CIT Group Inc.

PILLAR 3 REGULATORY CAPITAL DISCLOSURES

For the period ended March 31, 2017

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OVERVIEW

ORGANIZATION

CIT Group Inc., together with its subsidiaries (collectively "we", "our", "CIT" or the "Company"), has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle-market companies, including to the transportation industry, and equipment financing and leasing solutions to a wide variety of industries primarily in North America. CIT is a bank holding company ("BHC") and a financial holding company ("FHC"). CIT also provides a full range of banking and related services to commercial and individual customers through its banking subsidiary, CIT Bank, N.A., which includes 70 branches located in Southern California and its online bank, bankoncit.com.

On October 6, 2016 we entered into a definitive agreement to sell our Commercial Air business, except for certain Commercial Air loans funded in CIT Bank. This business, along with our Business Air and Financial Freedom businesses, is reported as discontinued operations, with all prior period balances conformed.

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, then 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 — Acquisition and Discontinued Operations for details on the Company's Annual Report on the Form 10-K for the year ended December 31, 2016.

CIT is regulated by the Board of Governors of the Federal Reserve System ("FRB") and the Federal Reserve Bank of New York ("FRBNY") under the U.S. Bank Holding Company Act of 1956, as amended. CIT Bank is regulated by the Office of the Comptroller of the Currency of the U.S. Department of the Treasury ("OCC").

BUSINESSSEGMENTS

CIT's reportable segments are comprised of divisions that are aggregated into segments primarily based upon industry categories, geography, target markets and customers served, and, to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing and the nature of their regulatory environment. This segment reporting is consistent with the presentation of financial information to the Board of Directors and executive management.

<u>Summary of Changes to Reportable Segments</u>

Due to changes in our business, we realigned our segment reporting in the first quarter of 2016 and then again in the fourth quarter in conjunction with the previously announced sale of Commercial Air. As of March 31, 2017, CIT manages its business and reports its financial results in three operating segments: Commercial Banking, Consumer Banking, and Non-Strategic Portfolios ("NSP"), and a non-operating segment, Corporate and Other.

The following summarizes changes to our segment reporting from December 31, 2015. All prior period data presented in the Company's Annual Report on Form 10-K were conformed to reflect the following changes:

- Commercial Banking segment (formerly North America Banking or "NAB") no longer includes the Consumer Banking division or the Canadian lending and equipment finance business. Commercial Banking is comprised of Commercial Finance, Real Estate Finance, and Business Capital. Business Capital includes the former Equipment Finance and Commercial Services divisions, which had been discrete divisions in the year ago filing. In the fourth quarter of 2016 we further realigned our segments with Rail as a fourth division of Commercial Banking. Also part of the fourth quarter realignment, Maritime Finance and the remaining Commercial Air loans not part of discontinued operations were transferred to Commercial Finance. Rail, Maritime Finance and Commercial Air loans not part of discontinued operations were all previously part of the former Transportation

Finance Segment.

- Transportation Finance (formerly Transportation & International Finance or "TIF") no longer exists as a separate business segment. In our initial realignment in the first quarter of 2016, we transferred the international businesses in China and the U.K. to NSP, such that Transportation Finance was then comprised of three divisions, Aerospace (composed of Commercial Air and Business Air), Rail and Maritime Finance. Based on the definitive sale agreement with respect to Commercial Air that we executed on October 6, 2016, the activity of the Commercial Air business that is subject to the sale agreement, as well as activity associated with the Business Air assets, are reported as discontinued operations as of December 31, 2016. As mentioned above, Rail, Maritime Finance and Commercial Air loans not part of discontinued operations were transferred to Commercial Banking.

- Consumer Banking includes Legacy Consumer Mortgages (the former LCM segment) and other banking divisions that were included in the former NAB segment (Retail Banking, Consumer Lending, and SBA Lending).

- NSP includes businesses that we no longer consider strategic and as of March 31, 2017, the remaining portfolio is primarily in China. Historic data also includes businesses and portfolios that have been sold, in countries such as Canada, the U.K., Mexico, and Brazil.

<u>Types of Products and Services</u>

Commercial Banking consists of four divisions. Through its Commercial Finance, Real Estate Finance, and Business Capital divisions, Commercial Banking provides lending, leasing and other financial and advisory services, primarily to small and middle-market companies across select industries. Business Capital also provides factoring, receivables management products and secured financing to the retail supply chain. The fourth division, Rail, provides equipment leasing and secured financing to the rail industry. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities, capital markets transactions and banking services, commissions earned on factoring and related activities, and to a lesser extent, interest and dividends on investments. Revenue is also generated from gains on asset sales.

Consumer Banking includes Other Consumer Banking and Legacy Consumer Mortgages.

Other Consumer Banking offers mortgage loans, deposits and private banking services to its consumer customers. The division offers jumbo residential mortgage loans and conforming residential mortgage loans, primarily in Southern California. Mortgage loans are originated directly through leads generated from the retail branch network, private bankers, the commercial business units, as well as indirectly through institutional intermediaries. Mortgage lending includes product specialists, internal sales support and origination processing, structuring and closing. Retail banking is the primary deposit gathering business of CIT Bank and operates through 70 retail branches in Southern California and an online direct channel. We offer a broad range of deposit and lending products to meet the needs of our customers, including: checking, savings, certificates of deposit, residential mortgage loans, and fiduciary services. The division also originates qualified Small Business Administration ("SBA") 504 loans (generally, the financing provides growing small businesses with long-term, fixed-rate financing for major fixed assets, such as land and building) and 7(a) (generally, for purchase/refinance of owner occupied commercial real estate, working capital, acquisition of inventory, machinery, equipment, furniture, and fixtures, the refinance of outstanding debt subject to any program guidelines, and acquisition of businesses, including partnership buyouts).

LCM 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 includes businesses and portfolios that we no longer consider strategic. The China portfolio was predominately the remaining operation at March 31, 2017. On a limited basis, the remaining business offers equipment financing, secured lending and leasing and advisory services to small and middle-market businesses and the portfolio was included in assets held for sale at March 31, 2017.

Corporate and Other

Certain items are not allocated to operating segments and are included in Corporate & Other. Some of the more significant items include interest income on investment securities, a portion of interest expense, primarily related to corporate liquidity costs (interest expense), mark-to-market adjustments on non-qualifying derivatives (other income), restructuring charges for severance and facilities exit activities (operating expenses), certain intangible asset amortization expenses (other expenses) and loss on debt extinguishments.

INDEMNIFICATION ASSETS

Prior to the OneWest Transaction, 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 OneWest Transaction, 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 Form 10-K for the year ended December 31, 2016 and the Quarterly Report on Form 10-Q for the period ended March 31, 2017.

SCOPE OF APPLICATION

BASIS OF CONSOLIDATION

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

TRANSFER OF FUNDS OR CAPITAL RESTRICTIONS

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.

Transactions with Affiliates

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.

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 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.

It is the policy of the FRB that a BHC generally pay dividends on common stock out of net income available to common shareholders over the past year, only if the prospective rate of earnings retention appears consistent with capital needs, asset quality, and overall financial condition, and only if the BHC is not in danger of failing to meet its minimum regulatory capital adequacy ratios. In the current financial and economic environment, the FRB indicated that BHCs should not maintain high dividend pay-out ratios unless both asset quality and capital are very strong. A BHC should not maintain a dividend level that places undue pressure on the capital of bank subsidiaries, or that may undermine the BHC's ability to serve as a source of strength to its subsidiary bank.

REGULATED SUBSIDIARIES' CAPITAL

As of March 31, 2017, total capital, as defined by the applicable regulations, for CIT's regulated banking subsidiary was $5.3 billion and for CIT's regulated insurance and broker dealer subsidiaries were $13.7 million and $5.1 million, respectively. All of these entities were in compliance with their respective minimum total capital requirements as of March 31, 2017.

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 stock.

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 35 of CIT's 2016 Form 10-K.

REGULATORY CAPITAL TIERS

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

Regulatory Capital Tiers (dollars in millions)

	At March 31, 2017
Tier 1 Capital	
Common stock, $0.1 par value	$2.1
Paid in capital	8,782.6
Retained earnings	1,701.1
Accumulated other comprehensive loss	(123.7)
Treasury stock	(196.9)
Total stockholders' equity	$10,165.2
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interest	75.3
Adjusted total equity	10,240.5
Less: Goodwill	(733.2)
Disallowed deferred tax assets	(140.6)
Disallowed intangible assets	(87.3)
Other Tier 1 components	(7.8)
Common Equity Tier 1 Capital	9,271.6
Tier 1 Capital	9,271.6
Tier 2 Capital	
Qualifying allowance for credit losses and other reserves	498.5
Total qualifying capital	$9,770.2

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" to 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 constitutes our capital adequacy process.

As a BHC in excess of $50 billion of assets, CIT is subject to enhanced prudential regulation under the Dodd-Frank Act. Among other requirements, CIT is subject to capital planning and stress testing requirements under the FRB's Comprehensive Capital Analysis and Review ("CCAR") process, which requires CIT to submit an annual capital plan and demonstrate that it can meet required capital levels over a nine quarter planning horizon, after taking into account the impact of stresses based on both supervisory and company-specific scenarios.

CIT submitted its CCAR capital plan to the FRB in April 2017, results from which will be released by the end of June 2017. Consistent with other first-time filers, our proposed actions for the four quarters beginning the third quarter of 2017 provide for a payout ratio below 100%. The plan defers to the 2018 cycle any capital return designed to bring our ratios closer to our targets, all subject to regulatory approval. As a result, we do not expect to achieve our target return on tangible common equity of 10% until that time.

Standardized Approaches Risk-Weighted Asset (dollars in millions)

	March 31, 2017	
	Exposure Amount	Risk-Weighted Asset Amount
Loans and Leases:		
Residential mortgages exposures	$6,861.1	$2,469.6
HVCRE loans	2,155.8	3,233.8
Past due and non-accrual loans	251.8	370.6
All other loans and leases	22,131.6	22,009.6
Total loans and leases	31,400.3	28,083.5
Operating lease equipment	17,342.4	17,342.4
Sovereign/Supranational exposures	6,316.1	0.0
Securitization exposures	746.5	1,676.6
Other assets	7,289.1	3,404.5
Total on balance sheet assets	63,094.4	50,507.0
Equipment purchase commitments	8,747.7	8,747.7
Loan commitments with original maturity within 1 year	751.0	150.2
Loan commitments with original maturity over 1 year	4,821.4	2,584.3
Letters of credit	2,147.9	2,134.9
Other off balance sheet items	15.3	205.9
Total off balance sheet items	16,483.1	13,822.9
Total	$79,577.5	$64,330.0

Regulatory Capital Ratios (dollars in millions)

	March 31, 2017	
Transition Basis	**CIT**	**CIT Bank**
Common equity tier 1	14.4%	13.7%
Tier 1 capital	14.4%	13.7%
Total capital	15.2%	15.0%
Risk-weighted assets	$64,330.0	$34,252.0

CAPITAL CONSERVATION BUFFER

REQUIRED RATIOS

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 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 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 March 31, 2017, CIT has met the effective minimum ratios, with CET1, Tier 1 Capital and Total Capital ratios of 14.3%. 14.3% and 15.1%, respectively, under the fully-phased in approach.

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 Chief Credit Officer ("CCO"). This group approves the Company's underwriting standards, new business, extensions of credit and material amendments to existing credits, and is responsible to ensure the portfolio credit grading, and regulatory ratings are correct. Additionally, problem loan management reports into the CCO. RMG reviews and monitors credit exposures with the goal of identifying, as early as possible, customers and industries that are experiencing declining creditworthiness or financial difficulty. The CCO and CRO evaluate reserves through our ALLL process for performing and non-performing loans, as well as establishing qualitative reserves to cover potential losses which may be inherent in the portfolio. Once a loan or lease is deemed to be Non-Accrual, 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, via a specific reserve or charge off.

CIT's portfolio is governed by Risk Tolerance Limits based on individual loan amounts by borrower as well as product, industry and geography. RMG sets or modifies the Underwriting standards as conditions warrant, based on borrower risk, collateral, industry risk, portfolio size and concentrations, credit concentrations and risk of substantial credit loss. 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) Credit Standards, which detail acceptable structures, credit profiles and risk-adjusted returns, and (3) through our corporate credit policies and procedures. 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. The PD and LGD of our borrowers is the framework for our ALLL process.

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, evaluation of the performance, recovery of past due balances and liquidating underlying collateral.

Prior to extending an initial loan or lease, 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, 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 Business Capital, 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 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.

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., these loans do not contain a contractual due date or regularly scheduled payments due from the borrower), they are considered current for purposes of past due reporting and are excluded from reported non-accrual loan balances.

The recognition of interest income (including accretion) on commercial loans (exclusive of small ticket commercial loans) is suspended and an account is placed on non-accrual status when, in the opinion of management, full collection of all principal and interest due is doubtful. All future interest accruals, as well as amortization of deferred fees, costs, purchase premiums or discounts are suspended. To the extent the estimated cash flows, including fair value of collateral, does not satisfy both the principal and accrued interest outstanding, accrued but uncollected interest at the date an account is placed on non-accrual status is reversed and charged against interest income. Subsequent interest received is applied to the outstanding principal balance until such time as the account is collected, charged-off or returned to accrual status. Loans that are on cash basis non-accrual do not accrue interest income; however, payments designated by the borrower as interest payments may be recorded as interest income. To qualify for this treatment, the remaining recorded investment in the loan must be deemed fully collectable.

The recognition of interest income (including accretion) on consumer mortgages and small ticket commercial loans and lease receivables is suspended and all previously accrued but uncollected revenue is reversed, when payment of principal and/or interest is contractually delinquent for 90 days or more. 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.

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, as well as short-term factoring receivables greater than $500,000 when events or circumstances indicate that it is probable that CIT will be unable to collect all amounts due according to the contractual terms of the factoring agreement. Small-ticket loan and lease receivables that have not been modified in a restructuring are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 90 – 150 days past due.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

The allowance for loan losses is intended to provide for credit losses inherent in the HFI loan and lease receivables portfolio and is periodically reviewed for adequacy. The allowance for loan losses is determined based on three key components: (1) specific allowances for loans that are impaired, based upon the value of underlying collateral or projected cash flows, or observable market price, (2) non-specific allowances for estimated losses inherent in the portfolio based upon the expected loss over the loss emergence period, and (3) allowances for estimated losses inherent in the portfolio based upon economic risks, industry and geographic concentrations, and other factors. Changes to the Allowance for Loan Losses are recorded in the Provision for Credit Losses.

Determining an appropriate allowance for loan losses requires significant judgment that may change based on management's ongoing process in analyzing the credit quality of the Company's HFI loan portfolio.

Finance receivables are divided into the following portfolio segments, which correspond to the Company's business segments: Commercial Banking, Consumer Banking and Non-Strategic Portfolios ("NSP"). Within each portfolio segment, credit risk is assessed and monitored in the following classes of loans; within Commercial Banking, Commercial Finance, Real Estate Finance, Business Capital, and Rail, are collectively referred to as Commercial Loans. Within Consumer Banking, classes include LCM and Other Consumer Lending, collectively referred to as Consumer Loans. The allowance is estimated based upon the finance receivables in the respective class.

For each portfolio, impairment is generally measured individually for larger non-homogeneous loans (finance receivables of $500 thousand or greater) and collectively for groups of smaller loans with similar characteristics or for designated pools of PCI loans based on decreases in cash flows expected to be collected subsequent to acquisition.

Loans acquired in the OneWest Transaction were initially recorded at estimated fair value at the time of acquisition. Expected credit losses were included in the determination of estimated fair value, no allowance was established on the acquisition date.

<u>Allowance Methodology</u>

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. Refer to the Impairment of Finance Receivables section of Note 1 of the Company's Form 10-K for details.

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 Federal Deposit Insurance Corporation ("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. See Indemnification Assets later in this section.

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 and deferred purchase commitments. 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 and deferred purchase commitments are recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the reserve for unfunded loan commitments and deferred purchase 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 relates to the Commercial Banking 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 loans. Additionally, divisions in Commercial Banking and Consumer Banking segments also utilize methodologies under ASC 310-30 for PCI loans.

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 loan classes within Commercial Banking. 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 90-180 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 post-acquisition 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

In the following tables, Finance Receivables includes loans and capital leases and excludes operating leases and discontinued operations.

Finance Receivables Composition (dollars in millions)

	March 31, 2017		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Commercial Banking	$22,878.6	$335.8	$23,214.4
Consumer Banking	6,812.8	64.1	6,876.9
Non-Strategic Portfolios	-	162.1	162.1
Total	$29,691.4	$562.0	$30,253.4

Finance Receivables by Obligor - Geographic Region (dollars in millions)

	March 31, 2017		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
United States	$27,759.5	$351.8	$28,111.3
Asia / Pacific	837.3	189.2	1,026.5
Europe	678.6	12.2	690.8
Canada	104.2	8.8	113.0
Latin America	104.0	-	104.0
All other countries	207.8	-	207.8
Total	$29,691.4	$562.0	$30,253.4

Finance Receivables by Obligor - Industry (dollars in millions)

	2017		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Corporate	$20,987.6	$351.9	$21,339.5
Non-bank financial institution	2,146.2	45.4	2,191.6
Bank	23.6	-	23.6
Public[1]	88.5	100.6	189.1
Household[2]	6,445.5	64.1	6,509.6
Total	$29,691.4	$562.0	$30,253.4

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

[2] Includes individuals and families.

Impaired Loans (dollars in millions)

	March 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
United States	$2,459.2	$3,519.1	$40.5
Asia	40.5	40.5	6.8
All other countries	22.5	22.5	0.0
Total	$2,522.1	$3,582.1	$47.3

	March 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Corporate	$316.6	$371.9	$40.2
Household[1]	2,205.5	3,210.2	7.1
Total	$2,522.1	$3,582.1	$47.3

[1] Includes individuals and families.

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

	March 31, 2017
United States	$218.9
Europe	31.2
Asia / Pacific	8.7
Canada	-
Latin America	-
All other countries	-
Total	$258.8

	March 31, 2017
Corporate	$204.7
Non-bank financial institution	36.8
Bank	0.3
Public(1)	5.7
Household(2)	11.3
Total	$258.8

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

(2) Includes individuals and families.

Finance Receivables on Past Due Accrual Status(1) (dollars in millions)

	March 31, 2017		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
United States	$445.0	$283.1	$728.1
Asia / Pacific	4.7	-	4.7
Total	$449.7	$283.1	$732.8

	March 31, 2017		
	30-89 Days Past Due	90 Days or Greater	Total Past Due
Corporate	$165.3	$4.9	$170.2
Non-bank financial institution	30.0	0.8	30.8
Bank	0.4	-	0.4
Public(2)	6.9	0.3	7.2
Household(3)	247.1	277.1	524.2
Total	$449.7	$283.1	$732.8

(1) Includes SOP 03-3 loans.

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

(3) Includes individuals and families.

Charge-Offs (dollars in millions)

	Year ended March 31, 2017		
	Gross Charge-offs	Recoveries	Net Charge-offs
Corporate	$32.4	$5.0	$27.4
Non-bank financial institution	0.0	0.0	(0.0)
Household[1]	0.6	0.5	0.1
Total	$33.0	$5.6	$27.5

[1] Includes individuals and families.

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

	Year ended March 31, 2017		
	Commercial Banking	Consumer Banking	Total
Balance - December 31, 2016	$408.4	$24.2	$432.6
Provision for credit losses	49.2	0.5	49.7
Gross charge-offs	(32.4)	(0.6)	(33.0)
Recoveries	5.0	0.5	5.5
Other	(6.2)	-	(6.2)
Balance - March 31, 2017	$424.0	$24.6	$448.6

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"), in conjunction with Enterprise Risk Management ("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 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.

COLLATERAL

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

As of December 31, 2016, CIT was party to two financing facilities between two wholly-owned subsidiaries of CIT, one Canadian ("CFL") and one Dutch, and Goldman Sachs International ("GSI"), respectively, which were structured as total return swaps ("TRS"). Amounts available for advances (otherwise known as the unused portion) were accounted for as derivatives and recorded at the estimated fair value. On December 7, 2016, CFL entered into a Fourth Amended and Restated Confirmation (the "Termination Agreement") with GSI to terminate the Canadian TRS and the facility was terminated on January 17, 2017.

The total facility capacity available under the Dutch TRS was $625 million at March 31, 2017 and December 31, 2016. The utilized portion reflects the borrowing.

The aggregate "notional amounts" of the TRS Transactions of $158.0 million at March 31, 2017 and $587.5 million at December 31, 2016 represent the aggregate unused portions and constitute derivative financial instruments. These notional amounts were calculated as the maximum facility commitment amount, $625 million, under the Dutch TRS less the actual adjusted qualifying borrowing base outstanding of $467.0 million under the facility at March 31, 2017, and the maximum aggregate facility commitment amount, $1,062.3 million, under the Canadian TRS and Dutch TRS less the aggregate actual adjusted qualifying borrowing base outstanding of $474.8 million under the facilities at December 31, 2016. The notional amounts of the derivative will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying ABS to investors. If CIT funds additional ABS under the Dutch TRS, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

Based on the Company's valuation, a liability of $12.2 million and $11.3 million was recorded at March 31, 2017 and December 31, 2016, respectively. The increase in liability of $0.9 million was recognized as a decrease to Other Income for the quarter ended March 31, 2017. The decrease in the liability of $18.2 million was recognized as an increase to Other Income for the quarter ended March 31, 2016.

Derivative Financial Instruments (dollars in millions)			
	March 31, 2017		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**
Qualifying Hedges			
Foreign currency forward contracts - net investment hedges	$ 924.6	$ 8.3	$ (0.8)
Total Qualifying Hedges	924.6	8.3	(0.8)
Non-Qualifying Hedges			
Interest rate swaps	5,862.7	58.8	(32.9)
Written options	2,663.1	0.0	(0.9)
Purchased options	2,332.5	0.9	-
Foreign currency forward contracts	1,338.5	7.6	(5.9)
Total Return Swap (TRS)	158.0	-	(12.2)
Equity Warrants	1.0	0.1	-
Interest Rate Lock Commitments	8.7	0.1	-
Forward Sale Commitments on Agency MBS	20.0	-	(0.2)
Credit derivatives	266.6	-	(0.1)
Total Non-qualifying Hedges	12,651.1	67.5	(52.2)
Toal Hedges	$13,575.7	$ 75.8	$ (53.0)

Cash Collateral Pledged/(Received) (dollars in millions)						
				March 31, 2017		
				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**	**Cash Collateral Pledged/ (Received)**	**Net Amount**
Derivative assets	$75.8	$0.0	$75.8	($14.3)	($14.5)	$47.0
Derivative liabilities	(53.0)	0.0	(53.0)	14.3	2.9	(35.8)

CREDIT RISK MITIGATION

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 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 government sponsored entity ("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 $352.8 million were included in Assets of discontinued operations and the associated secured borrowing of $345.4 (including an unamortized premium balances of $7.1 million) were included in Liabilities of discontinued operations at March 31, 2017.

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 $154.2millionof HMBS outstanding principal balance at March 31, 2017, for transferred loans securitized by IndyMac for which OneWest Bank prior to the acquisition had purchased the mortgage servicing rights ("MSRs") in connection with the IndyMac Transaction. The carrying value of the MSRs was not significant at March 31, 2017. 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.

PRIVATE LABEL MORTGAGE BACKED SECURITIES

Included in CIT's available-for-sale ("AFS") securities and securities carried at fair value are private label mortgage backed securities that are risk-weighted under the Simplified Supervisory Formula Approach as a securitized instrument. These security investments, acquired in the OneWest Transaction, were purchased by OneWest Bank from IndyMac Bank in 2009, with the exception of two securities. One security was purchased as a new issue in 2012, while the other was purchased as a new issue in 2013. The legacy IndyMac securities consist of 2004 – 2007 originations. 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.

Securitization Risk-Weighted Assets (dollars in millions)

	March 31, 2017	
	Exposure Amount	Risk-Weighted Asset Amount [(1)]
Mortgage-backed security exposures:		
Available-for-sale securities	$470.5	$1,046.0
Securities carried at fair value	268.9	604.0
Equity investment exposures:	7.1	26.6
Total	$746.5	$1,676.6

(1) Based on Simplified Supervisory Formula Approach (SSFA).

EQUITY EXPOSURES

EVALUATION OF INVESTMENTS

Equity securities classified as 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 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 held-to-maturity ("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 March 31, 2017, CIT had $34.2 million in equity securities available-for-sale and $249.6 million in non-marketable equity investments. Non-marketable investments include securities of the FRB and Federal Home Loan Bank ("FHLB") carried at cost of $231.0 million at March 31, 2017. 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 $18.5 million at March 31, 2017.

GAINS (LOSSES)

Total gains on investments, which consists primarily of equities, arising from sales and liquidations was $1.6 million for the quarter ended March 31, 2017. 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 of Equity Exposures (dollars in millions)

	March 31, 2017		
	Risk Weight Category	**Exposure Amount**	**Risk-Weighted Asset Amount**
Federal Reserve Bank Stock	0%	$156.2	$0.0
Federal Home Loan Bank Stock	20%	74.8	15.0
Investments in Unconsolidated Subsidiaries[(1)]	100%	180.8	180.8
Marketable Equity Securities	300%	0.2	0.7
Non-marketable Equity Securities	400%	11.6	46.3
Investment Funds	Look-through	642.0	146.8
Total		$1,065.7	$389.6

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

INTEREST RATE RISK

RISKMANAGEMENT

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 forecasted net interest revenue and rental income from specific items assuming a static balance sheet over a twelve 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, equipment owned and leased, 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 commercial portfolio, including assets of discontinued operations, includes approximately $22.7 billion of fixed-rate and $13.6 billion of floating rate assets. Our consumer loan portfolio is based on both floating rate (47% of unpaid principal balance) and the remaining, level/fixed payment transactions. Our interest bearing deposits at banks have generally short durations and reprice frequently. We use a variety of funding sources, including certificates of deposit (CDs), money market, savings and checking accounts and secured and unsecured debt. With respect to liabilities, CDs and unsecured debt are fixed-rate, secured debt is a mix of fixed and floating rate, and the rates on savings accounts vary based on the market environment and competition. The composition of our assets and liabilities generally results in a net asset-sensitive position at the shorter end of the yield curve, mostly related to moves in LIBOR, whereby our assets will reprice faster than our liabilities.

Deposits continued to grow as a percent of total funding. CIT Bank, N.A. sources deposits primarily through a retail branch network in Southern California, direct-to-consumer (via the Internet), commercial, and brokered channels. At March 31, 2017, the Bank had over $32 billion in deposits. Certificates of deposit were $16 billion and represented approximately 50% 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. We model rate sensitivity to market price changes on our nonmaturity deposits of approximately 50% for a +100 bps rate increase over the next 12 months. 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. 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 (1.0)% parallel increase or decrease in interest rates from the market-based forward curve. NII sensitivity is based on a static balance sheet projection.

Change in NII Sensitivity and EVE

	March 31, 2017	
	+100 bps	-100 bps
NII Sensitivity	3.1%	(2.9)%
EVE	(2.6)%	2.9%

As of March 31, 2017, we ran a range of scenarios, including a 200 basis point (2.0)% parallel increase scenario, which resulted in an NII Sensitivity of 5.4% and an EVE of (4.2)%, while a 200 basis point (2.0)% decline scenario was not run as the current low rate environment makes the scenario less relevant. Regarding the negative scenarios, we have an assumed rate floor. Overall lower sensitivity on income is primarily driven by the move from cash to securities and secondarily from lower loan balances and passage of time on fixed rate liabilities.

During the first quarter the Company implemented new deposit models. These new models result in increased NII sensitivity. The impact of this is muted this quarter from the offsetting changes or reductions in sensitivity from the continued redeployment of cash to securities and roll down of fixed rate liabilities.

+100bps EVE sensitivity went from -2.1% in December 2016 to -2.6% in March 2017. The change is a result from a combination of redeployment of cash into fixed rate securities and roll down of debt which results in additional duration/more negative EVE offset by implementation of new deposits models which had lower sensitivity to rate changes (lower beta) / more positive EVE changes.

-100bps EVE sensitivity went from 2.3% in December 2016 to 2.9% in March 2017. The change is primarily driven by lengthening of asset duration due to securities purchases and runoff/roll down of fixed rate debt, partially offset by deposit model change.

-100bps NII sensitivity change worsened by 0.5%. This is the impact of balance sheet changes (cash deployment into fixed rate securities, and roll down of liabilities) which reduced sensitivity offset mostly by implementation of new deposit models and by the reduced floor effect on Cash and Commercial loans due to higher short term rates.

As of March 31, 2017, the estimated pro forma sensitivity ratios assuming the sale of Commercial Air and the associated liability management and capital actions for a +/-100 bps scenarios for NII and EVE were as follows:

Proforma Change in NII Sensitivity and EVE

	March 31, 2017	
	+100 bps	-100 bps
NII Sensitivity	4.0%	(3.7)%
EVE	0.3 %	(0.2)%

As detailed above, NII sensitivity is positive with respect to an increase in interest rates. This is primarily driven by our floating rate loan portfolio, which reprice frequently, and cash and investment securities. Our floating rate loan portfolio includes approximately $8.0 billion of loans ($4.8 billion of commercial loans and $3.2 billion of consumer loans) that are subject to interest rate floors, of which approximately $1.9 billion are still below their floors. 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 net interest income may increase if short-term interest rates rise, or decrease if short-term interest rates decline. Market-implied forward rates over the future twelve months are used to determine a base interest rate scenario for the net interest income projection for the base case. This base projection is compared with those calculated under varying interest rate scenarios such as a 100 basis point (1.0)% 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 a fluctuation 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 methodology with which the operating lease assets are assessed in the results table above reflects the existing contractual rental cash flows and the expected residual value at the end of the existing contract term.

The simulation modeling for both NII Sensitivity and EVE assumes we take no action in response to the changes in interest rates, while NII Sensitivity generally assumes cash flow 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 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. 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.