CIT Group Inc.

PILLAR 3 REGULATORY CAPITAL DISCLOSURES

For the period ended June 30, 2018

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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. CIT also provides banking and related services to commercial and individual customers through its banking subsidiary, CIT Bank, N.A. ("CIT Bank"), which includes 70 branches located in Southern California and its online bank, *bankoncit.com*.

CIT is regulated by the Board of Governors of the Federal Reserve System ("FRB") and the Federal Reserve Bank of New York ("FRBNY") under the U.S. Bank Holding Company Act of 1956, as amended. CIT Bank, N.A. 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 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.

In November 2017, the Federal Reserve Board, together with the OCC and FDIC adopted a final rule to extend the regulatory capital treatment under 2017 transition provisions for certain items, applicable to banking organizations that are not subject to advanced approaches capital rules ("Transition Final Rule") and effective January 1, 2018. These items include regulatory capital deductions, risk weights, and certain minority interest limitations. Advanced approaches banking organizations continue to be subject to the transition provisions established by the Basel III Final Rule, and they are required to apply the capital rules' fully phased-in treatment for these capital items beginning January 1, 2018.

As non-advanced approaches banking organizations, the Company and CIT Bank were subject to the Transition Final Rule to retain the 2017 transition provisions on the following items, effective January 1, 2018:

- Mortgage servicing assets;
- Deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks;
- Significant investments in the capital of unconsolidated financial institutions in the form of common stock;
- Non-significant investments in the capital of unconsolidated financial institutions, significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock; and
- Common equity tier 1 minority interest, tier 1 minority interest, and total capital minority interest exceeding the capital rules' minority interest limitations.

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 or CIT Bank. The impact of Basel IV on the Company and CIT Bank will depend on the manner in which it is implemented by the federal bank regulators.

For further information on capital requirements, refer to the *Item 1. Business Overview – Regulation: Banking Supervision and Regulation* section in our 2017 Form 10-K and the *Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital* section in Quarterly Report on Form 10-Q for the period ended June 30, 2018.

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 Form 10-K for the year ended December 31, 2017 and the Quarterly Report on Form 10-Q for the period ended June 30, 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 intercompany accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

The Company's accounting and financial reporting policies conform to U.S. generally accepted accounting principles. 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 2017 Form 10-K and the Quarterly Report on Form 10-Q for the period ended June 30, 2018.

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 2017 Form 10-K.

REGULATED SUBSIDIARIES' CAPITAL

As of June 30, 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 $17.4 million and $11.5 million, respectively. All of these entities were in compliance with their respective minimum total capital requirements as of June 30, 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 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 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 2017 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 aggregate principal amount of 6.125% subordinated notes with the maturity date on March 9, 2028. The subordinated notes (net of $5 million of issuance cost) 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)

		June 30, 2018
Common Equity Tier 1 (CET1) Capital		
Common stock, $0.1 par value	$	2.1
Paid in capital		8,822.0
Retained earnings		2,079.4
Accumulated other comprehensive loss (AOCI)		(176.1)
Treasury stock		(4,526.7)
Total common stockholders' equity	$	6,200.7
Effect of certain items in AOCI excluded from CET1 Capital		164.8
Adjusted total equity		6,365.5
Less: Goodwill, net of associated deferred tax liabilities (DTLs)		(432.7)
Less: Deferred tax assets (DTAs) arising from net operating loss and tax credit carryforwards		(93.7)
Less: Intangible assets, net of associated DTLs		(83.7)
Total CET1 Capital		**5,755.4**
Preferred stock		325.0
Less: Other Additional Tier 1 Capital deductions		(8.1)
Total Additional Tier 1 Capital		316.9
Total Tier 1 Capital		**6,072.3**
Qualifying Tier 2 Capital Instruments		395.2
Qualifying allowance for credit losses and other reserves		512.1
Total Tier 2 Capital		907.3
Total Capital	**$**	**6,979.6**

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 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 the enterprise stress testing and its economic capital ("ECAP") approaches.

With the recent 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"). The plan included a quarterly cash dividend of up to $0.16 per share and 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. Entering 2018, CIT had up to $100 million remaining under this plan. 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. CIT completed $680 million of common equity share repurchases during the 2018 second quarter.

On June 28, 2018, CIT announced that the Board approved a common equity capital return of up to $750 million (exclusive of the quarterly cash dividend). The Company will determine the timing and amount of any share repurchases, special dividends, or combination of the two that may be authorized based on market conditions and other considerations. Any share repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions, and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934.

For additional information regarding capital management, refer to the *Item 1. Business Overview - Regulation* section in Part One of our 2017 Form 10-K and *Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital* section in Quarterly Report on Form 10-Q for the period ended June 30, 2018.

RISK-BASED CAPITAL RATIOS

The following tables present information on the Company's Standardized Approach Risk-Weighted Assets ("RWAs") components included within the regulatory capital ratios at June 30, 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.

Standardized Approach Risk-Weighted Assets [1] (dollars in millions)

	June 30, 2018	
	Exposure Amount	**Risk-Weighted Asset Amount**
Loans and Leases:		
Residential mortgages exposures	$ 6,345.2	$ 2,414.3
HVCRE loans	2,157.3	3,236.0
Past due and non-accrual loans	368.6	544.7
All other loans and leases	20,965.6	20,887.9
Total loans and leases	29,836.7	27,082.9
Operating lease equipment	7,931.4	7,931.4
Sovereign/Supranational exposures	5,240.9	-
Securitization exposures	118.7	264.3
Other assets	6,727.4	3,022.7
Total on-balance sheet assets	49,855.0	38,301.3
Rail purchase commitments	232.9	232.9
Loan commitments with original maturity within 1 year [2]	1,455.1	291.0
Loan commitments with original maturity over 1 year [2]	4,780.3	2,609.3
Letters of credit	1,748.7	1,735.0
Other off-balance sheet items [3]	666.5	506.5
Total off-balance sheet items	8,883.5	5,374.8
Total	**$ 58,738.5**	**$ 43,676.1**

[1] Assets HFS and 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)

	June 30, 2018	
Transition Basis	**CIT**	**CIT Bank**
Common equity tier 1	13.2%	13.9%
Tier 1 capital	13.9%	13.9%
Total capital	16.0%	15.2%
Risk-Weighted Assets	$ 43,676.1	$ 34,183.4

CAPITAL CONSERVATION BUFFER

REQUIREDRATIOS

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

CIT will be required to maintain risk-based capital ratios at January 1, 2019 and June 30, 2018 as follows:

	CET 1 Capital	Tier 1 Capital	Total Capital
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 June 30, 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 June 30, 2018, CIT has met the effective minimum ratios, with CET1 Capital, Tier 1 Capital and Total Capital ratios of 13.2%, 13.9% and 16.0%, respectively.

The capital conservation buffer is calculated as the lowest of the: (i) CET1 ratio less the CET1 minimum requirement, (ii) Tier 1 ratio less the Tier 1 minimum requirement and (iii) Total capital ratio less the Total capital minimum requirement. At June 30, 2018, CIT's capital conservation buffer was 7.9%, 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. 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, target performance metrics, 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") supervises CIT's non-credit risk management functions and the Chief Credit Officer ("CCO") supervises CIT's credit risk management function through the RMG, co-chairing the Enterprise Risk Committee ("ERC"), and report regularly to the RMC of the Board 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 or 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 and Leasing.

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 Allowance for Loan and Lease Losses ("ALLL"), the head of Model Development, and the head of Credit Administration. The CCO chairs several key governance committees, including the Corporate Credit Committee ("CCC") and the ALLL Committee.

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 2017 Form 10-K.

For further information on Counterparty Credit Risk, refer to 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 2017 Form 10-K:

- Past due and non-accrual loans
- Returning loan to accrual status
- Impairment of loans
- Allowance for loan losses
- Charging 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)

	June 30, 2018		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Commercial Banking	$ 23,039.7	$ 120.0	$ 23,159.7
Consumer Banking	6,308.7	19.3	6,328.0
Non-Strategic Portfolios	-	29.7	29.7
Total	$ 29,348.4	$ 169.0	$ 29,517.4

Loans by Obligor - Geographic Region (dollars in millions)

	June 30, 2018		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
United States	$ 27,773.2	$ 99.7	$ 27,872.9
Asia / Pacific	538.6	29.7	568.3
Europe	564.0	39.6	603.6
Canada	142.3	-	142.3
Latin America	151.6	-	151.6
All other countries	178.7	-	178.7
Total	$ 29,348.4	$ 169.0	$ 29,517.4

Loans by Obligor - Industry (dollars in millions)

	June 30, 2018		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Corporate	$ 21,466.7	$ 134.8	$ 21,601.5
Non-bank financial institution	1,940.4	-	1,940.4
Bank	19.5	-	19.5
Public[1]	74.1	14.9	89.0
Household[2]	5,847.7	19.3	5,867.0
Total	$ 29,348.4	$ 169.0	$ 29,517.4

[1] Includes governments, their departments and their agencies.

[2] Includes individuals and families.

Impaired Loans (dollars in millions)

	June 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
United States	$ 2,046.9	$ 2,933.7	$ 52.4
Europe	11.5	11.7	4.5
Total	$ 2,058.4	$ 2,945.4	$ 56.9

	June 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Corporate	$ 275.2	$ 325.2	$ 39.5
Household[1]	1,783.2	2,620.2	17.4
Total	$ 2,058.4	$ 2,945.4	$ 56.9

[1] Includes individuals and families.

Loans on Non-Accrual Status (dollars in millions)

	June 30, 2018
United States	$ 270.1
Asia / Pacific	9.9
Latin America	11.5
Total	$ 291.5

	June 30, 2018
Corporate	$ 255.2
Non-bank financial institution	0.6
Bank	0.1
Public[1]	7.1
Household[2]	28.5
Total	$ 291.5

[1] Includes governments, their departments and their agencies.
[2] Includes individuals and families.

Loans on Past Due Accrual Status[1] (dollars in millions)

	June 30, 2018		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
United States	$ 415.1	$ 331.1	$ 746.2
Asia / Pacific	3.0	-	3.0
Canada	1.4	-	1.4
Latin America	1.0	-	1.0
Total	$ 420.5	$ 331.1	$ 751.6

	June 30, 2018		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
Corporate	$ 117.1	$ 93.7	$ 210.8
Non-bank financial institution	3.0	0.2	3.2
Bank	0.2	-	0.2
Public[2]	7.7	0.4	8.1
Household[3]	292.5	236.8	529.3
Total	$ 420.5	$ 331.1	$ 751.6

[1] Includes SOP 03-3 loans.

[2] Includes governments, their departments and their agencies.

[3] Includes individuals and families.

Charge-Offs (dollars in millions)

	Six Months Ended June 30, 2018		
	Gross Charge-offs	Recoveries	Net Charge-offs
Corporate	$ 77.5	$ 14.8	$ 62.7
Non-bank financial institution	1.7	-	1.7
Household[1]	1.3	0.5	0.8
Total	$ 80.5	$ 15.3	$ 65.2

[1] Includes individuals and families.

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

	Six Months Ended June 30, 2018		
	Commercial Banking	Consumer Banking	Total
Balance - December 31, 2017	$ 402.2	$ 28.9	$ 431.1
Provision for credit losses	100.4	1.3	101.7
Gross charge-offs	(79.2)	(1.3)	(80.5)
Recoveries	14.7	0.6	15.3
Other	(0.3)	-	(0.3)
Balance - June 30, 2018	$ 437.8	$ 29.5	$ 467.3

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 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, including Total Return Swap Transactions, refer to *Note 11 – Derivative Financial Instruments* in our 2017 Form 10-K and *Note 7 – Derivative Financial Instruments* in the Quarterly Report on Form 10-Q for the period ended June 30, 2018

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)

	June 30, 2018		
	Notional Amount	Asset Fair Value	Liability Fair Value
Derivatives designated as hedging instruments			
Foreign exchange contracts	$ 927.5	$ 35.9	$ (0.1)
Interest rate swap - fair value hedge	250.0	0.7	-
Total derivatives designated as hedging instruments	1,177.5	36.6	(0.1)
Derivatives not designated as hedging instruments			
Interest rate contracts	13,624.5	97.4	(80.3)
Foreign exchange contracts	1,780.2	53.0	(8.1)
Other contracts	507.8	-	(14.7)
Total derivatives not designated as hedging instruments	15,912.5	150.4	(103.1)
Gross derivative fair values presented in the Consolidated Balance Sheets	$ 17,090.0	$ 187.0	$ (103.2)
Less: Gross amounts offset in the Consolidated Balance Sheets		-	-
Net Amount Presented in the Consolidated Balance Sheet		187.0	(103.2)
Less: Gross amounts not offset in the Consolidated Balance Sheets		-	-
Derivative Financial Instruments		(13.5)	13.5
Cash Collateral Pledged/(Received)		(98.7)	-
Total Net Derivative Fair Value		$ 74.8	$ (89.7)

REVERSE REPO

The Company entered into transactions related to securities purchased under agreement to resell ("reverse repo"), which is 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 June 30, 2018, the Company reported $200 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 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.

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 invests in securitization exposures, mainly in third party issued non-agency mortgage-backed securities. These security investments were acquired in the OneWest Transaction, majority of which were purchased by OneWest Bank from IndyMac Bank in 2009. CIT receives prices from third party dealers for over 99% of the portfolio on a monthly basis, and runs risk analytics and yield calculations using internal models. For the regulatory capital treatment on these securitization exposures, CIT applies the Simplified Supervisory Formula Approach (SSFA).

For further information on Consolidated VIEs and Unconsolidated VIEs, refer to *Note 10 – Borrowings* in our 2017 Form 10-K and *Note 6 – Borrowings* in the Quarterly Report on Form 10-Q for the period ended June 30, 2018.

Securitization Risk-Weighted Assets (dollars in millions)

	June 30, 2018	
	Exposure Amount	**Risk-Weighted Asset Amount**
Exposure Type:		
AFS Mortgage-backed securities	$ 101.3	$ 211.8
Equity investments	17.4	52.5
Total	**$ 118.7**	**$ 264.3**
SSFA Risk-Weight Range:		
20% - 100%	$ 7.6	$ 1.6
101% - 300%	88.7	190.5
301% - 500%	22.0	68.4
> 501%	0.4	3.7
Total	**$ 118.7**	**$ 264.3**

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 reclassed 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 June 30, 2018, CIT had $44.1 million in equity securities carried at fair value with changes recorded in net income and $304.1 million in non-marketable investments. Non-marketable investments include securities of the FRB and Federal Home Loan Bank (“FHLB”) carried at cost of $253.8 million at June 30, 2018. 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 $50.3 million at June 30, 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 gains on investments, which consist primarily of equities, arising from sales and liquidations was $4.1 million for the quarter ended June 30, 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 reclassed from accumulated other comprehensive loss to opening retained earnings. As of June 30, 2018, the unrealized losses of $2.3 million were recorded in net income, which were included in both CET1 and Tier 1 Capital.

Risk Weighting Approaches of Equity Exposures (dollars in millions)

	June 30, 2018		
	Risk Weight Category	**Exposure Amount**	**Risk-Weighted Asset Amount**
Federal Reserve Bank Stock	0%	$ 151.3	$ -
Federal Home Loan Bank Stock	20%	102.5	20.5
Investments in Unconsolidated Subsidiaries[1]	100%	267.5	267.5
Marketable Equity Securities [2]	300%	0.2	0.2
Non-Marketable Equity Securities [2][3]	400%	6.9	6.9
Investment Funds	Look-through	122.3	24.5
Total		$ 650.7	$ 319.6

[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 pro-actively 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 arises from lending, leasing, investments, deposit taking and funding, as assets and liabilities reprice 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 interest revenue and rental income 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 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, equipment owned and leased, cash and investments. With respect to liabilities, time deposits 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 concentrated at the shorter end of the yield curve, mostly driven by moves in LIBOR, whereby our assets will reprice faster than our liabilities.

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 over the life of the asset and the 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. Total deposit betas are modeled to increase an additional 35% - 40% above base repricing, on an instantaneous +100 bps shock over the next 12 months. The NII sensitivity is based on an assumption that the total balance sheet size remains static over the projection period.

Change to NII and EVE Sensitivity

	June 30, 2018			March 31, 2018		
	+200 bps	+100 bps	-100 bps	+200 bps	+100 bps	-100 bps
NII	7.6%	3.8%	(4.3)%	6.8%	3.5%	(3.9)%
EVE	(4.5)%	(2.2)%	1.6%	(3.4)%	(1.7)%	1.4%

As of June 2018, the +100 bps NII sensitivity and EVE sensitivity change from March 31, 2018 (see table above) is primarily driven by strategic actions which resulted in a net reduction in ending cash due to debt and equity actions during the quarter. In addition to the net reduction in ending cash, there was a liability mix shift to non-maturity deposits, which also impacted sensitivity.

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, and prepayment characteristics of our balance sheet, changes in Purchase Accounting Adjustments, or changes in competition for business in the industries we serve. They also do not account for other business developments that could affect income, or for management actions that could affect 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.

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 2017 Form 10-K and the Quarterly Report on Form 10-Q for the period ended June 30, 2018.