL

Total capital for CIT's insurance subsidiaries was $4.6 million as of December 31, 2015. Total capital for CIT's regulated banking subsidiaries was $5.6 billion as of December 31, 2015. Total capital for CIT's broker dealer subsidiary was $3.7 million as of December 31, 2015. All of CIT's regulated insurance, banking and broker dealer subsidiaries were in compliance with their respective minimum total capital requirements as of December 31, 2015.

CAPITAL STRUCTURE

CAPITAL INSTRUMENTS

CIT's qualifying regulatory capital instruments consist only of common stock. Each share of common stock entitles the holder to one voting right 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 shock.

For additional information regarding CIT common stock refer to the Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities section in Part Two, Item 5 on page 33 of CIT's 2015 Form 10K.

REGULATORY CAPITAL TIERS

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

Regulatory Capital Tiers (dollars in millions)

	December 31, 2015
Tier 1 Capital	
Common stock, $0.1 par value	$2.0
Paid in capital	8,718.1
Retained earnings	2,557.4
Accumulated other comprehensive loss	(142.1)
Treasury stock	(157.3)
Total stockholders' equity	$10,978.1
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interest	76.9
Adjusted total equity	11,055.0
Less: Goodwill	(1,130.8)
Disallowed deferred tax assets	(904.5)
Disallowed intangible assets	(53.6)
Other Tier 1 components	(0.1)
Common Equity Tier 1 Capital	8,966.0
Tier 1 Capital	8,966.0
Tier 2 Capital	
Qualifying allowance for credit losses and other reserves	403.3
Total qualifying capital	$9,369.3

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 a “well-capitalized” status under regulatory requirements, and (iii) provide flexibility to take advantage of future investment opportunities. Capital in excess of these requirements is available to distribute to shareholders, subject to a “non-objection” of our capital plan from the FRB.

CIT uses a complement of capital metrics and related thresholds to measure capital adequacy and takes into account the existing regulatory capital framework. CIT further evaluates capital adequacy through the enterprise stress testing and economic capital (“ECAP”) approaches, which constitute our internal capital adequacy assessment process (“ICAAP”).

On January 1, 2015, CIT began reporting regulatory capital ratios in accordance with the Basel III Final Rule which included determining risk weighted assets under the Standardized Approach. CIT’s capital management is discussed further in the “Regulation” section of *Item 1. Business Overview* with respect to regulatory matters, including *“Capital Requirements”* and *“Stress Test and Capital Plan Requirements.”*

As of September 30, 2015, with the OneWest Transaction, CIT exceeded the $50 billion threshold that subjects BHCs to enhanced prudential regulation under the Dodd-Frank Act. Among other requirements, CIT will be subject to capital planning and company-run and supervisory stress testing requirements, under the FRB’s Comprehensive Capital Analysis and Review (“CCAR”) process, which will require CIT to submit an annual capital plan and demonstrate that it can meet required regulatory capital minimums over a nine quarter planning horizon, but we don’t expect to be part of the same process in 2016 as established CCAR banks. CIT will need to collect and report certain related data on a quarterly basis, which the FRB will use to track our progress against the capital plan. We expect that upon full implementation of the CCAR process in 2017, CIT may pay dividends and repurchase stock only in accordance with an approved capital plan to which the FRB has not objected. Furthermore, CIT is required to conduct annual and midcycle Company-run stress tests with company-developed economic scenarios for submission to the FRB, and publically disclose the test details.

The Basel III final framework requires banks and BHCs to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio (“LCR”), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, with a phased implementation process starting January 1, 2015 and complete implementation by January 1, 2019. The final rule applies a modified version of the LCR requirements to bank holding companies with total consolidated assets of greater than $50 billion but less than $250 billion. The modified version of the LCR requirement only requires the LCR calculation to be performed on the last business day of each month and sets the denominator (that is, the calculation of net cash outflows) for the modified version at 70% of the denominator as calculated under the most comprehensive version of the rule applicable to larger institutions. Under the FRB final rule, a BHC with between $50 billion and $250 billion in total consolidated assets must comply with the first phase of the minimum LCR requirement at the later of January 1, 2016 or the first quarter after the quarter in which it exceeds the $50 Billion SIFI Threshold with the LCR requirement going into full-effect on January 1, 2017.

STANDARDIZED APPROACHES RISK-WEIGHTED ASSET

In accordance with final Basel III rules, CIT follows the standardized approach for risk-weighing its exposures. The following is the risk-weighted asset amounts by type of exposure:

Standardized Approaches Risk-Weighted Asset (dollars in millions)

	December 31, 2015
Depository institutions, foreign banks and credit unions exposures	$719.8
GSEs and PSEs exposures	570.3
Corporate exposures	5,891.0
Residential mortages exposures	2,558.4
Statutory multifamily mortgages and pre-sold construction loans exposures	1,029.8
HVCRE loans	3,020.3
Past due and non-accrual loans	396.2
Other assets	52,882.7
Securitization exposures	2,279.8
Equity exposures	215.3
Total Risk-Weighted Assets	**$69,563.6**

Risk Based Capital Ratios (dollars in millions)

	December 31, 2015	
	CIT	CIT Bank
Common equity tier 1	12.9%	12.8%
Tier 1	12.9%	12.8%
Total capital	13.5%	13.9%
Risk-weighted assets	$69,563.6	$36,843.8

CAPITAL CONSERVATION BUFFER

REQUIRED RATIOS

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

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

	CET 1	Tier 1 Capital	Total Capital
Stated minimum ratios	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Effective minimum ratios	7.0%	8.5%	10.5%

As of December 31, 2015, CIT has met the effective minimum ratios, applied in 2016, with CET1, Tier 1 Capital and Total Capital ratios of 12.7%. 12.7% and 13.2%, respectively, under the fully-phased in approach.

CAPITAL RETURN

Capital returned during the year ended December 31, 2015 totaled over $647 million, including repurchases of approximately $532 million of our common stock and $115 million in dividends.

During 2015, we repurchased 11.6 million of our shares at an average price of $45.70 for an aggregate purchase price of $532 million, which completed the existing $200 million share repurchase program authorized by the Board in April 2015, along with the remaining amount of the 2014 Board authorized purchases of approximately $1.1 billion of the Company's common shares.

ELIGIBLE RETAINED INCOME

At December 31, 2015, CIT Group Inc.'s net income for the four calendar quarters preceding the current calendar quarter is $1.5 billion. The capacity to pay dividends in 2016 will be supplemented by the subsidiaries' earnings during 2016.

CREDIT RISK

RISK MANAGEMENT

Lending and Leasing Risk

The extension of credit through our lending and leasing activities is core to our businesses. As such, CIT's credit risk management process is centralized in the Risk Management Group ("RMG"), reporting into the Chief Risk Officer ("CRO") through the CCO. This group establishes the Company's underwriting standards, approves extensions of credit, and is responsible for portfolio management, including credit grading and problem loan management. RMG reviews and monitors credit exposures with the goal of identifying, as early as possible, customers that are experiencing declining creditworthiness or financial difficulty. The CCO evaluates reserves through our ALLL process for performing loans and non-accrual loans, as well as establishing nonspecific reserves to cover losses inherent in the portfolio. CIT's portfolio is managed by setting limits and target performance metrics, and monitoring risk concentrations by borrower, industry, geography and equipment type. We set or modify Risk Acceptance Criteria (underwriting standards) as conditions warrant, based on borrower risk, collateral, industry risk, portfolio size and concentrations, credit concentrations and risk of substantial credit loss. We evaluate our collateral and test for asset impairment based upon collateral value and projected cash flows and relevant market data with any impairment in value charged to earnings.

Using our underwriting policies, procedures and practices, combined with credit judgment and quantitative tools, we evaluate financing and leasing assets for credit and collateral risk during the credit decision-making process and after the advancement of funds. We set forth our underwriting parameters based on: (1) Target Market Definitions, which delineate risk by market, industry, geography and product, (2) Risk Acceptance Criteria, which detail acceptable structures, credit profiles and risk-adjusted returns, and (3) through our corporate credit policies. We capture and analyze credit risk based on the probability of obligor default ("PD") and loss given default ("LGD"). PD is determined by evaluating borrower creditworthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. LGD ratings, which estimate loss if an account goes into default, are predicated on transaction structure, collateral valuation and related guarantees (including recourse to manufacturers, dealers or governments).

We execute derivative transactions with our customers in order to help them mitigate their interest rate and currency risks. We typically enter into offsetting derivative transactions with third parties in order to neutralize CIT's interest rate and currency exposure to these customer related derivative transactions. The counterparty credit exposure related to these transactions is monitored and evaluated as part of our credit risk management process.

Commercial Lending and Leasing. Commercial credit management begins with the initial evaluation of credit risk and underlying collateral at the time of origination and continues over the life of the finance receivable or operating lease, including normal collection, recovery of past due balances and liquidating underlying collateral.

Credit personnel review potential borrowers' financial condition, results of operations, management, industry, business model, customer base, operations, collateral and other data, such as third party credit reports and appraisals, to evaluate the potential customer's borrowing and repayment ability. Transactions are graded by PD and LGD ratings, as described above. Credit facilities are subject to our overall credit approval process and underwriting guidelines and are issued commensurate with the credit evaluation performed on each prospective borrower, as well as portfolio concentrations. Credit personnel continue to review the PD and LGD ratings periodically. Decisions on continued creditworthiness or impairment of borrowers are determined through these periodic reviews.

Small-Ticket Lending and Leasing. For small-ticket lending and leasing transactions, largely in Equipment Finance, we employ automated credit scoring models for origination (scorecards) and re-grading (auto re-grade algorithms). These are supplemented by business rules and expert judgment. The models evaluate, among other things, financial performance metrics, length of time in business, industry category and geography, and are used to assess a potential borrower's credit standing and repayment ability, including the value of collateral. We utilize external credit bureau scoring, when available, and behavioral models, as well as judgment in the credit adjudication, evaluation and collection processes.

We evaluate the small-ticket leasing portfolio using delinquency vintage curves and other tools to analyze trends and credit performance by transaction type, including analysis of specific credit characteristics and selected subsets of the portfolios. Adjustments to credit scorecards, auto re-grading algorithms, business rules and lending programs are made periodically based on these evaluations. Individual underwriters are assigned credit authority based upon experience, performance and understanding of underwriting policies of small-ticket leasing operations. A credit approval hierarchy is enforced to ensure that an underwriter with the appropriate level of authority reviews applications.

Consumer Lending. Consumer lending begins with an evaluation of a consumer's credit profile against published standards. Loans could be originated HFI or HFS. A loan that is originated as HFS must meet both the credit criteria of the Bank and the investor. At this time, agency eligible loans are originated for sale (Fannie Mae and Freddie Mac) as well as a limited number of Federal Housing Administration ("FHA") loans. Jumbo loans are considered a HFI product. All loan requests are reviewed by underwriters. Credit decisions are made after reviewing qualitative factors and considering the transaction from a judgmental perspective.

Single family residential (1-4) mortgage loans are originated through retail originations and closed loan purchases.

Consumer products use traditional and measurable standards to document and assess the creditworthiness of a loan applicant. Concentration limits are established by the Board and credit standards follow industry standard documentation requirements. Performance is largely based on an acceptable pay history along with a quarterly assessment, which incorporates an assessment using current market conditions. Non-traditional loans are also monitored by way of a quarterly review of the borrower's refreshed credit score. When warranted an additional review of the underlying collateral may be conducted.

PAST DUE AND NONACCRUAL STATUS

A loan is considered past due for financial reporting purposes if default of contractual principal or interest exists for a period of 30 days or more. Past due loans consist of both loans that are still accruing interest as well as loans on non-accrual status.

Loans are placed on non-accrual status when the financial condition of the borrower has deteriorated and payment in full of principal or interest is not expected or the scheduled payment of principal and interest has been delinquent for 90 days or more, unless the loan or finance lease is both well secured and in the process of collection.

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

Due to the nature of reverse mortgage loans (i.e., there are no required contractual payments due from the borrower), they are considered current for purposes of past due reporting and are excluded from reported non-accrual loan balances.

When a loan is placed on non-accrual status, all previously accrued but uncollected interest is reversed. All future interest accruals, as well as amortization of deferred fees, costs, purchase premiums or discounts are suspended. Where there is doubt as to the recoverability of the original outstanding investment in the loan, the cost recovery method is used and cash collected first reduces the carrying value of the loan. Otherwise, interest income may be recognized to the extent cash is collected.

RETURNING LOANS TO ACCRUAL STATUS

Accounts, including accounts that have been modified, are returned to accrual status when, in the opinion of management, collection of remaining principal and interest is reasonably assured, and there is a sustained period of repayment performance for a minimum of six months.

IMPAIRED LOANS

The Company's policy is to review for impairment finance receivables greater than $500,000 that are on non-accrual status. Consumer and small-ticket loan and lease receivables that have not been modified in a restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances, 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.

Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. For commercial loans, the Company has established review and monitoring procedures designed to identify, as early as possible, customers that are experiencing 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:

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

Commercial Loans

With respect to commercial portfolios, the Company monitors credit quality indicators, including expected and historical losses and levels of, and trends in, past due loans, non-performing assets and impaired loans, collateral values and economic conditions. Commercial loans are graded according to the Company's internal rating system with respect to probability of default and loss given default (severity) based on various risk factors. The non-specific allowance is determined based on the estimated probability of default, which reflects the borrower's financial strength, and the severity of loss in the event of default, considering the quality of the underlying collateral. The probability of default and severity are derived through historical observations of default and subsequent losses within each risk grading.

A specific allowance is also established for impaired commercial loans and commercial loans modified in a TDR.

Consumer Loans

For residential mortgages, the Company develops a loss reserve factor by deriving the projected lifetime losses then adjusting for losses expected to be specifically identified within the loss emergence period. The key drivers of the projected lifetime losses include the type of loan, type of product, delinquency status of the underlying loans, loan-to-value and/or debt-to-income ratios, geographic location of the collateral, and any guarantees.

For uninsured reverse mortgage loans in continuing operations, an allowance is established if the Company is likely to experience losses on the disposition of the property that are not reflected in the recorded investment, including the Actuarial Valuation Allowance ("AVA"), as the source of repayment of the loan is tied to the home's collateral value alone. A reverse mortgage matures when one of the following events occur: 1) the property is sold or transferred, 2) the last remaining borrower dies, 3) the property ceases to be the borrower's principal residence, 4) the borrower fails to occupy the residence for more than 12 consecutive months or 5) the borrower defaults under the terms of the mortgage or note. A maturity event other than death is also referred to as a mobility event. The level of any required allowance for loan losses on reverse mortgage loans is based on the Company's estimate of the fair value of the property at the maturity event based on current conditions and trends. The allowance for loan losses assessment on uninsured reverse mortgage loans is performed on a pool basis and is based on the Company's estimate of the future fair value of the properties at the maturity event based on current conditions and trends.

Other Allowance Factors

If commercial or consumer loan losses are reimbursable by the FDIC under the loss sharing agreement, the recorded provision is partially offset by any benefit expected to be derived from the related indemnification asset subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount.

With respect to assets transferred from HFI to AHFS, a charge-off is recognized to the extent carrying value exceeds the fair value and the difference relates to credit quality.

An approach similar to the allowance for loan losses is utilized to calculate a reserve for losses related to unfunded loan commitments along with deferred purchase commitments associated with the Company's factoring business. A reserve for unfunded loan commitments is maintained to absorb estimated probable losses related to these facilities. The adequacy of the reserve is determined based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The reserve for unfunded loan commitments is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the reserve for unfunded loan commitments are included in the provision for credit losses.

The allowance policies described above relate to specific and non-specific allowances, and the impaired finance receivables and charge-off policies that follow are applied across the portfolio segments and loan classes therein. Given the nature of the Company's business, the specific allowance is largely related to the NAB and TIF segments. The non-specific allowance, which considers the Company's internal system of probability of default and loss severity ratings for commercial loans, among other factors, is applicable to both commercial and consumer portfolios. Additionally, portions of the NAB and LCM segments also utilize methodologies under ASC 310-30 for PCI loans, as discussed in CIT's 2015 Form 10K in the section titled *Purchased Credit-Impaired Loans* in Financing and Leasing Assets.

CHARGING OFF UNCOLLECTIBLE AMOUNTS

Charge-offs on loans are recorded after considering such factors as the borrower's financial condition, the value of underlying collateral and guarantees (including recourse to dealers and manufacturers), and the status of collection activities. Such charge-offs are deducted from the carrying value of the related finance receivables. This policy is largely applicable in the Commercial Banking, Equipment Finance, Commercial Real Estate, Commercial Services and Transportation Finance loan classes. In general, charge-offs of large ticket commercial loans ($500 thousand or greater) are determined based on the facts and circumstances related to the specific loan and the underlying borrower and the use of judgment by the Company. Charge-offs of small ticket commercial finance receivables are recorded beginning at 90 to 180 days of contractual delinquency. Charge-offs of Consumer loans are recorded beginning at 120 days of delinquency. The value of the underlying collateral will be considered when determining the charge-off amount if repossession is assured and in process.

Charge-offs on loans originated are reflected in the provision for credit losses. Charge-offs are recognized on consumer loans for which losses are reimbursable under loss sharing agreements with the FDIC, with a provision benefit recorded to the extent applicable via an increase to the related indemnification asset. In the event of a partial charge-off on loans with a PAA, the charge-off is first allocated to the respective loan's discount. Then, to the extent the charge-off amount exceeds such discount, a provision for credit losses is recorded. Collections on accounts charged off in the post- acquisition or post-emergence periods are recorded as recoveries in the provision for credit losses. Collections on accounts that exceed the balance recorded at the date of acquisition are recorded as recoveries in other income. Collections on accounts previously charged off prior to transfer to AHFS are recorded as recoveries in other income.

CREDIT RISK EXPOSURES

Finance and Leasing Asset Composition (dollars in millions)

	December 31, 2015		
	Loans and Capital Leases	**Loans and Capital Leases Held for Sale**	**Total**
North American Commercial Finance			
Commercial Banking	$9,383.7	$89.3	$9,473.0
Equipment Finance	4,330.4	562.5	4,892.9
Commercial Real Estate	5,305.6	57.0	5,362.6
Commercial Services	2,132.5	0.0	2,132.5
Consumer Banking	1,442.1	3.9	1,446.0
Transportation & International Finance			
Aerospace	1,762.3	34.7	1,797.0
Rail	120.9	0.7	121.6
Maritime Finance	1,658.9	19.5	1,678.4
International Finance	0.0	834.1	834.1
Legacy Consumer Mortgages	5,918.7 [1]	N/A	5,918.7
Total financing and leasing assets	$32,055.1	$1,601.7	$33,656.8

[1] includes SFR of $4,552.3 million and reverse mortgages of $1,366.4 million as of December 31, 2015.

Finance and Leasing Asset by Obligor - Geographic Region (dollars in millions)

	December 31, 2015		
	Loans and Capital Leases	**Loans and Capital Leases Held for Sale**	**Total**
United States	$29,215.9 (1)	$38.2	$29,254.1
Asia / Pacific	1,068.7	478.1	1,546.8
Europe	586.7	369.3	956.0
Canada	199.1	716.0	915.1
Latin America	275.8	0.0	275.8
All other countries	708.8	0.0	708.8
Total	$32,055.1	$1,601.7	$33,656.8

(1) includes SFR of $4,552.3 million and reverse mortgages of $1,366.4 million as of December 31, 2015.

Finance and Leasing Asset by Obligor - Industry (dollars in millions)

	December 31, 2015		
	Loans and Capital Leases	**Loans and Capital Leases Held for Sale**	**Total**
Bank	$40.6	$6.6	$47.2
Non-bank financial institution	3,358.8	62.6	3,421.5
Corporate	21,248.8	1,203.1	22,451.9
Public	57.0	329.3	386.3
Household	7,349.9	0.0	7,349.9
Total	$32,055.1	$1,601.7	$33,656.8

Impaired Loans (dollars in millions)

	December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
United States	$134.2	$157.1	$27.8
Latin America	15.4	15.4	0.0
Total	$149.6	$172.5	$27.8

	December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Non-bank financial institution	$15.0	$15.0	$0.0
Corporate	134.6	157.5	27.8
Total	$149.6	$172.5	$27.8

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

	December 31, 2015
United States	$185.7
Asia / Pacific	30.6
Europe	15.0
Canada	21.0
Latin America	15.4
All other countries	0.0
Total	$267.7

	December 31, 2015
Bank	$0.6
Non-bank financial institution	17.0
Corporate	223.7
Public	21.5
Household	5.0
Total	$267.7

Finance Receivables on Delinquency Status (dollars in millions)

	December 31, 2015		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
United States	$475.7	$425.6	$901.4
Asia / Pacific	14.2	0.0	14.2
Europe	14.5	3.1	17.6
Canada	10.5	1.6	12.0
Total	$514.8	$430.3	$945.2

	December 31, 2015		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
Bank	$0.7	$0.3	$1.0
Non-bank financial institution	6.5	0.5	7.0
Corporate	175.6	26.7	202.3
Public	17.6	2.7	20.3
Household	314.5	400.1	714.6
Total	$514.8	$430.3	$945.2

Finance Receivables Charge-offs (dollars in millions)

	December 31, 2015		
	Gross Charge-offs	Recoveries	Net Charge-offs
Non-bank financial institution	$3.0	$0.0	$3.0
Corporate	162.0	27.4	134.6
Household	1.0	1.0	0.0
Total	$166.0	$28.4	$137.6

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

	December 31, 2015					
	Transportation & International Finance	North America Banking	Legacy Consumer Mortgages	Non-Strategic Portfolios	Corporate and Other	Total
Balance - December 31, 2014	$46.8	$299.6	$0.0	$0.0	$0.0	$346.4
Provision for credit losses	20.3	135.2	5.0	0.0	0.0	160.5
Gross charge-offs	(35.3)	(129.5)	(1.2)	0.0	0.0	(166.0)
Recoveries	8.5	19.0	0.9	0.0	0.0	28.4
Other	(0.9)	(10.1)	1.9	0.0	0.0	(9.1)
Balance - December 31, 2015	$39.4	$314.2	$6.6	$0.0	$0.0	$360.2

Contractual Maturities of Loans (dollars in millions)

	December 31, 2015				
	Commercial U.S.	Commercial Foreign	Consumer U.S.	Consumer Foreign	Total
Fixed-rate					
1 year or less	$3,401.8	$130.7	$73.2	$0.1	$3,605.8
Year 2	1,207.2	38.8	53.9	0.1	1,300.0
Year 3	869.6	32.8	55.8	0.2	958.4
Year 4	469.4	92.4	56.5	0.2	618.5
Year 5	331.2	24.9	58.4	0.2	414.7
2-5 years	2,877.4	188.9	224.6	0.7	3,291.6
After 5 years	364.1	188.9	2,559.4	2.2	3,114.6
Total fixed-rate	6,643.3	508.5	2,857.2	3.0	10,012.0
Adjustable-rate					
1 year or less	3,181.6	350.3	94.7	0.1	3,626.7
Year 2	2,632.8	398.2	85.2	0.1	3,116.3
Year 3	2,899.5	391.1	113.4	0.1	3,404.1
Year 4	2,516.2	533.0	117.8	0.2	3,167.2
Year 5	1,723.6	395.1	121.3	0.2	2,240.2
2-5 years	9,772.1	1,717.4	437.7	0.6	11,927.8
After 5 years	2,577.8	435.9	5,093.7	11.8	8,119.2
Total adjustable-rate	15,531.5	2,503.7	5,626.1	12.5	23,673.7
Total	$22,174.8	$3,012.2	$8,483.2	$15.5	$33,685.7

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 our 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 CCC, in conjunction with ERM, 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 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, including securities purchased under agreements to resell.

COLLATERAL

Finance Receivables

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:

- "Orderly liquidation value" is the basis for collateral valuation;
- Appraisals are updated annually or more often as market conditions warrant; and
- 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.

Derivative Financial Instruments

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 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.

Credit Derivatives

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

At December 31, 2015, a total of $1,760 million of assets and secured debt totaling $1,149 million issued to investors was outstanding under the GSI Facilities. About half of the pledged assets and debt outstanding under the GSI Facilities related to commercial aerospace assets, a business that management is pursuing strategic alternatives for. After adjustment to the amount of actual qualifying borrowing base under the terms of the GSI Facilities, this secured debt provided for usage of $972 million of the maximum notional amount of the GSI Facilities. The remaining $1,153 million of the maximum notional amount represents the unused portion of the GSI Facilities and constitutes the notional amount of derivative financial instruments. An unsecured counterparty receivable of $537.8 million is owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to the asset-backed securities underlying the structures at December 31, 2015.

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

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

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

- Funding costs for similar financings based on the current market environment;
- Forecasted usage of the long-dated GSI Facilities through the final maturity date in 2028; and
- Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Based on the Company’s valuation, we recorded a liability of $55 million at December 31, 2015. During 2015, we recognized $30 million as a reduction to other income associated with the change in liability.

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

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

Derivative Financial Instruments (dollars in millions)

	December 31, 2015		
	Notional Amount	Asset Fair Value	Liability Fair Value
Qualifying Hedges			
Foreign currency forward contracts - net investment hedges	$ 787.6	$ 45.5	$ (0.3)
Total Qualifying Hedges	787.6	45.5	(0.3)
Non-Qualifying Hedges			
Interest rate swaps	4,645.7	45.1	(38.9)
Written options	3,346.1	0.1	(2.5)
Purchased options	2,342.5	2.2	(0.1)
Foreign currency forward contracts	1,624.2	47.8	(6.6)
Total Return Swap (TRS)	1,152.8	0.0	(54.9)
Equity Warrants	1.0	0.3	0.0
Interest Rate Lock Commitments	9.9	0.1	0.0
Credit derivatives	37.6	0.0	(0.3)
Total Non-qualifying Hedges	13,159.8	95.6	(103.3)
Toal Hedges	$13,947.4	$ 141.1	$(103.6)

Cash Collateral Pledged/(Received) (dollars in millions)

				December 31, 2015		
				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 Present in the Consolidated Balance Sheet	Derivative Financial Instruments (1)	Cash Collateral Pledged/Received (Received) (1)(2)	Net Amount
Derivative assets	$141.1	$0.0	$141.1	$(9.7)	$(82.7)	$48.7
Derivative liabilities	(103.6)	0.0	(103.6)	9.7	31.8	(62.1)

CREDIT RISK MITIGATION

We define credit risk 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 utilizing well-structured credit facilities to Obligors 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 Obligors, 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.

CIT's credit risk management process is centralized in the Risk Management Group ("RMG"), reporting into the Chief Risk Officer "CRO" through the Chief Credit Officer "CCO". The Credit Risk Management ("CRM") 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 and Credit Administration. The CCO chairs several key governance committees, including the Corporate Credit Committee ("CCC") and Corporate Credit Governance Committee "CCGC". The overall credit process includes comprehensive credit policies, judgmental credit underwriting, quantitative tools, frequent and detailed risk assessment, and a continual independent loan review and audit process.

CIT manages its credit risk under the concept of three lines of defense. The first line of defense comprises the Business Segments and Business Units which are accountable for originating sound transactions. The second line of defense is the RMG whereby all credit authority and authority for credit grading is vested through the CCO via the CCC and Business Segment and Business Unit Credit Committees. The third line of defense includes independent key quality control functions, Credit Risk Review ("CR") and the Internal Audit Department ("IAS").

CRM reviews and monitors credit exposures with the goal of identifying, as early as possible, customers that are experiencing declining creditworthiness or financial difficulty. The CCO evaluates reserves through our Allowance for Loan and Lease Losses ("ALLL") process for performing loans and non-accrual loans, as well as establishing nonspecific reserves to cover losses inherent in the portfolio. CIT's portfolio is managed by setting limits and target performance metrics, and monitoring risk concentrations by borrower, industry, geography and equipment type. We set or modify Risk Acceptance Criteria (underwriting standards) as conditions warrant, based on borrower risk, collateral, industry risk, portfolio size and concentrations, credit concentrations and risk of substantial credit loss and is evaluated through the CCGC. We evaluate our collateral and test for asset impairment based upon collateral value and projected cash flows and relevant market data with any impairment in value charged to earnings.

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.

We capture and analyze credit risk based on probability of obligor default ("PD") and loss given default ("LGD"). PD is determined by evaluating borrower creditworthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. LGD ratings, which estimate loss if an account defaults, are predicated on transaction structure, collateral valuation and related guarantees (including recourse to manufacturers, dealers or governments). Examples of collateral that impact the Company's 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 and a review of the strategy for managing this risk performed during the initial credit analysis stage and 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.

Enterprise Value may also be considered a secondary source of payment if that value is well supported. An Enterprise Valuation group that resides outside the business units and decisioning organization is currently being formed to provide independent oversight of borrower enterprise valuations. A senior credit professional will lead the team and will report directly to the COO of Risk. The group is scheduled to be operational and staffed by June 30, 2016.

Prior to the acquisition of OneWest Bank by CIT, OneWest Bank was party to certain shared loss agreements with the FDIC related to its acquisitions of IndyMac Federal Bank, FSB ("IndyMac"), First Federal Bank of California, FSB ("First Federal") and La Jolla Bank, FSB ("La Jolla"). As part of CITs acquisition of OneWest Bank, CIT is now party to these loss sharing agreements with the FDIC. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., loan modifications, charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC are received usually within 60 days of submission. Refer to Note 5 (Indemnification Assets) to Financial Statements in our third quarter 2015 Form 10Q for further discussion on loss sharing agreements with the FDIC.

Existing credit risk mitigants do not qualify under Basel III; therefore, CIT is not currently reducing the risk-weighting of any of our exposures.

SECURITIZATION

VARIABLE INTEREST ENTITIES

Consolidated VIEs

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

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

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

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

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

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

Unconsolidated VIEs

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

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

million (including an unamortized premium balance of $13.2 million) were included in Liabilities of discontinued operations at December 31, 2015.

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

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

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

INVESTMENTS

Mortgage-backed security investments acquired in the OneWest Transaction were originally recorded at their fair value on the acquisition date and classified as either securities available-for-sale ("AFS") or securities carried at fair value with changes recorded in net income. Debt securities classified as AFS that had evidence of credit deterioration as of the acquisition date and for which it was probable that the Company would not collect all contractually required principal and interest payments were classified as PCI debt securities. Subsequently, the accretable yield (based on the cash flows expected to be collected in excess of the recorded investment or fair value) is accreted to interest income using an effective interest method. The Company uses a flat interest rate forward curve for purposes of applying the effective interest method to PCI securities. On a quarterly basis, the cash flows expected to be collected are reviewed and updated. The expected cash flow estimates take into account relevant market and economic data as of the end of the reporting period including, for example, for securities issued in a securitization, underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement. OTTI with credit-related losses are recognized as permanent write-downs, while other changes in expected cash flows (e.g., significant increases and contractual interest rate changes) are recognized through a revised accretable yield in subsequent periods. The non-accretable discount is recorded as a reduction to the investments and will be reclassified to accretable discount should expected cash flows improve or used to absorb incurred losses as they occur.

SECURITIZATION RISK WEIGHTED ASSETS

Securitization Risk Weighted Assets (dollars in millions)

	December 31, 2015	
	Exposure Amount	Risk-Weighted Asset Amount [(1)]
Mortgage-backed security exposures:		
Available-for-sale securities	$567.1	$1,468.1
Securities carried at fair value	339.7	811.7
	$906.8	**$2,279.8**

[(1)] Based on Simplified Supervisory Formula Approach (SSFA)

EQUITY EXPOSURES

EVALUATION OF INVESTMENTS

Equity securities classified as “available-for-sale” (“AFS”) are carried at fair value with changes in fair value reported in accumulated other comprehensive income (“AOCI”), a component of stockholders’ equity, net of applicable income taxes. Credit-related declines in fair value that are determined to be other than temporary impairment (“OTTI”) are immediately recorded in earnings. Realized gains and losses on sales are included in other income on a specific identification basis, and interest and dividend income on AFS securities is included in other interest and dividends.

Equity securities without readily determinable fair values are generally carried at cost or the equity method of accounting and periodically assessed for OTTI, with the net asset values reduced when impairment is deemed to be other-than-temporary. Equity method investments are recorded at cost, adjusted to reflect the Company’s portion of income, loss or dividend of the investee. All other non-marketable equity investments are carried at cost and periodically assessed for OTTI.

An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in AOCI for AFS securities, while such losses related to HTM securities are not recorded, as these investments are carried at their amortized cost. Unrealized losses on securities carried at fair value would be recorded through earnings as part of the total change in fair value.

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. The Company accounts for investment impairments in accordance with ASC 320-10-35-34, *Investments – Debt and Equity Securities: Recognition of an Other-Than-Temporary Impairment*. Under the guidance for debt securities, OTTI is recognized in earnings for debt securities that the Company has an intent to sell or that the Company believes it is more-likely-than-not that it will be required to sell prior to the recovery of the amortized cost basis. For debt securities classified as HTM that are considered to have OTTI that the Company does not intend to sell and it is more likely than not that the Company will not be required to sell before recovery, the OTTI is separated into an amount representing the credit loss, which is recognized in other income in the Consolidated Statement of Income, and the amount related to all other factors, which is recognized in OCI. OTTI on debt securities and equity securities classified as AFS and non-marketable equity investments are recognized in other income in the Consolidated Statements of Income in the period determined. Impairment is evaluated and to the extent it is credit related amounts are reclassified out of AOCI to other income. If it is not credit related then, the amounts remain in AOCI.

Amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of a purchase discount or premium. Regardless of the classification of the securities as AFS or HTM, the Company assesses each investment with an unrealized loss for impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time that fair value has been below cost;
- the severity of the impairment or the extent to which fair value has been below cost;
- the cause of the impairment and the financial condition and the near-term prospects of the issuer;
- activity in the market of the issuer that may indicate adverse credit conditions; and
- the Company’s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company’s review for impairment generally includes identification and evaluation of investments that have indications of possible impairment, in addition to:

- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;

- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having OTTI and those that would not support OTTI; and

- documentation of the results of these analyses, as required under business policies.

TYPE OF INVESTMENTS

At December 31, 2015, CIT had $14.3 million in equity securities available-for-sale and $291.9 in non-marketable equity investments. Non-marketable investments include securities of the FRB and FHLB carried at cost of $263.5 million at December 31, 2015. The remaining non-marketable investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method, other investments carried at cost, which include qualified Community Reinvestment Act (CRA) investments, equity fund holdings and shares issued by customers during loan work out situations or as part of an original loan investment, totaling $28.4 million in December 31, 2015.

GAINS (LOSSES)

Total gains on investments, which consists primarily of equities, arising from sales and liquidations were $0.9 million at December 31, 2015. Total net unrealized gains on equity securities AFS is considered immaterial. Net unrealized gains/ (losses) on equity securities AFS that is reported in AOCI is excluded from common equity Tier 1 capital.

RISK WEIGHTING APPROACHES

Risk Weighting Approaches (dollars in millions)

	December 31, 2015		
	Risk Weight Category	Carrying Value	RWA
Federal Reserve Bank Stock	0%	$164.6	$0.0
Federal Home Loan Bank Stock	20%	98.9	19.8
Investments in Unconsolidated Subsidiaries	100%[1]	223.9	223.9
Marketable Equity Securities	300%	0.3	0.8
Non-marketable Equity Securities	400%	25.3	101.4
Investment Funds	Look-through	499.8	113.0
Total		$1,012.9	$458.9

[1]Phased -in

INTEREST RATE RISK

RISK MANAGEMENT

CIT is exposed to interest rate and currency risk as a result of its business activities. CIT does not pro-actively assume these risks as a way to make a return, as it does with credit and asset risk. 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 arises from lending, leasing, investments, deposit taking and funding, as assets and liabilities reprice at different times and by different amounts as interest rates change. We evaluate and monitor interest rate risk primarily through two metrics.

- Net Interest Income Sensitivity ("NII Sensitivity"), which measures the net impact of hypothetical changes in interest rates on net finance revenue over a 12 month period; and
- Economic Value of Equity ("EVE"), which measures the net impact of these hypothetical changes on the value of equity by assessing the economic value of assets, liabilities and derivatives.

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

Deposits continued to grow as a percent of total funding. CIT Bank, N.A. sources deposits primarily through a retail branch network in Southern California, direct-to-consumer (via the internet) and brokered channels. At December 31, 2015, the Bank had over $32 billion in deposits. Certificates of deposits represented approximately $18.2 billion, 56% of the total, most of which were sourced through direct channels. The deposit rates we offer can be influenced by market conditions and competitive factors. Changes in interest rates can affect our pricing and potentially impact our ability to gather and retain deposits. Rates offered by competitors also can influence our rates and our ability to attract and hold deposits. In a rising rate environment, the Bank may need to increase rates to renew maturing deposits and attract new deposits. Rates on our savings account deposits may fluctuate due to pricing competition and may also move with short-term interest rates. In general, retail deposits represent a low-cost source of funds and are less sensitive to interest rate changes than many non-deposit funding sources up to ten years. We regularly stress test the effect of deposit rate changes on our margins and seek to achieve optimal alignment between assets and liabilities from an interest rate risk management perspective.

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

	+100 bps	**-100 bps**
NII Sensitivity	3.5%	(2.1)%
EVE	0.5%	(0.5)%

The EVE and NII sensitivity declined from the previous years due to several factors, including the incorporation of the former OneWest Bank assets and liabilities into the measurement assessment, the reduction in CIT's cash balances relative to the overall balance sheet and a refinement of the calculation. As of December 31, 2015, we ran a range of scenarios, including a plus 200bps scenario, which resulted in an NII Sensitivity of 6.7% and an EVE of 1.0%, while a 200bps decline scenario is not run as the current low rate environment makes the scenario less relevant. Regarding the negative scenarios, we have an assumed floor of 0% rate.

As detailed in the above table, NII sensitivity is positive with respect to an increase in interest rates. This is primarily driven by our floating rate loan portfolio (including approximately $9.7 billion that are subject to floors), which reprice frequently, cash and investment securities positions. On a net basis, we generally have more floating/repricing assets than liabilities in the near term. As a result, our current portfolio is more sensitive to moves in short-term interest rates in the near term. Therefore, our NFR may increase if short-term interest rates rise, or decrease if short-term interest rates decline. Market implied forward rates over the subsequent future twelve months are used to determine a base interest rate scenario for the net interest income projection for the base case. This base projection is compared with those calculated under varying interest rate scenarios such as a 100 basis point parallel rate shift to arrive at NII Sensitivity.

EVE complements net interest income simulation and sensitivity analysis as it estimates risk exposures beyond a twelve month horizon. EVE modeling measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to different rate shocks, measuring the net value of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the EVE sensitivity base case calculated using a market-based forward interest rate curve. The duration of our liabilities is greater than that of our assets, because we have more fixed rate liabilities than assets in the longer term, causing EVE to increase under increasing rates and decrease under decreasing rates. The methodology with which the operating lease assets are assessed in the results table above reflects the existing contractual rental cash flows and the expected residual value at the end of the existing contract term.

The simulation modeling for both NII Sensitivity and EVE assumes we take no action in response to the changes in interest rates, while NII Sensitivity also assumes cashflow from portfolio run-off is reinvested in similar products.

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

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

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