



**CIT Group Inc.**  
**Dodd-Frank Act Stress Test Results**

November, 2017

## I. Introduction: Dodd Frank Act Stress Testing Overview

CIT Group Inc., (“CIT” or the “Company”) together with its subsidiaries, has provided financial solutions to its clients since its formation in 1908. CIT provides financing, leasing and advisory services principally to middle market companies that operate in a wide variety of industries primarily in North America. CIT also provides a full range of banking and related services to commercial and individual customers through its bank subsidiary, CIT Bank, N.A. (“CIT Bank” or the “Bank”), which includes 70 branches located in southern California, and its online bank, bankoncit.com. CIT is a bank holding company (“BHC”) and a financial holding company (“FHC”) with total assets of \$50.5 billion as of June 30, 2017.

CIT, a U.S. bank holding company with \$50 billion or more in total consolidated assets as of June 30, 2017, is subject to applicable regulations for capital planning and stress testing. In particular, CIT is subject to the Comprehensive Capital Analysis and Review (“CCAR”) exercise and is also required to submit enterprise-wide stress tests to the Federal Reserve twice a year (“Dodd-Frank Act Stress Tests” or “DFAST”).

Per the regulatory requirements, this disclosure provides a summary of the types of risks included in the stress test, a general description of the methodologies used in the stress test, estimates of stressed financial forecasts and other key metrics as well as an explanation of the most significant causes for changes in regulatory capital ratios. The estimates included in the disclosure reflect results from a severely adverse scenario defined by CIT. Therefore, these estimates are not forecasts of expected losses, revenues, income before taxes or capital ratios. This disclosure includes estimates under a severely adverse scenario over a nine-quarter forecast horizon beginning with the third quarter of 2017 and ending with the third quarter of 2019 (Q3 2017 – Q3 2019).

In addition, the estimates included in this disclosure reflect a standardized set of DFAST capital actions as defined by the regulators. Most notably, the DFAST capital actions do not allow for the redemption or repurchase of capital instruments or the issuance of common stock or preferred stock unless related to expensed employee compensation or in connection with a planned merger or acquisition.

## II. Primary Risks to which CIT is exposed and included in DFAST:

CIT is subject to a variety of risks that may arise through the Company’s business activities, including the following principal forms of risk that are incorporated in our enterprise stress testing:

- Credit risk is the risk of loss (including the incurrence of additional expenses) when a borrower does not meet its financial obligations to the Company. Credit risk may arise from lending, leasing, and/or counterparty activities.
- Asset risk is the risk to earnings, capital or business caused by a decline in operating lease rates or asset utilization rates, which arises from fluctuations in the supply and demand for the underlying leased equipment.
- Market risk is the risk to earnings, capital or business caused by adverse movements in market variables, such as interest rates.
- Liquidity risk is the risk to earnings, capital or business arising from the Company’s inability to maintain adequate cash resources and funding capacity to meet its obligations when they become due, including under stress scenarios.
- Operational risk is the risk of financial loss, potential damage to the Company’s reputation, or other adverse impacts resulting from inadequate or failed internal processes and systems, people or external events. The assessment of operational risk for stress testing incorporates risk exposures such as legal and regulatory compliance, information security and fraudulent activities.
- Strategic risk is the risk to earnings or capital arising from adverse strategic business decisions, improper implementation of strategic decisions, or lack of responsiveness to changes in the industry.

### III. Stress Test Methodologies

CIT uses a combination of quantitative models and other estimation approaches to prepare stress forecasts. Other estimation approaches can include simple assumptions, expert judgment and complex calculations. Models are generally used for the Company's material portfolios. Different methodologies are typically used to forecast revenues and credit losses on the commercial and consumer portfolios.

Pre-provision net revenue (PPNR) is derived through a combination of models and other estimation approaches. The size and composition of the balance sheet impacts most components of PPNR.

- **Net Interest Income:** Interest income is generated mainly by the loan portfolio and to a lesser degree cash and investments. Commercial loan balance forecasts leverage a modeling approach for new business volume, prepayments and pricing while other estimation approaches are used to forecast line draws on unused commitments and asset sales. Stress forecasts for the retail loan portfolio generally leverage business-as-usual models combined with other estimation approaches for sub-segments of the portfolio (e.g., jumbo mortgage new business volume). Investment strategy together with the interest rate forecast determines the interest income from the cash and investment portfolio. Interest expense is derived from deposits as well as unsecured and secured debt. CIT's deposit portfolio is segmented by product and a combination of models and other estimation approaches are used to generate forecasts for balances and cost. Expert judgment and assumptions are used to determine funding activity of unsecured and secured debt while associated costs are a combination of base rates and spread assumptions.
- **Non-Interest Income:** The largest component of CIT's non-interest income is rental income from operating leases. A modeled approach is used to forecast volumes and pricing for the railcar operating lease portfolio. The other main components of non-interest income are generated by the commercial business and include items such as factoring commissions, which are model-driven, and fee income, which is forecast using other estimation approaches.
- **Non-Interest Expense:** Mainly comprised of expenses related to CIT's railcar operating lease portfolio (e.g., depreciation and maintenance expenses), operating expenses (e.g., compensation and benefits, marketing expense) and operational risk expenses. These expenses are generally forecast using other estimation approaches.

CIT's forecast losses in stress testing are predominantly driven by credit losses on the loan portfolio.

- For the commercial loan portfolio, models are used to project probability of default and loss given default while an other estimation approach is used to forecast exposure at default. The Company leverages the business-as-usual methodology to generate the forecast for the allowance for loan and lease losses (ALLL) on the commercial loan portfolio. Expert judgment is also used to establish the ALLL balances and coverage levels in the stress scenarios. The loss provision amount is ultimately determined by the net charge-off and ALLL forecasted amounts.
- CIT's consumer portfolio is primarily comprised of consumer mortgages and the related stress loss forecasts are derived through a combination of internally-developed and third party models. For the portion of the portfolio that was purchased credit impaired (PCI), the ALLL is forecast to account for lifetime loss expectations while for non-PCI loans in the portfolio the net charge-off forecast, applied over a loss emergence period, is used to forecast the ALLL balance in the stress scenarios. Similar to the commercial loan portfolio, the loss provision amount is ultimately determined by the loss and ALLL forecasted amounts.
- The losses on the investment portfolio in the stress scenarios are related to the non-agency mortgage backed securities. A modeled approach is used to forecast the losses on this segment of the investment portfolio.

Changes in CIT's capital position are driven by net income, capital actions and changes in accumulated other comprehensive income. To arrive at regulatory capital ratios additional items are deducted from shareholders' equity per the Basel III capital definitions while the standardized risk-weighting methodology is applied to the Company's on and off-balance sheet assets.

#### IV. CIT Group Inc. Results of the Severely Adverse Scenario from July 1, 2017 through September 30, 2019

Results contained in this report are based on a hypothetical severely adverse scenario that was constructed by CIT Group Inc. The DFAST severely adverse scenario reflects a severe global recession characterized by a steep decline in U.S. manufacturing, rising unemployment to historical highs, near zero short-term and low long-term Treasury rates, a sharp drop in asset, commodity and equity markets, weak financial market liquidity, declining crude oil (WTI) price, a significant drop in the home price index (HPI), and highly elevated credit spreads.

In this scenario, U.S. real GDP contracts in the first five quarters of the scenario while the unemployment rate peaks at 10% in Q1 2019. U.S. short-term treasury rates hover at 0.1% while 10-year treasury yields drops below 1.0% and recover slowly to 1.5%. The U.S. manufacturing capacity utilization decreases to 59% in 2019, crude oil (WTI) declines to \$26/barrel by Q1 2019, and HPI declines 25% by Q3 2019.

Table 1 shows CIT's 9-quarter projected loss before taxes for the period beginning Q3 2017 through Q3 2019. Revenues are negatively impacted in the severely adverse scenario due to a reduction in loan and lease balances combined with lower yields on the portfolio. There is a corresponding benefit from a reduction in interest expense but in total there is a reduction in net interest income in the stress scenario. Non-interest income declines as lower volumes reduce fee income and gains on asset sales are eliminated. Increases in operational risk expenses also reduce PPNR in the scenario. The increase in provisions is caused by higher loan losses, as shown in Table 2, and an increase in the level of reserves given the severity of the scenario.

**Table 1: CIT Group Inc.: Cumulative 9-quarter projected losses, revenue and income / (loss) before taxes through Q3 2019**

Item	Billions of dollars	Percent of average assets
Pre-provision net revenue	0.7	1.4%
Provisions	(1.9)	
Realized losses/ gains on securities	(0.0)	
Other losses/ gains	(0.2)	
Income / (loss) before taxes	(1.5)	(3.0%)

Table 2 shows CIT's 9-quarter cumulative loss rates. Loan losses are concentrated in the commercial portfolio (commercial & industrial and commercial real estate), driving a total loss rate of 5.1% for the Company. Other loans are concentrated in the commercial portfolio and are mainly loans to depositories and other financial institutions as well as small-ticket finance leases.

**Table 2: CIT Group Inc.: Projected loan losses, by type of loan, Q3 2017 – Q3 2019**

Loan Type	Billions of dollars	Percent of average assets
First lien mortgages, domestic	0.0	0.7%
Junior liens and HELOCs, domestic	0.0	0.7%
Commercial and industrial	0.8	6.3%
Commercial real estate, domestic	0.4	5.9%
Credit cards	0.0	0.0%
Other consumer	0.0	0.0%
Other loans	0.2	6.1%
<b>Total projected loan losses</b>	<b>1.4</b>	<b>5.1%</b>

Table 3 illustrates the change in risk-weighted assets over the 9-quarter forecast as well as projected regulatory ratios assuming DFAST capital actions. The DFAST capital actions require that for the initial quarter of the planning horizon bank holding companies must take into account actual capital actions taken throughout the quarter while for each of the second through ninth quarters of the planning horizon bank holding companies must apply a standardized set of capital actions as defined by regulation.<sup>1</sup>

**Table 3: CIT Group Inc.: Projected Stressed Capital Ratios through Q3 2019**

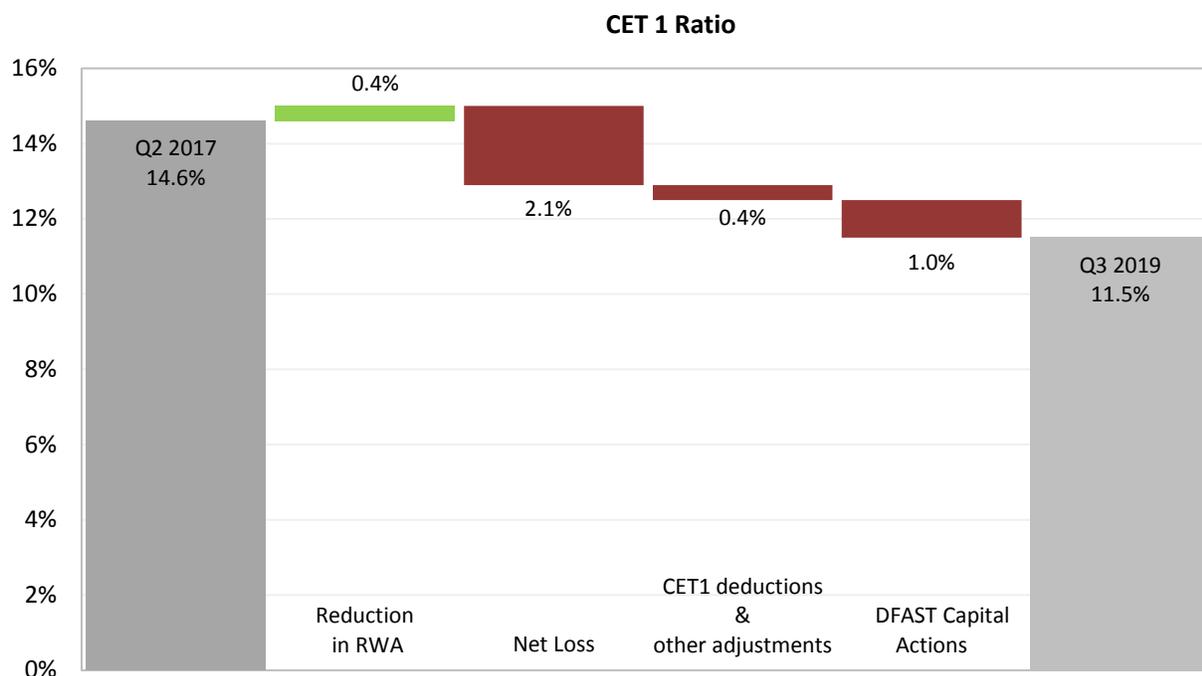
<i>\$ billions</i>	Actual Q2 2017	Projected Q3 2019
RWA	43.4	42.1

Regulatory Ratios	Actual Q2 2017	Projected Ratios	
		Ending	Minimum
Common equity tier 1 capital ratio	14.6%	11.5%	11.5%
Tier 1 risk-based capital ratio	15.3%	12.3%	12.3%
Total risk-based capital ratio	16.4%	13.5%	13.5%
Tier 1 leverage ratio	12.1%	11.4%	11.0%

Table 4 details the most significant drivers of the cumulative change in CIT Group’s capital levels in the severely adverse scenario over the 9-quarter planning horizon. The change in RWA increases the ratio by 0.4% while the DFAST capital actions reduce the ratio by 1.0%. Income / (loss) before tax (displayed in Table 1 above) together with income taxes and income from discontinued operations comprise the net income components in Table 4, which reduces the CET1 ratio by 2.1%. CET1 deductions and other adjustments comprise the remaining offsetting impacts and include changes in items such as goodwill and intangible assets, accumulated other comprehensive income as well as deferred tax assets from net operating loss and tax credit carryforwards.

<sup>1</sup> 12 CFR 252.56(b)

**Table 4: CIT Group Inc.: Components of Changes in Capital Ratios**



**V. CIT Bank, N.A. Results of the Severely Adverse Scenario from July 1, 2017 through September 30, 2019**

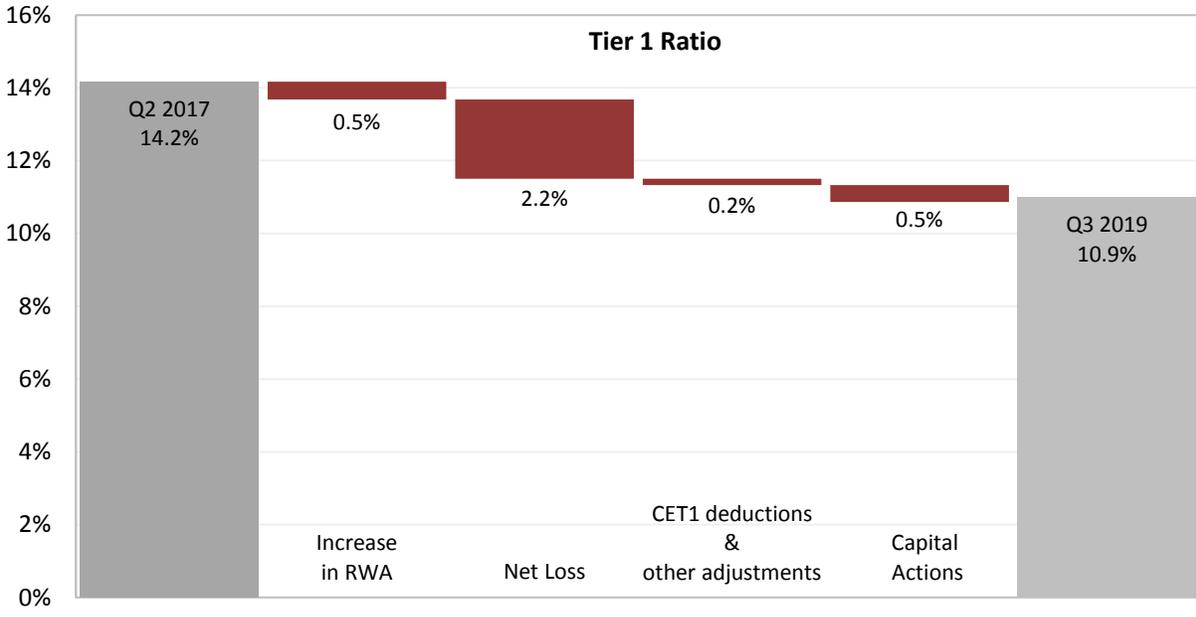
Table 5 shows CIT Bank’s regulatory capital levels at the beginning and end of the 9-quarter planning horizon as well as minimum capital levels observed.

**Table 5: CIT Bank: Projected Stressed Capital Ratios through Q3 2019**

Regulatory Ratios	Actual Q2 2017	Projected Ratios	
		Ending	Minimum
Common equity tier 1 capital ratio	14.2%	10.9%	10.9%
Tier 1 risk-based capital ratio	14.2%	10.9%	10.9%
Total risk-based capital ratio	15.4%	12.1%	12.1%
Tier 1 leverage ratio	10.5%	9.9%	9.7%

CIT Bank’s tier 1 capital ratio declines by 3.3% over the 9-quarter planning horizon. The change in the Bank’s risk-weighted assets reduces the tier 1 capital ratio by 0.5%. CIT Bank’s cumulative net loss over the 9-quarter forecast horizon reduced the tier 1 capital ratio by 2.2%. PPNR totaled \$0.8 billion and provisions were \$1.9 billion. Similar to CIT Group, tier 1 deductions and other adjustments include changes in items such as goodwill and intangible assets, accumulated other comprehensive income as well as deferred tax assets from net operating loss and tax credit carryforwards. Dividends assumed to be paid to CIT Group reduce the tier 1 capital ratio by an additional 0.5%.

**Table 6: CIT Bank, N.A.: Components of Changes in Capital Ratios**



## **Forward Looking Statements:**

This supplemental disclosure contains forward-looking statements within the meaning of applicable federal securities laws that are based upon our current expectations and assumptions concerning future events, which are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. The words “expect,” “anticipate,” “estimate,” “forecast,” “initiative,” “objective,” “plan,” “goal,” “project,” “outlook,” “priorities,” “target,” “intend,” “evaluate,” “pursue,” “commence,” “seek,” “may,” “would,” “could,” “should,” “believe,” “potential,” “continue,” or the negative of any of those words or similar expressions is intended to identify forward-looking statements. All statements contained in this supplemental disclosure, other than statements of historical fact, including without limitation, statements about our plans, strategies, prospects and expectations regarding future events and our financial performance, are forward-looking statements that involve certain risks and uncertainties. While these statements represent our current judgment on what the future may hold, and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results, and our actual results may differ materially. Important factors that could cause our actual results to be materially different from our expectations include, among others, the risk that CIT (i) is unsuccessful in implementing its strategy and business plan, (ii) is unable to react to and address key business and regulatory issues, (iii) is unable to achieve the projected revenue growth from its new business initiatives or the projected expense reductions from efficiency improvements, or (iv) becomes subject to liquidity constraints and higher funding costs. We describe these and other risks that could affect our results in Item 1A, “Risk Factors,” of our latest Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission. Accordingly, you should not place undue reliance on the forward-looking statements contained in this disclosure. These forward-looking statements speak only as of the date on which the statements were made. CIT undertakes no obligation to update publicly or otherwise revise any forward-looking statements, except where expressly required by law.