CIT Group Inc.

PILLAR 3 REGULATORY CAPITAL DISCLOSURES

For the period ended December 31, 2017

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DISCLOSURE MAP

OVERVIEW

ORGANIZATION

CIT Group Inc., together with its subsidiaries (collectively "we", "our", "CIT" or the "Company"), is a bank holding company ("BHC") and a financial holding company ("FHC"). CIT was formed in 1908 and provides financing, leasing and advisory services principally to middle-market companies and small businesses in a wide variety of industries, primarily in North America. CIT also provides banking and related services to commercial and individual customers through our banking subsidiary, CIT Bank, N.A. ("CIT Bank"), which includes 70 branches located in Southern California and its online bank, *bankoncit.com*.

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

CAPITAL REQUIREMENTS

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

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

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

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

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

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

For further information on capital requirements, refer to the *Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulation: Banking Supervision and Regulation* section in our 2017 Form 10-K.

PILLAR 3 REPORTING

This document presents the Pillar 3 Disclosures in compliance with Basel III as described in Subpart D – Risk-weighted Assets – Standardized Approach of the Basel III Final Rule. These Pillar 3 Disclosures should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

SCOPE OF APPLICATION

BASIS OF CONSOLIDATION

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

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

The Company's accounting and financial reporting policies conform to U.S. generally accepted accounting principles. Additionally where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The basis of consolidation for accounting and regulatory purposes is the same.

For further information, refer to *Note 1 – Business and Summary of Significant Accounting Policy* in our 2017 Form 10-K.

TRANSFER OF FUNDS OR CAPITAL RESTRICTIONS

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

The Company utilizes Variable Interest Entities ("VIEs") in the ordinary courses of business to support its own and its customer's financing needs. Generally, third party investors in the obligations of the consolidated VIEs have legal recourse only to the assets of the VIEs and do not have recourse to the Company beyond certain specific provisions that are customary for secured financing transactions, such as asset repurchase obligations for breaches of representation and warranties. In addition, the assets are generally restricted to pay only such liabilities.

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

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

For further information on Transfer of Funds or Capital Restrictions, refer to the *Management's Discussion and Analysis of Financial Condition and Results of Operations – Regulation* section in our 2017 Form 10-K.

REGULATED SUBSIDIARIES' CAPITAL

As of December 31, 2017, total capital, as defined by the applicable regulations, for CIT's regulated banking subsidiary was $5.2 billion and, for CIT's regulated insurance and broker dealer subsidiaries were $13.3 million and $11.2 million, respectively. All of these entities were in compliance with their respective minimum total capital requirements as of December 31, 2017.

CAPITAL STRUCTURE

CAPITAL INSTRUMENTS

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

For additional information regarding CIT common stock, refer to *Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities* section in Part Two of our 2017 Form 10-K.

On May 31, 2017, CIT Group Inc. issued 325,000 shares, par value $1,000, of Fixed-to Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A (the "Preferred Stock"), which qualified as Additional Tier 1 Capital instrument. The shares pay at a perpetual dividend rate (non-cumulative) per annum equal to 5.80% from the original issue date to, but excluding, June 15, 2022. Thereafter, the shares pay at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 3.972% per annum. Dividends are paid semi-annually in arrears on June 15 and December 15, beginning on December 15, 2017 and ending on June 15, 2022. Thereafter, dividends will be paid quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The Issuer may redeem the Preferred Stock at its option, at a redemption price equal to $1,000 per share, plus any declared and unpaid dividends, without regard to any undeclared dividends, (i) in whole or in part, from time to time, on any dividend payment date on or after June 15, 2022, or (ii) in whole, but not in part, within 90 days following the occurrence of a "regulatory capital treatment event". Net proceeds were $318.0 million.

REGULATORY CAPITAL TIERS

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

Regulatory Capital Tiers (dollars in millions)

		December 31, 2017
Common Equity Tier 1 (CET1) Capital		
Common stock, $0.1 par value	$	2.1
Paid in capital		8,798.1
Retained earnings		1,906.5
Accumulated other comprehensive loss		(86.5)
Treasury stock		(3,625.2)
Total stockholders' equity	$	6,995.0
Effect of certain items in accumulated other comprehensive loss excluded from CET1 Capital		77.4
Adjusted total equity		7,072.4
Less: Goodwill, net of associated deferred tax liabilities (DTLs)		(436.0)
Less: Deferred tax assets (DTAs) arising from net operating loss and tax credit carryforwards		(83.3)
Less: Intangible assets, net of associated DTLs		(73.3)
Total CET1 Capital		**6,479.8**
Preferred stock		325.0
Less: Other Additional Tier 1 Capital deductions		(29.4)
Total Additional Tier 1 Capital		295.6
Total Tier 1 Capital		**6,775.4**
Qualifying allowance for credit losses and other reserves		475.6
Total Tier 2 Capital		475.6
Total Capital	**$**	**7,251.0**

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

CIT is subject to enhanced prudential standards under the Dodd-Frank Act. Among other requirements, CIT is subject to capital planning and stress testing requirements under the FRB’s Regulation Y and Regulation YY, which requires CIT to submit an annual capital plan and demonstrate that it can meet minimum capital requirements over a nine quarter planning horizon under multiple stress scenarios.

CIT submitted its capital plan to the FRB on April 5, 2017 and on June 28, 2017, received a non-objection to the plan, which included a quarterly cash dividend of up to $0.16 per share and common stock repurchases of up to $225 million for the four quarters ending June 30, 2018, including up to $25 million of common share repurchases to offset dilution from issuances pursuant to CIT’s employee stock plans.

Further, on February 1, 2018, the Company received a “non-objection” from the Federal Reserve Bank of New York to an amendment (the “Amended Capital Plan”) to the 2017 Capital Plan dated April 5, 2017 (“Original Plan”) filed by the Company under the 2017 Comprehensive Capital Analysis and Review (“CCAR”). The Amended Capital Plan includes (i) the issuance of up to $400 million in Tier 2 qualifying subordinated debt; and (ii) an increase in common equity distribution of up to $800 million for the remainder of the four-quarter period that began July 1, 2017 and ends on June 30, 2018, provided that if the Company does not issue qualifying subordinated debt, or issues less than $400 million of qualifying subordinated debt, the Company will reduce the total amount of common equity distributions by a commensurate amount. These actions would be in addition to those which received a non-objection from the Federal Reserve on June 28, 2017 for the same period, of which approximately $100 million of repurchases remained at December 31, 2017.

RISK-BASED CAPITAL RATIOS

The following tables present information on the Company's Standardized Approach Risk-Weighted Assets ("RWAs") components included within the regulatory capital ratios under the transition basis at December 31, 2017.

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

	December 31, 2017	
	Exposure Amount	**Risk-Weighted Asset Amount**
Loans and Leases:		
Residential mortgages exposures	$ 6,932.0	$ 2,623.8
HVCRE loans	2,354.7	3,532.1
Past due and non-accrual loans	230.8	334.4
All other loans and leases	21,084.7	21,000.5
Total loans and leases	30,602.2	27,490.8
Operating lease equipment	6,783.9	6,783.9
Sovereign/Supranational exposures	3,884.5	-
Securitization exposures	326.2	700.5
Other assets	7,682.0	4,073.1
Total on-balance sheet assets	49,278.7	39,048.3
Rail purchase commitments	165.7	165.7
Loan commitments with original maturity within 1 year [(2)]	886.8	177.4
Loan commitments with original maturity over 1 year [(2)]	4,839.1	2,627.8
Letters of credit	2,295.6	2,284.3
Other off-balance sheet items [(3)]	368.3	234.3
Total off-balance sheet items	8,555.4	5,489.4
Total	**$ 57,834.2**	**$ 44,537.7**

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

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

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

Regulatory Capital Ratios (dollars in millions)

	December 31, 2017	
Transition Basis	**CIT**	**CIT Bank**
Common equity tier 1	14.5%	13.8%
Tier 1 capital	15.2%	13.8%
Total capital	16.3%	15.0%
Risk-Weighted Assets	$ 44,537.7	$ 34,527.2

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 ("RWA") above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. This buffer was implemented beginning January 1, 2016, at the 0.625% level, and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

CIT will be required to maintain risk-based capital ratios at January 1, 2019 and December 31, 2017 as follows:

	CET 1 Capital	Tier 1 Capital	Total Capital
At January 1, 2019:			
Stated minimum ratios	4.50%	6.00%	8.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Effective minimum ratios	7.00%	8.50%	10.50%
At December 31, 2017:			
Stated minimum ratios	4.50%	6.00%	8.00%
Capital conservation buffer	1.25%	1.25%	1.25%
Effective minimum ratios	5.75%	7.25%	9.25%

As of December 31, 2017, CIT has met the effective minimum ratios, with CET1 Capital, Tier 1 Capital and Total Capital ratios of 14.5%, 15.2% and 16.3%, respectively, under the transition basis.

The capital conservation buffer is calculated as the lowest of the: (i) CET1 ratio less the CET1 minimum requirement, (ii) Tier 1 ratio less the Tier 1 minimum requirement and (iii) Total capital ratio less the Total capital minimum requirement. At December 31, 2017, CIT's capital conservation buffer was 8.3%, which was in excess of the 2017 phase-in requirement applicable to CIT of 1.25% (50% phase in of the mandatory 2.5% Capital Conservation Buffer).

CREDIT RISK

RISK MANAGEMENT

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

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

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

CREDIT RISK

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

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

For further information on Lending and Lease Risk, refer to the *Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management: Credit Risk* section in our 2017 Form 10-K.

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

The general policies for Lending and Leasing Risk conform to the U.S. GAAP, as well as bank regulatory authorities where applicable. These policies consist of the following items, refer to *Note 1 – Business and Summary of Significant Accounting Policy* in our 2017 Form 10-K:

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

CREDIT RISK EXPOSURES

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

Loans Composition (dollars in millions)

	December 31, 2017		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Commercial Banking	$ 23,159.3	$ 166.8	$ 23,326.1
Consumer Banking	5,954.6	865.6	6,820.2
Non-Strategic Portfolios	-	63.3	63.3
Total	$ 29,113.9	$ 1,095.7	$ 30,209.6

Loans by Obligor - Geographic Region (dollars in millions)

	December 31, 2017		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
United States	$ 27,470.2	$ 992.7	$ 28,462.9
Asia / Pacific	641.1	63.3	704.4
Europe	524.3	30.5	554.8
Canada	159.2	9.2	168.4
Latin America	132.5	-	132.5
All other countries	186.6	-	186.6
Total	$ 29,113.9	$ 1,095.7	$ 30,209.6

Loans by Obligor - Industry (dollars in millions)

	December 31, 2017		
	Loans and Capital Leases Held for Investment	Loans and Capital Leases Held for Sale	Total
Corporate	$ 21,421.2	$ 194.3	$ 21,615.5
Non-bank financial institution	2,064.1	-	2,064.1
Bank	21.3	-	21.3
Public(1)	69.8	35.8	105.6
Household(2)	5,537.5	865.6	6,403.1
Total	$ 29,113.9	$ 1,095.7	$ 30,209.6

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

(2) Includes individuals and families.

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

	December 31, 2017			
	Commercial		Consumer	
	US	Foreign	US	Total
Fixed-rate				
1 year or less	$3,987.1	$103.2	$81.1	$4,171.4
Year 2	1,267.1	65.3	58.1	1,390.5
Year 3	933.6	59.2	60.0	1,052.8
Year 4	598.9	167.9	62.3	829.1
Year 5	340.9	22.1	64.5	427.5
2-5 years	3,140.5	314.5	244.9	3,699.9
After 5 years	287.8	250.8	2,544.1	3,082.7
Total fixed-rate	7,415.4	668.5	2,870.1	10,954.0
Adjustable-rate				
1 year or less	2,423.9	85.0	81.9	2,590.8
Year 2	2,602.1	306.8	77.3	2,986.2
Year 3	2,263.3	265.9	81.4	2,610.6
Year 4	2,088.9	185.3	85.8	2,360.0
Year 5	2,828.5	167.6	91.5	3,087.6
2-5 years	9,782.8	925.6	336.0	11,044.4
After 5 years	2,172.5	99.5	3,232.1	5,504.1
Total adjustable-rate	14,379.2	1,110.1	3,650.0	19,139.3
Total	$21,794.6	$1,778.6	$6,520.1	$30,093.3

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

Impaired Loans (dollars in millions)

	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
United States	$ 2,134.1	$ 3,065.7	$ 45.1
Total	$ 2,134.1	$ 3,065.7	$ 45.1

	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Corporate	$ 229.0	$ 273.2	$ 28.4
Public[1]	1.7	1.8	-
Household[2]	1,903.4	2,790.7	16.7
Total	$ 2,134.1	$ 3,065.7	$ 45.1

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

(2) Includes individuals and families.

Loans on Non-Accrual Status (dollars in millions)

	December 31, 2017
United States	$ 211.1
Asia / Pacific	9.8
Total	$ 220.9

	December 31, 2017
Corporate	$ 192.0
Non-bank financial institution	0.7
Bank	0.3
Public[1]	8.5
Household[2]	19.4
Total	$ 220.9

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

[2] Includes individuals and families.

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

	December 31, 2017		
	30-89 Days Past Due	**90 Days or Greater**	**Total Past Due**
United States	$ 511.6	$ 261.2	$ 772.8
Asia / Pacific	9.5	-	9.5
Europe	13.1	-	13.1
Canada	0.1	-	0.1
Total	$ 534.3	$ 261.2	$ 795.5

	December 31, 2017		
	30-89 Days Past Due	**90 Days or Greater**	**Total Past Due**
Corporate	$ 206.0	$ 10.2	$ 216.2
Non-bank financial institution	15.5	0.2	15.7
Bank	0.1	0.5	0.6
Public[2]	11.5	1.1	12.6
Household[3]	301.2	249.2	550.4
Total	$ 534.3	$ 261.2	$ 795.5

[1] Includes SOP 03-3 loans.

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

[3] Includes individuals and families.

Charge-Offs (dollars in millions)

	Year ended December 31, 2017		
	Gross Charge-offs	Recoveries	Net Charge-offs
Corporate	$ 114.9	$ 21.1	$ 93.8
Non-bank financial institution	0.4	-	0.4
Household[1]	22.4	1.4	21.0
Total	$ 137.7	$ 22.5	$ 115.2

[1] Includes individuals and families.

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

	Year ended December 31, 2017		
	Commercial Banking	Consumer Banking	Total
Balance - December 31, 2016	$ 408.4	$ 24.2	$ 432.6
Provision for credit losses	88.7	25.9	114.6
Gross charge-offs	(115.2)	(22.5)	(137.7)
Recoveries	21.1	1.4	22.5
Other	(0.8)	(0.1)	(0.9)
Balance - December 31, 2017	$ 402.2	$ 28.9	$ 431.1

COUNTERPARTY CREDIT RISK

COUNTERPARTY RISK MANAGEMENT

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

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

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

CREDIT DERIVATIVES

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

For further information on credit derivatives, including Total Return Swap Transactions, refer to *Note 11 – Derivative Financial Instruments* in our 2017 Form 10-K.

Derivative Financial Instruments (dollars in millions)

	December 31, 2017		
	Notional Amount	Asset Fair Value	Liability Fair Value
Qualifying Hedges			
Foreign currency forward contracts - net investment hedges	$ 977.3	$ 0.2	$ (18.7)
Total Qualifying Hedges	977.3	0.2	(18.7)
Non-Qualifying Hedges			
Interest rate swaps	7,112.0	60.8	(38.6)
Written options	2,744.3	-	(0.7)
Purchased options	2,571.5	0.7	-
Foreign currency forward contracts	1,375.5	6.9	(14.9)
Total Return Swap (TRS)	182.4	-	(14.1)
Equity Warrants	0.8	-	-
Interest Rate Lock Commitments	7.7	0.1	-
Forward Sale Commitments on agency MBS	8.0	-	-
Credit derivatives	285.1	-	-
Total Non-qualifying Hedges	14,287.3	68.5	(68.3)
Toal Hedges	$ 15,264.6	$ 68.7	$ (87.0)

CASH COLLATERAL

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

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

				December 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	$ 68.7	$ -	$ 68.7	$ (18.7)	$ (8.4)	$ 41.6
Derivative liabilities	(87.0)	-	(87.0)	18.7	23.0	(45.3)

REVERSE REPO

As of December 31, 2017, the Company reported $150 million securities purchased under agreement to resell ("reverse repo"), which is fully collateralized with securities and cash by the seller-borrower. The tri-party custodian will be responsible for calculating, monitoring, holding and reporting the securities collateral at all times. The amount of collateral will be determined on a daily basis by the custodian based on market valuations, and will exceed the amount of cash placed by CIT by an agreed upon percentage. The custodian will call for additional securities from CIT's counterparty if the valuation falls below the stipulated level and will return any excess when applicable.

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

CREDIT RISK MITIGATION

CREDIT PHILOSOPHY

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

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

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

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

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

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

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

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

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

SECURITIZATION

SECURITIZATION EXPOSURES

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

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

For further information on Consolidated VIEs and Unconsolidated VIEs, refer to *Note 10 – Borrowings* in our 2017 Form 10-K.

Securitization Risk-Weighted Assets (dollars in millions)

	December 31, 2017	
	Exposure Amount	**Risk-Weighted Asset Amount**
Mortgage-backed security exposures:		
Available-for-sale securities	$ 318.5	$ 668.6
Securities carried at fair value	0.4	4.4
Equity investment exposures:	7.3	27.5
Total	$ 326.2	$ 700.5

EQUITY EXPOSURES

EVALUATION OF INVESTMENTS

Equity securities classified as available –for-sale ("AFS") are carried at fair value with changes in fair value reported in accumulated other comprehensive income ("AOCI"), a component of stockholders' equity, net of applicable income taxes. Credit-related declines in fair value that are determined to be other than temporary impairment ("OTTI") are immediately recorded in earnings. Realized gains and losses on sales are included in other non-interest 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 cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in AOCI for AFS securities. 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, OTTI on equity securities classified as AFS and non-marketable equity investments are recognized in other non-interest 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 non-interest income. If it is not credit related then, the amounts remain in AOCI. Regardless of the classification of the equity securities, 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 equity investments that have indications of possible impairment, in addition to:

- analysis of individual investments that have fair values less than cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having OTTI and those that would not support OTTI; and
- documentation of the results of these analyses, as required under business policies.

TYPE OF INVESTMENTS

At December 31, 2017, CIT had $44.7 million in equity securities AFS and $301.2 million in non-marketable investments. Non-marketable investments include securities of the FRB and Federal Home Loan Bank ("FHLB") carried at cost of $259.0 million at December 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 $42.2 million at December 31, 2017.

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

GAINS (LOSSES)

Total realized gains on investments, which consist primarily of equities, arising from sales and liquidations was $26.6 million for the quarter ended December 31, 2017.

Total net unrealized losses on equity securities AFS as reported in AOCI was $1.1 million for quarter ended December 31, 2017, which was included in Tier 1 Capital.

Risk Weighting Approaches of Equity Exposures (dollars in millions)

	December 31, 2017		
	Risk Weight Category	**Exposure Amount**	**Risk-Weighted Asset Amount**
Federal Reserve Bank Stock	0%	$ 159.2	$ -
Federal Home Loan Bank Stock	20%	99.8	20.0
Investments in Unconsolidated Subsidiaries[1]	100%	240.3	240.3
Marketable Equity Securities [2]	300%	0.2	0.2
Non-Marketable Equity Securities [2][3]	400%	33.7	33.7
Investment Funds	Look-through	123.6	24.7
Total		$ 656.7	$ 318.8

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

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

[3] Excludes Volcker covered funds as they are fully deducted from capital.

INTEREST RATE RISK

RISK MANAGEMENT

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

Interest rate risk arises from lending, leasing, investments, deposit taking and funding, as assets and liabilities reprice at different times as interest rates change. We evaluate and monitor interest rate risk primarily through two metrics.

- Net Interest Income Sensitivity (“NII Sensitivity”), which measures the net impact of hypothetical changes in interest rates on forecasted net interest revenue and rental income assuming a static balance sheet over a twelve month period; and
- Economic Value of Equity (“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. With respect to liabilities, time deposits and unsecured debt are fixed-rate, secured debt is a mix of fixed and floating rate, and the rates on savings accounts vary based on the market environment and competition. The composition of our assets and liabilities generally results in a net asset-sensitive position at the shorter end of the yield curve, mostly related to moves in LIBOR, whereby our assets will reprice faster than our liabilities.

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

Change to NII and EVE Sensitivity *

	December 31, 2017			December 31, 2016		
	+200 bps	**+100 bps**	**-100 bps**	**+200 bps**	**+100 bps**	**-100 bps**
NII	6.1%	3.0%	(3.0)%	6.0%	3.2%	(2.4)%
EVE	(4.4)%	(2.3)%	2.3%	(4.0)%	(2.1)%	2.3%

* A 200 basis point decline scenario was not run in the current rate environment as the scenario is less relevant. We have an assumed rate floor of 0% for the decline scenarios.

As of December 2017, the NII sensitivity and EVE sensitivity change from 2016 (see table above) is mainly driven by the lengthening of asset durations due to the reallocation of cash to mortgage-backed securities as well as the shortening of liability durations due to the roll down of fixed rate liabilities and the strategic compositional change in the deposit portfolio from time deposits to non-maturity deposits.

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

For further information on interest rate risk, including sensitivity analysis, refer to the *Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management* section in our 2017 Form 10-K.